

2021 Interim Report

H Share Code: 323
A Share Code: 600808



MAANSHAN IRON & STEEL COMPANY LIMITED

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IMPORTANT NOTICE

- The board of directors (the “Board”), the supervisory committee, the directors, the supervisors and senior management of the Company warrant that there are no false representations or misleading statements contained in, or material omissions from this interim report; and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this interim report.
- All directors of the Company attended the board meeting.
- The financial report for the interim report has not been audited.
- Mr. Ding Yi, representative of the Company, Mr. Mao Zhanhong, person overseeing the accounting operations, and Mr. Xing Qunli, head of Accounting Department, make representations in respect of the truthfulness, accuracy and completeness of the financial statements contained in the interim report.
- Profit distribution plan or plan for the capitalisation of capital reserve approved by the Board: None
- Risk relating to forward-looking statements
The report analyses major risks faced by the Company. Please refer to “(I) Potential risks” of “V. Other Disclosures” in Section III “Management Discussion and Analysis” of the report for details. Future plans and other forward-looking statements contained in this report do not constitute any substantive commitments to investors by the Company. Investors and relevant personnel should be fully aware of the risks and understand the differences between plans, forecast and commitment. Investors should be aware of the relevant risks.
- 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.
- During the reporting period, there is no violation of regulations, decisions or procedures in relation to provisions of external guarantees.
- More than half of the directors cannot guarantee the authenticity, accuracy and completeness of the interim report disclosed by the Company.
- Significant risk warning
The Company has no significant risk that needs to draw special attention of investors.
- Others
This report is prepared in both Chinese and English. In the event of any discrepancy between the Chinese and English versions, please subject to Chinese text.

I Definitions

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

DEFINITION OF COMMON WORDS

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

I Definitions (Continued)

DEFINITION OF COMMON WORDS (CONTINUED)

A Shares	means	the ordinary shares in the share capital of the Company with a nominal value of RMB1.00 per share, which are listed on the SSE, and subscribed for and traded in RMB
H Shares	means	The foreign shares in the share capital of the Company with a nominal value of RMB1.00 per share, which are listed on the Hong Kong Stock Exchange, and subscribed for and traded in Hong Kong dollars
PRC	means	the People's Republic of China
Hong Kong	means	the Hong Kong Special Administrative Region
RMB	means	Renminbi Yuan
CSRC	means	China Securities Regulatory Commission
CISA	means	China Iron and Steel Association
The Articles of Association	means	The articles of association of Maanshan Iron and Steel Company Limited
MG-VALDUNES	means	MG-VALDUNES S.A.S., a wholly owned subsidiary of the Company
Ma Steel (HK)	means	Ma Steel (Hong Kong) Iron & Steel Co., Ltd., a wholly-owned subsidiary of the Company
Ma Steel (Hefei)	means	Ma Steel (Hefei) Iron & Steel Co., Ltd., a controlling subsidiary of the Company
Changjiang Steel	means	Anhui Changjiang Steel Co., Ltd., a controlling subsidiary of the Company

I Definitions (Continued)

DEFINITION OF COMMON WORDS (CONTINUED)

Masteel Finance	means	Magang Group Finance Co. Ltd., a controlling subsidiary of the Company
Xinchuang Environmental Protection	means	Anhui Xinchuang Energy Saving and Environment Protection Science and Technology Company Limited, a controlling subsidiary of the Holding, and an associate of the Company
Ouye Lianjin	means	Maanshan Masteel Srap Steel Co., Ltd., renamed as Ouye Lianjin Renewable Resources Co., Ltd. In 2020, a controlling subsidiary of the Holding and an associate of the Company
MaSteel K. Wah	means	Anhui Masteel K. Wah New Building Materials Co. Ltd., a controlling subsidiary of the Holding and an associate of the Company
Magang Chemicals & Energy	means	Anhui Magang Chemical & Energy Technology Co., Ltd., a controlling subsidiary of the Holding and an associate of the Company
Jinma Energy	means	Henan Jinma Energy Co., Ltd., an associate of the Company
MG-VALDUNES	means	MG-VALDUNES S.A.S, a wholly owned subsidiary of the Company
Auditors, Ernst & Young	means	Ernst & Young Hua Ming LLP
Reporting period	means	From 1 January 2021 to 30 June 2021

II Company Introduction and Major Financial Indicators

1. COMPANY PROFILE

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

2. CONTACT PERSON AND METHODS

Secretary of the board of directors, joint company secretary		Joint company secretary
Name	He Hongyun	Rebecca Chiu
Correspondence address	No.8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC	Room 1204-06, 12/F, The Chinese Bank Building, 61 Des Voeux Road, Central
Telephone	86-555-2888158/2875252	(852) 2155 2649
Fax	86-555-2887284	(852) 2155 9568
Email address	mggf@baowugroup.com	rebeccachiu@chiuandco.com

3. BASIC INFORMATION

Registered address	No.8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC
Historical changes of the Company's registered address	N/A
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
Inquiry index of email changes during the reporting period	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/new/2021-06-01/600808_20210601_1.pdf

II Company Introduction and Major Financial Indicators (Continued)

4. INFORMATION DISCLOSURE AND CHANGES IN LOCATION FOR INSPECTION

Name of newspaper designated for information disclosure	Shanghai Securities News
Internet website for interim report publication	www.sse.com.cn; www.hkex.com.hk; www.magang.com.cn
Location for inspection of interim 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

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

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

6. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

1. Major accounting data

Unit: RMB

Major accounting data	Reporting period (January to June)	Corresponding period of the previous year	Increase/decrease at the reporting period compared to the same period of the previous year (%)
Revenue	56,863,615,397	37,429,035,554	51.92
Net profit attributable to owners of the parent	4,643,787,117	812,342,511	471.65
Net profit excluding non-recurring gains or losses attributable to owners of the parent	4,751,908,439	565,970,393	739.60
Net cash flows from operating activities	11,280,586,519	945,746,996	1,092.77

II Company Introduction and Major Financial Indicators (Continued)

6. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS (CONTINUED)

1. Major accounting data (Continued)

	As at the end of the Reporting Period	As at the end of previous year	Increase/decrease at the end of the reporting period as compared to the end of the previous year (%)
Net assets attributable to owners of the parent	32,064,229,646	28,386,124,992	12.96
Total assets	92,935,115,395	80,711,141,782	15.15
Total share capital	7,700,681,186	7,700,681,186	–

2. Major financial indicators

Major Financial Indicators	Reporting period (January to June)	Corresponding period of the previous year	Increase/decrease at the Reporting Period compared to the same period of the previous year (%)
Basic earnings per share (<i>RMB/share</i>)	0.6030	0.1055	471.56
Diluted earnings per share (<i>RMB/share</i>)	0.6030	0.1055	471.56
Basic earnings per share excluding non- recurring gains or losses (<i>RMB/share</i>)	0.6171	0.0735	739.59
Return on net assets (weighted average) (%)	15.36	2.97	Increased by 12.39 percentage points
Return on net assets excluding non- recurring gains or losses (weighted average) (%)	15.72	2.07	Increased by 13.65 percentage points

II Company Introduction and Major Financial Indicators (Continued)

7. DIFFERENCES ON ACCOUNTING DATA UNDER ACCOUNTING POLICIES IN DOMESTIC AND ABROAD

Applicable Not applicable

8. NON-RECURRING GAINS OR LOSSES ITEMS AND AMOUNT

Unit: RMB

Non-recurring gains or losses Item	Amount
Loss from disposal of non-current assets	31,840,228
Government grants recognised in current period profit or loss (excluding those closely related to the Company's ordinary business, conforming to the national policies and regulations and enjoying ongoing fixed amount or quantity according to certain standards)	59,429,780
Employee termination compensation	-274,860,191
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	66,969,377
Net non-recurring income or expenses other than the above items	35,620
Non-controlling interests effect (net of tax)	-1,725,670
Income tax effect	10,189,534
Total	-108,121,322

III Management Discussion and Analysis

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

(1) Main business and operation model

As one of the largest iron and steel producers and sellers in China, the Company's major businesses are produces and sales of iron and steel products; the main production processes include iron making, steelmaking, steel rolling, etc. Major products of the Company is steel, which can be roughly divided into three types, i.e. plates, long products and wheels and axles.

Plates: Major products include hot and cold-rolled thin plates, galvanised plates and coil-coating plates. Hot-rolled thin plates are mostly used in the construction, automobile, bridge building, machinery businesses and petroleum transportation, while cold-rolled thin plates are used in highgrade light industries, home electrical appliances, and medium and highgrade production of automobile parts. Galvanised plates are positioned to be used as automobile plates, home electrical appliances plates, highgrade construction plates, and plates for businesses like packaging and utensil manufacturing. Coil-coating plates can be used in both interior and exterior of buildings, home electrical appliances and steel windows.

Long products: Major products include section steel and wire rod. H beams is divided into large, medium, small and heavy H beams, mostly used in construction, steel structures, machinery manufacturing and construction of petroleum drilling platforms and railways. The Company owns the first heavy H beams production line in China, and owns independent intellectual property rights and core technologies in the field of H beams products and technologies. The products are widely used in many landmark steel structure projects at home and abroad. Common medium-shaped steel is mostly used in construction structures, machinery manufacturing and steel structures used in shipbuilding. High speed wire rod products are mostly used in the production of fasteners, strand steel wires and spring steel wires, and are occasionally used in construction materials. Hot-rolled ribbed bars are mainly used in construction.

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

The Company'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.

III Management Discussion and Analysis (Continued)

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

(1) Main business and operation model (Continued)

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 Anhui province; 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 models, major driving factors of performance did not experience substantial changes.

(2) Industry performance

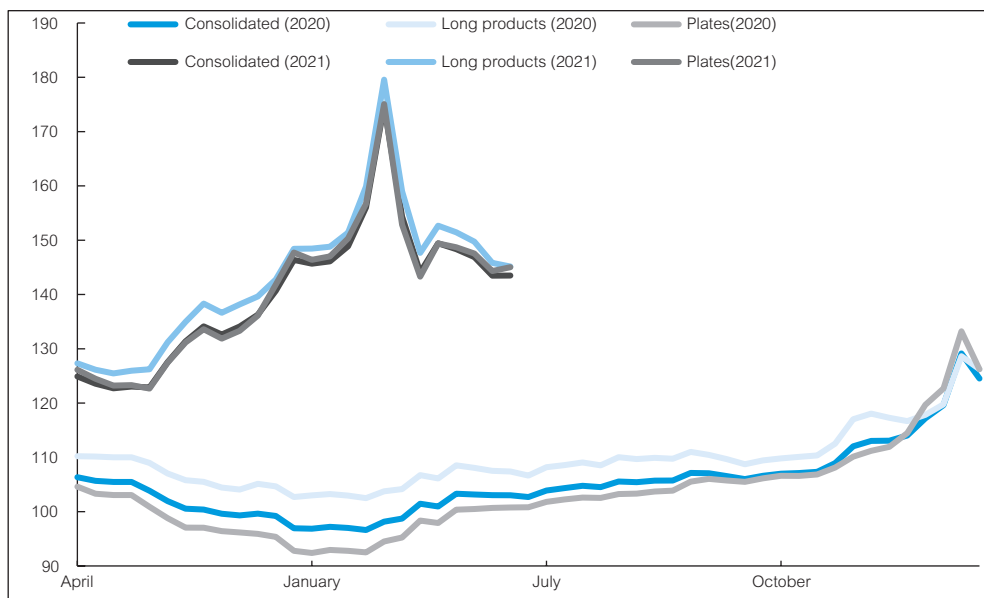
Steel market: in the first half of 2021, China's economy experienced stable recovery, the pandemic situation was generally under control, the development foundation was more solid, and the economy showed rapid growth. GDP increased by 12.7% year on year, the completion of national fixed asset investment increased by 12.6% year on year, the added value of industries above designated size increased by 15.9% year on year, and the domestic steel market demand was strong. In the first half of the year, the iron and steel industry operated well, with booming production and sales and improved benefits. The output of pig iron, crude steel and steel in China was 456 million tonnes, 563 million tonnes and 698 million tonnes, respectively, representing a year-on-year increase of 4.0%, 11.8% and 13.9%, respectively. At the same time, affected by the growth of demand, monetary easing as well as the sharp rise of international commodity prices, including iron ore, steel prices continued to rise. The consolidated steel price index was basically stable before the Spring Festival and continued to rise after the festival, reaching a record high of 174.81 points in mid-May. The prices of bulk commodities, such as steel, rose rapidly and sharply, the pressure on relevant downstream industries increased sharply, and the stable operation of the national economy was interrupted. The State has introduced a number of measures, including canceling the export tax rebate of some iron and steel products, adjusting the import and export tariffs of iron and steel products, carrying out the "Looking Back" inspection of iron and steel de-capacity in 2021, and continuously strengthening the linkage supervision of the futures and spot market. These measures severely cracked down on violations of laws and regulations, and effectively maintained normal market order. The prices of bulk commodities such as steel gradually returned. As at the end of June, the consolidated steel price index dropped to 143.48 points. Compared with the same period of last year, the average consolidated steel price index in the first half was 141.88 points, representing an increase of 40.44%. Compared with the beginning of the year, the price index of long products increased by 14.0% and the price index of plate increased by 15.0% as at the end of June. The trend of plate is generally better than that of long products. (Source: National Bureau of Statistics, CISA)

III Management Discussion and Analysis (Continued)

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

(2) Industry performance (Continued)

Graph 1: Domestic steel price index in 2020 and the first half of 2021



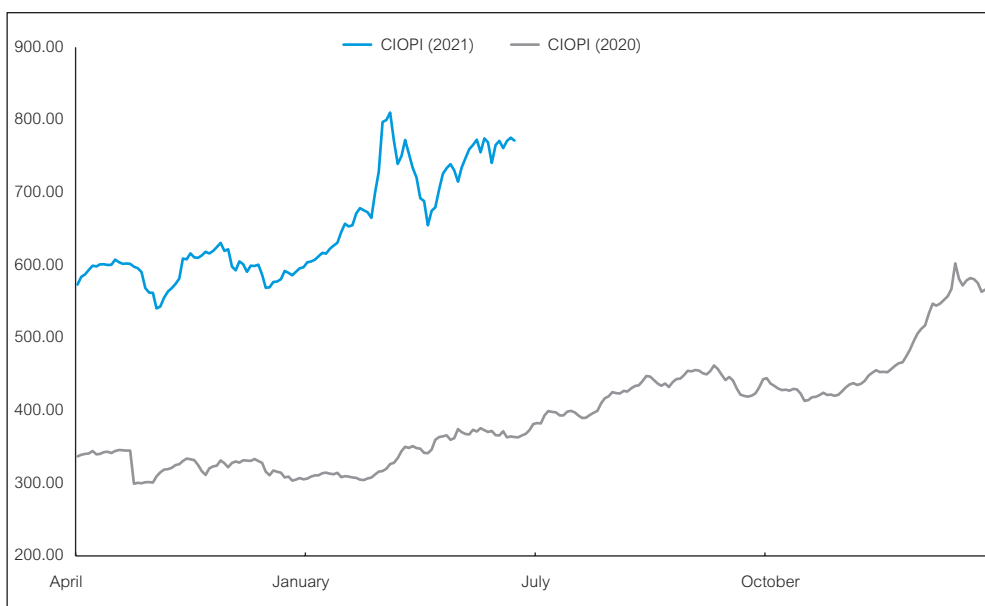
In the raw fuel market, the demand for raw materials in the iron and steel industry was strong in the first half of the year, resources were tight, and the prices of iron ore and scrap steel rose sharply. China's iron ore price index rose by 34.59% as at the end of June as compared with the beginning of the year. (Source: CISA)

III Management Discussion and Analysis (Continued)

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

(2) Industry performance (Continued)

Graph 2: China's iron ore price index since 2020



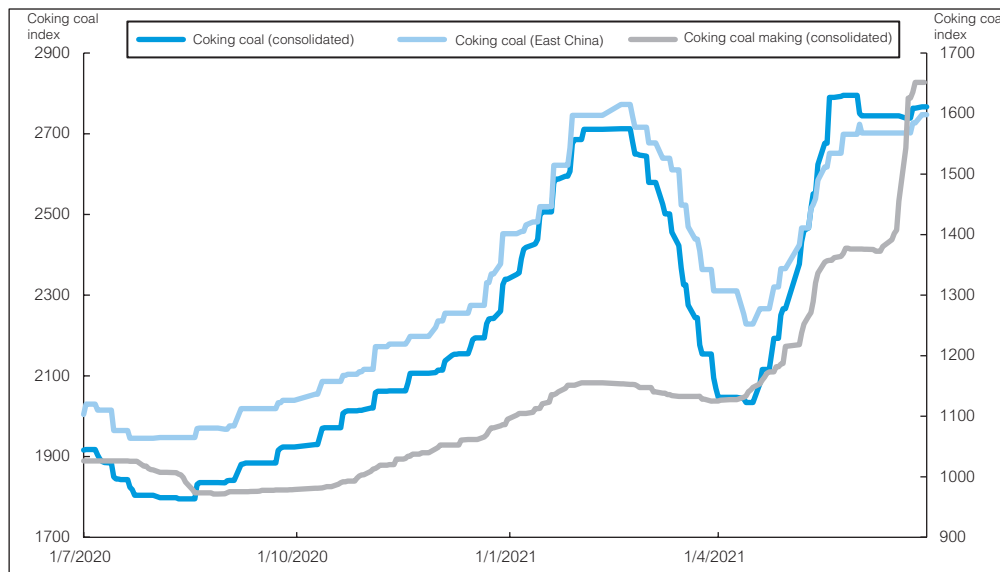
Affected by the policy, the supply increment of coking coal and coke was limited, the demand was generally strong, and the price of coking coal rose sharply. Compared with the beginning of the year, the coking coal consolidated index rose by 50.85% as at the end of June, and the coke price experienced wide fluctuation. The cost of liquid iron keeps rising. (Source: www.mysteel.com)

III Management Discussion and Analysis (Continued)

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

(2) Industry performance (Continued)

Graph 3: Consolidated index of coke and coking coal in the second half of 2020 and the first half of 2021



III Management Discussion and Analysis (Continued)

2. ANALYSIS OF CORE COMPETITIVENESS DURING THE REPORTING PERIOD

(I) Synergy advantage

The Company actively deepened the all-round benchmarking and difference finding, and continued to further promote the coordinated cost reduction of the Group based on the project. Through the coordination in planning, manufacturing, marketing, procurement, management and other aspects, it is beneficial for the Company to optimise the sales channels, innovate the marketing model, and break through the technical bottleneck. Through management benchmarking and implementation of technical support projects, the Company improved economic and technical indicators, and comprehensively improved the comprehensive competitiveness of the Company.

(II) Location advantages

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

(III) 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.

(IV) Variety matching advantage

The three major iron and steel production bases of the headquarters, Changjiang Steel and Ma Steel (Hefei) have complete supporting varieties and professional production level, and the scale advantage of complete supporting varieties and specifications can be actively used to realize the management and control operation mode of “one headquarters with multiple bases”, and improve the market share and brand influence.

(V) Technical advantage

During the reporting period, the Group applied for 271 patents, including 171 inventions; 226 patents were authorized, including 79 inventions. As of 30 June 2021, the Group had 1,850 valid patents, including 797 inventions and 4 overseas authorized invention patents.

III Management Discussion and Analysis (Continued)

3. DISCUSSION AND ANALYSIS OF THE OPERATION

(I) Operating results and measures on main tasks

1. *Operating results*

In the first half of 2021, the Company focused on lean and high efficiency, gathered efforts to strive for the first place, fully implemented various work arrangements of China Baowu and the Company, formed a strong atmosphere of courageous competition and refreshing indicators, and reached a new high in its operating results, making it stand firmly in the top position among Baowu series.

During the reporting period, the Group produced 9.41 million tons of pig iron, 11.21 million tons of crude steel, and 10.75 million tons of steel, representing increases of 1.62%, 9.90%, and 11.05% respectively year-on-year (of which the Company produced 7.47 million tons of pig iron, 8.88 million tons of crude steel, and 8.3 million tons of steel, representing increases of 2.75%, 11.41% and 13.70% respectively). Calculated in accordance with Chinese Accounting Standards for Business Enterprises, the Group's revenue for the reporting period amounted to RMB56,864 million, representing a year-on-year increase of 51.92%; net profit attributable to shareholders of the listed company amounted to RMB4,644 million, representing a year-on-year increase of 471.65%; basic earnings per share amounted to RMB0.603, representing a year-on-year increase of 471.56%. As at the end of the reporting period, the Group's total assets amounted to RMB92,935 million, representing a year-on-year increase of 15.15%; net assets attributable to shareholders of the listed company amounted to RMB32,064 million, representing a year-on-year increase of 12.96%.

III Management Discussion and Analysis (Continued)

3. DISCUSSION AND ANALYSIS OF THE OPERATION (CONTINUED)

(I) Operating results and measures on main tasks (Continued)

2. Main tasks and results

- (1) **Effective pandemic prevention and control in an orderly manner.** In the face of the severe situation of repeated pandemic, the Company has always adhered to the prevention and control strategy of “guarding against imported cases and rebound in indigenous cases”, kept the prevention and control mindset unrelaxed, the prevention and control standard undiminished, and the prevention and control strength undiminished, and implemented all the pandemic prevention and control measures in details and in full, and strictly prevented the rebound of the pandemic. The Company has continued to strengthen the implementation of responsibility and normalize prevention and control management, implement source blocking and full control, block all loopholes that may lead to the rebound of the pandemic, minimize the risk of the pandemic, and lay a solid foundation for promoting stable production and improving efficiency.

- (2) **Comprehensive implementation of overall benchmarking to identify areas for improvement.** The Company has always followed the spirit of “surpassing ourselves, outperforming the market and pursuing excellence”, continued to improve the comprehensive benchmarking system to identify areas for improvement by taking the improvement of the benchmarking index system as the core, the layered implementation as the path, the special benchmarking as the breakthrough, the improvement of projects as the grasp, and the process control to establish closed loop, and carried out the benchmarking activities against the leading enterprises in the industry, the average level of the industry and the best historical level of our own in all aspects. In 2021, 231 benchmarking indicators are set up in the benchmarking index system. In the first half of the year, 184 indicators made significant progress compared with the actual performance in 2020, with an improvement rate of 79.65%; 135 indicators achieved the benchmarking target, with an achievement rate of 58.44%; 69 benchmarking improvement projects are set, realizing benefit of RMB549 million and an annualized benefit achievement rate of 135.19%. The main technical and economic indicators continued to improve, and the indicators such as blast furnace utilization coefficient and iron to steel ratio improved significantly, comprehensively performing better than the best level of the previous year.

III Management Discussion and Analysis (Continued)

3. DISCUSSION AND ANALYSIS OF THE OPERATION (CONTINUED)

(I) Operating results and measures on main tasks (Continued)

2. Main tasks and results (Continued)

- (3) **Rapid advancement of the integration.** Through the collaborative support of 15 quick-win projects, the Company has fully integrated into the management system of China Baowu in manufacturing management, energy and environmental management, equipment management and efficient financial management, and has improved its sustainable and comprehensive competitiveness. With the successful launch of the integration and information projects, the Company has made a major breakthrough in the coverage of the operation and sharing system, which has laid a solid foundation for the Company's smart manufacturing and digital transformation.
- (4) **Continuous improvement in operation efficiency.** Procurement side: The Company has continuously tracked market resources and strengthened the linkage between procurement, production and supply; taken various measures to promote structural cost reduction, and continued to promote lean procurement through the combination of futures and spot to reduce the spot procurement cost of imported ores. Sales side: The Company has strengthened market research and judgment, locked in costs and profits through futures hedging to prevent market risks; continuously adjusted product structure, ensured the full-loaded production of high-margin production lines, and improved the utilization of production line capacity. The manufacturing system has promoted lean manufacturing in four dimensions: production capacity realization, production line efficiency, quality stability and cost improvement, so as to further release equipment capacity and steadily improve contract fulfillment rate. The Company adjusted the annual maintenance strategy of equipment system and optimized the inspection and repaired arrangement of related production lines to maximize the utilization value of production lines.

III Management Discussion and Analysis (Continued)

3. DISCUSSION AND ANALYSIS OF THE OPERATION (CONTINUED)

(I) Operating results and measures on main tasks (Continued)

2. Main tasks and results (Continued)

- (5) **Strong green and low-carbon actions.** The Company has adhered to China Baowu's green development concept of "two better and one integration" and "three treatments and four transformations", and made every effort to build a green city steel plant through a series of environmental improvement and renovation, realizing significant social and environmental benefits. During the reporting period, the Company's SO₂, NO_x and COD emissions decreased by 52%, 48% and 42%, respectively year-on-year. The Company launched the open day activity to receive the public's monitoring on its plant environmental, enhanced the transparency of the Company, accepted the supervision of the public, and established a positive interaction mechanism between the Company's development and public concern.
- (6) **Breakthrough in quantity and efficiency of new product development.** The Company has developed a total of more than 680,000 tons of various new products, creating a total gross profit of more than RMB520 million, which reached the best level in the history of new product development of the Company; six new products including 430MPa extreme specification heavy-duty hot-rolled H-beam steel have debut in China. Steel sales for energy entered the first echelon of the domestic market, with a new breakthrough of 98,700 tons of steel sales for wind power. The effect of structural adjustment of silicon steel varieties was remarkable, and the sales of new silicon steel products with high grade of W400 above reached 58,700 tons in the reporting period. Aluminum-silicon coated home appliances plates accounted for more than 40% of the domestic market share.
- (7) **Striving for excellence and gathering strength.** In order to encourage advance, boost morale, and gather efforts, the Company has set up the "Strive for Excellence Award" to continue to stimulate the enthusiasm of all units to "compare, learn, catch up, help and exceed", form and gradually internalize it into a good habit, promote the majority of workers to compete for every minute and second, work very hard, practice the spirit of "the blossoming city in Jiangnan" in the new era and contribute to the creation of a strong and new Magang with high spirit.

III Management Discussion and Analysis (Continued)

3. DISCUSSION AND ANALYSIS OF THE OPERATION (CONTINUED)

(II) Financial position and exchange risks

As of 30 June 2021, the total loans of the Group were equivalent to RMB17.909 billion, including short-term loans of RMB11.515 billion and long-term loans of RMB6.394 billion (including RMB2.95 billion of long-term loans due within one year). The loans included foreign currency loans of USD200 million (of which USD69 million are import bills), and the rest were Renminbi denominated loans. Among the Renminbi denominated loans of the Group, loans amounting to RMB10.878 billion carried fixed interest rates and loans amounting to RMB5.731 billion carried floating interest rates. Among loans denominated in foreign currencies, loans amounting to USD139 million carried fix interest rates and loans amounting to USD61 million carried floating interest rates.

The amount of all loans of the Group changed with the scale of production and construction. At present, the Company finances its construction projects mainly with its own funds. There was no overdue loan during the reporting period. At the end of the reporting period, the Group's asset liability ratio was 60.78%, representing an increase of 1.18 percentage points as compared with the end of 2020; current ratio was 0.92, representing an increase of 5.75% as compared with 0.87 at the end of 2020; quick ratio was 0.67, representing an increase of 8.06% as compared with 0.62 at the end of 2020.

At present, the funds for construction projects of the Company are projects mainly from its own funds. At the end of the reporting period, banking facilities available to the Company amounted to approximately RMB53 billion, of which the unutilised facilities amounted to approximately RMB27.3 billion.

As of 30 June 2021, the monetary Capital of the Group was equivalent to RMB7.362 billion, the financing receivables was RMB8.61 billion, and most of the monetary funds and bank acceptance bills derived from receipt of sales payment. There was not failure of withdrawal of expired deposit of the Group.

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

III Management Discussion and Analysis (Continued)

3. DISCUSSION AND ANALYSIS OF THE OPERATION (CONTINUED)

(III) Internal control and risk management

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

The Audit Committee reviewed the 2020 internal audit work report of the Company on 18 January 2021, agreeing to the internal audit work arrangements for 2020 and submitted it to the Board for consideration. The Audit Committee heard the 2020 anti-fraud work report on 25 March 2021.

The Board reviewed and approved the 2020 Comprehensive Risk Management and Internal Control Work Report on 25 March 2021. The report confirms that the Company implemented an effective internal control over all important aspects pursuant to the Basic Internal Control Norms for Enterprises and other relevant requirements. The Company appointed Ernst & Young Hua Ming LLP as our auditor to audit the effectiveness of our internal control related to financial report as at 31 December 2020 and issued a standard unqualified internal control auditor's report. During the reporting period, the Company enhanced control measures to improve the internal control policy and continued to improve the internal control system to ensure that its internal control always remains effective.

The hearing of "2020 Risk Supervision and Evaluation Report" by the Board of Directors was made on 25 March 2021, confirming that the Company would take appropriate control measures for strategic risks, financial risks, market risks, operational risks, legal risks and environmental risks, etc. in 2020 and the risks were under control. During the reporting period, the Company evaluated the risks, formulated the measures for identified risks, and carried out key prevention and control to ensure that the risks were under control.

III Management Discussion and Analysis (Continued)

3. DISCUSSION AND ANALYSIS OF THE OPERATION (CONTINUED)

(IV) The production and operating environment and coping strategies

In the second half of the year, it is expected that the COVID-19 pandemic will continue to evolve and have a profound impact on the global economy. The international environment will become more complex and severe, and the uncertain factors affecting the global economy will increase, with far-reaching impacts on iron ore supply, steel exports and downstream steel industry chain. The domestic pandemic situation will be effectively contained on the whole, with repeated outbreaks in some areas, resulting in instability and imbalance of domestic economic recovery. However, the supply and demand cycle is smooth, the confidence of market players is enhanced, and domestic demand continues to increase. China's economy is expected to maintain a sustained and stable recovery. Yet, the steel industry still faces great pressure from the national policies and the market, such as the implementation of the Implementation Measures of Capacity Replacement in the Iron and Steel Production Industry, the reduction of crude steel output promoted by the State, and the implementation of the "dual-carbon" requirements. At the same time, high price of iron ore and the shortage of coal and coke resources will still exist.

The Company will take the initiative to adapt to new situation, new objectives and new requirements, firmly focus on the theme of high-quality development, unswervingly and deeply implement the new development concept, firmly establish the idea of "A Game of Chess", correctly handle the overall and partial matters, development and emission reduction, short-term and medium and long-term, adhere to the combination of efficient operation of production line, index progress, structural adjustment and cost optimization, promote comprehensive lean and efficiency, and encourage all staff to compete bravely and strive to achieve the annual goal. The main tasks are as follows:

Firstly, seize the market structural opportunities in the second half of the year and strengthen the efficiency of steel market and raw material market. Under the condition of resolutely implementing the national requirements for reducing crude steel output, the Company will do a good job in tracking, judging and responding to market trend changes, strengthen system linkage, optimize procurement and marketing strategies, take the benefits back from the market while adhering to low inventory operation, and strengthen "Two Funds" control, to effectively prevent market operation risks.

III Management Discussion and Analysis (Continued)

3. DISCUSSION AND ANALYSIS OF THE OPERATION (CONTINUED)

(IV) The production and operating environment and coping strategies (Continued)

Secondly, firmly establish the idea of “A Game of Chess” in internal production to ensure the maximization of overall benefits. The Company will adhere to the benefit orientation, optimize the resource allocation in combination with the benefits of the production line, ensure the full load group production of the high gross profit production line, and maximize the value of limited resources. The Company will refrain from lax thinking, maintain high production efficiency and fast pace under the background of reducing crude steel output, always adhere to the requirements of simplicity, extreme, high efficiency, low cost and high quality, make up for shortcomings and strengthen the weaknesses, and ensure a stable daily output of 42,000 tonnes of pre-ironmaking; optimize the economic operation mode after steelmaking, coordinate the reasonable arrangement of production plan, strengthen the cross system communication and linkage of manufacturing, equipment and public and auxiliary, and flexibly adopt the methods of order consolidation, centralized batch production and staggered peak production, so as to create favorable conditions for optimizing technical and economic indicators. When formulating the production scheduling plan, the Company will take into account the safety and economic requirements of the production organization, continue to improve equipment support capacity, adhere to process leading and equipment initiative, meet the needs of efficient production, strengthen equipment basic management, spot inspection and maintenance, optimize equipment support mode, and resolutely reduce the frequency of equipment failures that affect the efficiency of the whole system. The Company will do overall planning of project and maintenance project arrangement, scientific evaluation, reasonable adjustment and promotion, and accelerate the implementation of filling of liquid iron supply gaps in the northern area and product production line planning in the southern area.

Thirdly, vigorously promote the progress of economic and technical indicators and improve the overall lean and efficient ability. Lean and efficiency are not only limited to stable and high yield, but also cover whole aspects, whole processes and whole factors. The Company will pay close attention to the quality and cost indicators such as steel material consumption, comprehensive yield rate of steels and product waste reduction, focus on comprehensive benchmarking and error finding, concentrate efforts and work together to tackle key problems, expand the space for index efficiency, and promote index promotion, quality improvement and cost reduction. New No. 1 coke oven, newly built CCPP generator set, automatic steel burning of 2,250 heating furnace and other projects have been put into trial operation, and the implementation of technical transformation projects, such as long products large-sized bars intelligent combustion project, has brought more favorable conditions and potential tapping space for the Company's energy conservation, consumption reduction and index improvement. The Company will take this opportunity to further promote the progress of indicators.

III Management Discussion and Analysis (Continued)

3. DISCUSSION AND ANALYSIS OF THE OPERATION (CONTINUED)

(IV) The production and operating environment and coping strategies (Continued)

Fourthly, optimize the variety structure and improve the profitability of products. The Company will combine the market demand with the improvement of their own ability, aim at the low profitability of some products such as pickling, H beams and special steel, through benchmarking analysis, to catch up and narrow the gap, and accelerate the certification of Dongfeng Nissan, Dongfeng Honda and other series products.

Fifthly, strengthen intrinsic safety and firmly hold the safety bottom line. Safety is an important foundation and premise of lean and efficient production. The Company will firmly establish the concept of safety development, always attach importance to safety, earnestly implement the principle of “three managements and three musts” for safety, strictly implement the safety production responsibility system, the safety responsibility list of managers at all levels and the safety accident accountability system, continue to carry out the lean on-site day activity of “three inspections, three promotions and three reflections”, effectively carry the safety production on the shoulders, in the heart and in the hands, and know, perform and fulfill responsibilities. The Company will adhere to incentives and constraints, and strictly implement the safety production policy of rewards and punishments.

Sixthly, strengthen the renovation of plant appearance and change “bonsai” into “landscape”. Focusing on changing “bonsai” into “landscape”, the Company will accelerate the smart manufacturing and the renovation project of plant in the south district, implement the main responsibilities, strengthen regular scheduling, supervision and inspection, so as to achieve tension, order and ensure safety. The Company will strengthen the access control management of the plant and the special treatment of road traffic and transportation, and pay close attention to the improvement of the surrounding environment of the pipe network and the plant gate to ensure the overall environmental effect, change “bonsai” into “landscape”, and fully display the brand-new changes and good image of the “blossoming city in Jiangnan” of Magang in the new era.

Seventhly, implement the requirements of “dual-carbon” and deeply promote green and low-carbon development. The Company will accelerate the implementation of the “Treatment of Three Wastes” project to ensure that this year basically achieve zero discharge of waste water, ultra-low emission of exhaust gas and no solid waste leaving the factory, and the green development index continues to improve within the Baowu system. On this basis, the Company will actively declare ultra-low emission class A enterprises, promptly formulate and implement the peaking carbon emissions action plan, lock target, concentrate efforts, collaborate and innovate to realize new production modes, such as process substitution, product substitution, energy substitution and raw material substitution, and make substantive breakthroughs in the application of green and low-carbon new technologies and new projects.

III Management Discussion and Analysis (Continued)

3. DISCUSSION AND ANALYSIS OF THE OPERATION (CONTINUED)

(IV) The production and operating environment and coping strategies (Continued)

Eighthly, continue to promote the construction of the whole process smart steel plant and make full use of the functions of the information system. The Company will accelerate the construction of long products, Changjiang Steel and Ma Steel (Hefei)'s smart control center projects, and strive to put them into operation as soon as possible within the year. The Company will pay close attention to the follow-up production line access of smart manufacturing phase I project, access early and quickly as possible to make sure that the Company's smart manufacturing index is ranked and upgraded in Baowu system at the end of the year. The Company will realize information system from successful online operation to online operation succeed, and strive to build a demonstration model for the information construction of Baowu and even the steel industry in China; assign special personnel to track and pay attention to timely solve various problems found in system operation, continuously optimize and improve system functions through practical application, and make full use of the strong supporting role of informatization on production line division of labor, management reform and organizational performance improvement.

Ninthly, promote post level management and improve governance system and governance ability. The Company will promote the full coverage of the hierarchical management system, broaden the post sequence, build a career development channel for management, technology and operation, add a group of technical executives, chief engineers and senior managers, pay close attention to the switching of position and salary system, stimulate the initiative and enthusiasm of employees for self-driving and self-promotion, and make employees realize the behavior change from "ask me to do" to "I want to do". The Company will comprehensively implement the tenure system and contractual management of the operation and management team, and strengthen the unity of responsibility, power and interest. The Company will improve the "Three Haves" happiness index of employees, improve the market-oriented incentive distribution mechanism, set salary based on post and enjoy salary based on merit, and the bonus distribution is not allowed to cross sequence, so as to significantly increase the income of employees and enhance the sense of gain of employees while increasing the benefits of the enterprise; fully implement the paid leave system; accelerate the construction of regional shared service center, improve the environment and conditions of "four rooms, two halls and one bathroom", and continuously optimize the working and living environment of employees.

III Management Discussion and Analysis (Continued)

4. THE PRINCIPAL OPERATION DURING THE REPORTING PERIOD

(1) Analysis of principal operations

1. Analysis of changes in relevant items in the financial statements

Unit: RMB

Accounts	Amount of the current period	Amount of the same period of last year	Change (%)
Revenue	56,863,615,397	37,429,035,554	51.92
Cost of sales	47,042,273,786	34,203,030,172	37.54
Taxes and surcharges	363,172,255	266,001,123	36.53
Selling expenses	551,111,957	530,439,865	3.90
General and administrative expenses	707,192,699	692,664,296	2.10
R&D expenses	2,046,087,559	636,396,202	221.51
Financial expenses	383,493,033	290,762,915	31.89
Other income	60,339,953	41,630,457	44.94
Investment income	388,274,825	231,959,570	67.39
Gain on changes in fair value	65,879,265	29,311,320	124.76
Asset impairment losses	-26,303,476	-73,128,980	-
Gain/(loss) from disposal of assets	1,219,470	-62,159,618	-
Operating profit	6,252,951,393	969,323,629	545.08
Non-operating income	60,126,166	254,176,550	-76.34
Non-operating expense	29,469,788	2,909,067	913.03
Profit before tax	6,283,607,771	1,220,591,112	414.80
Income tax expense	1,245,769,164	222,966,726	458.72
Net profit	5,037,838,607	997,624,386	404.98
Net profit attributable to owners of the parent	4,643,787,117	812,342,511	471.65
Net profit attributable to non-controlling interests	394,051,490	185,281,875	112.68
Net cash flows from operating activities	11,280,586,519	945,746,996	1,092.77
Net cash flows used in investing activities	-7,965,903,886	-518,825,820	-
Net cash flows (used in)/ generated from financing activities	-1,358,524,522	722,208,572	-288.11

Revenue increase by 51.92% as compared with the same period of last year, mainly due to the increase in steel prices and the increase in steel sales volume during the current period as compared with the same period of last year.

III Management Discussion and Analysis (Continued)

4. THE PRINCIPAL OPERATION DURING THE REPORTING PERIOD (CONTINUED)

(1) Analysis of principal operations (Continued)

1. *Analysis of changes in relevant items in the financial statements (Continued)*

Cost of sales increased by 37.54% as compared with the same period of last year, mainly due to the increase in steel sales volume and the increase in the price of bulk raw materials during the current period as compared with the same period of last year.

Taxes and surcharges increased by 36.53% as compared with the same period of last year, mainly due to the corresponding increase in surcharges provision arising from the increase in value-added tax with the increase in steel prices and sales volume during the current period.

R&D expenses increased by 221.51% as compared with the same period of last year, mainly due to increased investment in scientific research by the Company and more new products developed in the current period, which resulted in the increase in relevant expenses as compared with the same period of last year.

Financial expenses increased by 31.89% as compared with the same period of last year, mainly due to the losses of foreign currency debt exchange of the Company, the bill discount interest increased significantly as compared with the previous year, and the interest income decreased year-on-year during the current period.

Other income increased by 44.94% as compared with the same period of last year, mainly due to the increase in government grants that were related to the normal operation during the current period as compared with the same period of last year.

Investment income increased by 67.39% as compared with the same period of last year, mainly due to the increase in profit of associates and joint ventures during the current period as compared with the same period of last year.

III Management Discussion and Analysis (Continued)

4. THE PRINCIPAL OPERATION DURING THE REPORTING PERIOD (CONTINUED)

(1) Analysis of principal operations (Continued)

1. *Analysis of changes in relevant items in the financial statements (Continued)*

Gain on the changes in fair value increased by 124.76% as compared with the same period of last year, mainly due to the relatively large gains from changes in fair value of forward foreign exchange contracts held by the Company during the current period.

Asset impairment losses amounted to RMB26 million as compared with the same period of last year of RMB73 million, mainly due to the decrease in the Company's inventory impairment during the current period as compared with the same period of last year.

Gain from disposal of assets amounted to RMB1 million, as compared with the same period of last year of RMB62 million, mainly due to the decrease in losses of demolition and disposal of assets for construction of new projects during the period as compared with the same period of last year.

Non-operating income decreased 76.34% as compared with the same period of last year, mainly due to the decrease in government grants for reduction in excessive capacity received by the Company and its subsidiaries during the current period as compared with the same period of last year.

Non-operating expenses increased by 913.03% as compared with the same period of last year, mainly due to the increase in loss arising from scrapped fixed assets during the current period as compared with the same period of last year.

Income tax expense increased by 458.72% as compared with the same period of last year, mainly due to the increase in the total profit of the Company and the increase in income tax occurred by enterprises during the current period.

III Management Discussion and Analysis (Continued)

4. THE PRINCIPAL OPERATION DURING THE REPORTING PERIOD (CONTINUED)

(1) Analysis of principal operations (Continued)

1. *Analysis of changes in relevant items in the financial statements (Continued)*

Operating profit, profit before tax, net profit and net profit attributable to owners of the parent increased by 545.08%, 414.80%, 404.98% and 471.65%, respectively as compared with the same period of last year, mainly due to the increase in gross profit of steel products of the Company during the current period as compared with the same period of last year.

Net profit attributable to non-controlling interests increased by 112.68% as compared with the same period of last year, mainly due to the increase in the profitability of certain non-wholly owned subsidiaries from the same period of last year.

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

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

2. *Cash Flow Analysis*

During the reporting period, the net increase in cash and cash equivalents of the Group amounted to RMB1.933 billion, compared with a net increase of RMB1.178 billion year on year. Net cash inflow from operating activities was RMB11.281 billion, as compared with net inflow of RMB946 million for the same period of last year, representing an increase of RMB10.335 billion as compared with the same period of last year, which was mainly due to the increase in cash receipts from the sales of goods and the rendering of services. Net cash outflow from investing activities amounted to RMB7.966 billion, as compared with a net outflow of RMB519 million in the same period last year, representing an increase of RMB7.447 billion as compared with the same period of last year, mainly due to the increase in financial assets held for trading and the outflow of cash for debt investments. Net cash outflows from financing activities amounted to RMB1.359 billion, as compared with net inflows of RMB722 million in the same period of last year, the year-on-year change was mainly due to the increase in cash repayment of loans by the Company during the current period.

III Management Discussion and Analysis (Continued)

4. THE PRINCIPAL OPERATION DURING THE REPORTING PERIOD (CONTINUED)

(1) Analysis of principal operations (Continued)

2. Cash Flow Analysis (Continued)

Excluding the effect of Masteel Finance, the net increase in cash and cash equivalents was RMB3,051 million, as follows:

- (1) Net cash inflow from operating activities was RMB7,360 million, representing a year-on-year increase of RMB3,868 million, which was mainly due to the increase in the volume and price of steel products and the increase in cash received from sales of products compared with the same period of last year.
- (2) Net cash outflow from investing activities was RMB2,926 million, representing a year-on-year increase of RMB289 million as compared to the same period of last year, mainly due to the Company's equity investment in OBEI Co., Ltd. during the current period.
- (3) Net cash outflows from financing activities amounted to RMB1,359 million, representing a year-on-year increase of RMB2,081 million, mainly due to the increase in cash paid by the Company for debt repayment during the current period.

III Management Discussion and Analysis (Continued)

4. THE PRINCIPAL OPERATION DURING THE REPORTING PERIOD (CONTINUED)

(1) Analysis of principal operations (Continued)

3. Industry and Product Analysis

Unit: million RMB

PRINCIPAL OPERATIONS BY INDUSTRY						
By industry	Revenue of sales	Cost of sales	Gross profit margin (%)	Year-on-year increase or decrease in revenue (%)	Year-on-year increase or decrease in cost of sales (%)	Year-on-year increase or decrease in gross profit margin (%)
Steel industry	53,926	44,607	17.28	52.54	37.98	Increased by 8.73 percentage points

PRINCIPAL OPERATIONS BY PRODUCT						
By product	Revenue of sales	Cost of sales	Gross profit margin (%)	Year-on-year increase or decrease in revenue (%)	Year-on-year increase or decrease in cost of sales (%)	Year-on-year increase or decrease in gross profit margin (%)
Long products	23,120	20,381	11.85	48.66	44.80	Increased by 2.35 percentage points
Plates	27,410	21,314	22.24	57.54	32.42	Increased by 14.75 percentage points
Wheels and axles	1,218	10,78	11.49	2.96	0.09	Increased by 2.53 percentage points

During the reporting period, the principle operation income of the Group amounted to RMB55,825 million, of which the steel industry income amounted to RMB53,926 million, accounting for 97% of the principle operation income. There was no significant change in the proportion. In the first half of the year, the sales volume of long products, plates and wheels and axles were 5.17 million tons, 5.25 million tons and 110,000 tons, respectively. The sales volume of steel was 10.53 million tons, of which 550,000 tons were exported, accounting for 5.22%.

III Management Discussion and Analysis (Continued)

4. THE PRINCIPAL OPERATION DURING THE REPORTING PERIOD (CONTINUED)

(1) Analysis of principal operations (Continued)

4. Others

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

(2) During the reporting period, the company had no material change in profit due to non-principal business.

(3) Analysis of assets and liabilities

1. Assets and liabilities

Unit: RMB

Item	Closing balance of the current period	Percentage of closing balance of the current period in total assets (%)	Closing balance of last year	Percentage of closing balance of last year in total assets (%)	Year-on-year Change (%)
Cash and bank balances	7,362,106,504	7.92	5,346,108,774	6.62	37.71
Financial assets held for trading	4,602,807,676	4.95	2,028,957,057	2.51	126.86
Trade receivables	1,260,377,317	1.36	1,043,606,041	1.29	20.77
Prepayments	1,204,418,576	1.30	755,340,403	0.94	59.45
Other receivables	281,852,617	0.30	426,386,362	0.53	-33.90
Inventories	13,313,594,564	14.33	10,900,294,231	13.51	22.14
Financial assets purchased under agreements to resell	-	-	1,346,725,440	1.67	-100.00
Other current assets	5,912,335,916	6.36	3,981,226,262	4.93	48.51
Investment in other debentures	104,202,399	0.11	-	-	-
Investment properties	61,640,883	0.07	62,504,615	0.08	-1.38
Long-term equity investments	4,217,065,499	4.54	3,694,172,463	4.58	14.15
Fixed assets	28,739,533,966	30.92	29,564,588,450	36.63	-2.79
Construction in progress	9,140,195,717	9.84	6,980,279,959	8.65	30.94

III Management Discussion and Analysis (Continued)

4. THE PRINCIPAL OPERATION DURING THE REPORTING PERIOD (CONTINUED)

(3) Analysis of assets and liabilities (Continued)

1. Assets and liabilities (Continued)

Unit: RMB

Item	Closing balance of the current period	Percentage of closing balance of the current period in total assets (%)	Closing balance of last year	Percentage of closing balance of last year in total assets (%)	Year-on-year Change (%)
Right-of-use assets	355,072,414	0.38	394,472,380	0.49	-9.99
Customer deposits	9,553,338,251	10.28	6,620,132,197	8.20	44.31
Repurchase agreement	555,263,406	0.60	198,480,944	0.25	179.76
Short-term loans	11,515,102,110	12.39	12,584,935,187	15.59	-8.50
Financial liabilities held for trading	28,554,392	0.03	95,968,940	0.12	-70.25
Contract liabilities	5,589,750,054	6.01	4,377,105,559	5.42	27.70
Taxes payable	1,437,780,513	1.55	569,759,727	0.71	152.35
Other payables	5,610,915,235	6.04	4,123,490,248	5.11	36.07
Long-term loans	3,444,301,912	3.71	3,536,364,338	4.38	-2.60
Lease liabilities	359,674,399	0.39	394,983,673	0.49	-8.94
Special reserve	73,802,712	0.08	37,295,614	0.05	97.89
Undistributed profit	11,017,256,486	11.85	7,374,557,923	9.14	49.40

III Management Discussion and Analysis (Continued)

4. THE PRINCIPAL OPERATION DURING THE REPORTING PERIOD (CONTINUED)

(3) Analysis of assets and liabilities (Continued)

1. *Assets and liabilities (Continued)*

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

Cash and bank balances increased by 37.71%, mainly due to the increase in the amount of deposits of Masteel Group and its member units absorbed by Masteel Finance in the current period.

Financial assets held for trading increased by 126.86%, mainly due to the increase in the certificates of interbank deposit purchased and to be sold in the near future by Masteel Finance.

Prepayments increased by 59.45%, mainly due to the increase in the volume purchased by the Company in the current period and the corresponding increase in the prepayment for the purchase of billet.

Other receivables decreased by 33.90%, mainly due to the recovery of current accounts and the decrease in import tariff and VAT deposits.

Financial assets purchased under agreements to resell decreased by 100.00%, mainly due to the decrease of reverse repurchase business of Masteel Finance in the current period.

Other current assets increased by 48.51%, mainly due to the increase in debt investments due within one year held by Masteel Finance in the current period compared with the end of the previous year.

The investment in other debentures was RMB104 million as compared with nil at the end of the previous year, mainly due to the purchase of non-held-to-maturity policy-based financial bonds of the Masteel Finance in the current period.

Construction in progress increased by 30.94%, mainly due to the increase in the investment construction of the Coking Coal Silo Project, the 7-meter Coke Oven System Project and the Eco-upgrades and Intelligent Transformation of the Raw Material Factory.

Customer deposits increased by 44.31%, mainly due to the increase in the cash and bank balances of the Masteel Group and its member units absorbed by Masteel Finance in the current period.

III Management Discussion and Analysis (Continued)

4. THE PRINCIPAL OPERATION DURING THE REPORTING PERIOD (CONTINUED)

(3) Analysis of assets and liabilities (Continued)

1. *Assets and liabilities (Continued)*

Repurchase agreements increased by 179.76%, mainly due to the increase in the amount of funds pledged by Masteel Finance to other financial institutions in the current period.

The financial liabilities held for trading decreased by 70.25%, mainly due to changes in the fair value of the forward foreign exchange contracts held by the Company in the current period.

Taxes payable increased by 152.35%, mainly due to the increase in the profit of the Company and the increase in corporate income tax payable in the current period.

Other payables increased by 36.07%, mainly due to the unpaid dividends declared by the Company in the current period.

Special reserve increased by 97.89%, mainly due to the increase in the safety fund and the special reserves for joint venture.

Undistributed profit increased by 49.40%, mainly due to the operating profit of the Group in the current period.

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

2. *Overseas asset*

At the end of the reporting period, the overseas assets of the Group were equivalent to approximately RMB1.948 billion, accounting for 2.10% of the total assets.

3. *Major restricted assets at the end of the reporting period*

At the end of the reporting period, the aggregate restricted assets of the Company amounted to approximately RMB2.306 billion, among that: the mandatory reserves which deposited with the central bank by the Masteel Finance amounted to approximately RMB1.038 billion, bank deposits for bank acceptance notes amounted to approximately RMB1.267 billion, bank deposits for performance guarantees amounted to RMB1 million.

III Management Discussion and Analysis (Continued)

4. THE PRINCIPAL OPERATION DURING THE REPORTING PERIOD (CONTINUED)

(4) Investment analysis

1. General analysis of external equity investments

Unit: million RMB

Investment amount as at the end of the reporting period of the Company	13,184
Changes in investment amount	824
Investment amount as at the end of previous year of the Company	12,360
Increase/decrease in investment amount (%)	6.67

Major companies with changes in investment during the reporting period:

Unit: million RMB

Invested Company	Shareholding Ratio	Principal Business	New investment amount during the reporting period
Company with capital contributions changes			
Anhui Masteel Gas Technology Co., Ltd	100%	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 service.	270.00

III Management Discussion and Analysis (Continued)

4. THE PRINCIPAL OPERATION DURING THE REPORTING PERIOD (CONTINUED)

(4) Investment analysis (Continued)

1. General analysis of external equity investments (Continued)

Invested Company	Shareholding Ratio	Principal Business	New investment amount during the reporting period
Company with investment changes due to capital increase or equity changes			
Ouye Industrial Products Co., Ltd.	11%	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. 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)	247.65

III Management Discussion and Analysis (Continued)

4. THE PRINCIPAL OPERATION DURING THE REPORTING PERIOD (CONTINUED)

(4) Investment analysis (Continued)

1. General analysis of external equity investments (Continued)

Invested Company	Shareholding Ratio	Principal Business	New investment amount during the reporting period
Ouye Commercial Factoring Company Limited	16.14%	Export factoring, domestic factoring, consulting services related to commercial factoring, and credit risk management platform development.	157.65
Ma Steel (Shanghai) Commercial Factoring Company Limited	25%	Engaged in the accounts receivables financing, sales sub-account management, collection of accounts receivables and bad debt guarantee transferred by the Company.	-157.65

III Management Discussion and Analysis (Continued)

4. THE PRINCIPAL OPERATION DURING THE REPORTING PERIOD (CONTINUED)

(4) Investment analysis (Continued)

1. General analysis of external equity investments (Continued)

In September 2020, the Company established Anhui Magang Gas Technology Co., Ltd., a wholly-owned subsidiary with a registered capital of RMB270 million. All capital contributions were completed during the reporting period.

Ouye Industrial Products Co., Ltd., in which the Company invested, has a registered capital of RMB4 billion, and was held as to 11% by the Company. The Company contributed RMB192 million last year, and RMB248 million in the current period, totaling RMB440 million.

Ouye Commercial Factoring Company Limited absorbed and merged Ma Steel (Shanghai) Commercial Factoring Company Limited. After the absorption and merger, the Company held 16.14% of the equity of Ouye Commercial Factoring Company Limited.

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

Unit: million RMB

Project name	Budget of total investment	New investment during the reporting period	Project progress
Product quality projects	8,324	1,290	38%
Energy-saving and environment protection projects	7,727	663	50%
Equipment advancement and other modification projects	6,494	754	28%
Other projects	N/A	196	N/A
Total	N/A	2,903	N/A

III Management Discussion and Analysis (Continued)

4. THE PRINCIPAL OPERATION DURING THE REPORTING PERIOD (CONTINUED)

(4) Investment analysis (Continued)

1. General analysis of external equity investments (Continued)

(2) Significant non-equity investment (Continued)

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

Unit: million RMB

Project name	Budget of total investment	Project progress
Coke oven overhaul project in the coking plant	1,850	Civil construction and equipment procurement phase
A blast furnace overhaul project in the steel making plant	1,390	Furnace shell assembly and construction phase before shutdown
Belt roasting machine project in the south area of the steel making plant	992	Steel structure and equipment installation phase
No. 2 E-type coking coal silo project	750	Steel structure and equipment installation phase
No. C sintering machine project of the steel making plant	730	Design and bidding phase
Public auxiliary supporting project of north area filling up project	290	Civil construction and equipment procurement phase
No. 015 material yard environmental protection and upgrading project in the south area of the steel making plant	217	Civil engineering, steel structure and equipment construction phase
Integration of integrated information construction projects of Masteel	201	Functional assessment phase
Implementation of environmental protection and upgrading project for the storage yard in the south area of the steel making plant	185	Civil engineering and steel structure construction phase
Reconstruction project of small material yard in north area	183	Equipment installation and commissioning phase
Total	6,788	/

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

III Management Discussion and Analysis (Continued)

4. THE PRINCIPAL OPERATION DURING THE REPORTING PERIOD (CONTINUED)

(4) Investment analysis (Continued)

1. General analysis of external equity investments (Continued)

(2) Significant non-equity investment (Continued)

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	Equipment installation and commissioning phase
Capacity reduction and replacement project – project of 140 tonnes of electric furnace	593	Equipment debugging completed, rectification and elimination phase
Sintering machine desulfurization and denitrification system project	213	Trial operation phase
Project of 220kv power transmission and transformation for 140 tonnes electric furnace steelmaking	160	Completed
600,000 tpa steel slag processing project	158	Rectification and elimination phase
Total	2,012	/

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

III Management Discussion and Analysis (Continued)

4. THE PRINCIPAL OPERATION DURING THE REPORTING PERIOD (CONTINUED)

(4) Investment analysis (Continued)

1. General analysis of external equity investments (Continued)

(3) Financial assets measured at fair value

Unit: RMB

Account name	Opening balance of the reporting period	Closing balance of the reporting period	Change in the reporting period	Effects on the profit of the current period
Financial assets held for trading	2,028,957,057	4,602,807,676	2,573,850,619	87,956,662
Financial liabilities held for trading	95,968,940	28,554,392	-67,414,548	-29,172,189
Financing receivables	7,072,160,166	8,609,643,488	1,537,483,322	-
Investment in other debentures	-	104,202,399	104,202,399	-
Other equity instruments investments	390,798,231	421,698,174	30,899,943	8,184,904
Total	9,587,884,394	13,766,906,129	4,179,021,735	66,969,377

III Management Discussion and Analysis (Continued)

4. THE PRINCIPAL OPERATION DURING THE REPORTING PERIOD (CONTINUED)

- (5) During the reporting period, there was no significant disposal of the Company's assets or equity.
- (6) Analysis of the group's major subsidiaries and investees

1. *Anhui Changjiang Steel Co., Ltd.*

Anhui Changjiang Steel Co., Ltd. has a registered capital of RMB1,200 million, in which the Company holds a direct stake of 55%. It is mainly engaged in the production and distribution of ferrous metallurgy, screw threaded steel, round steel, section steel, angle steel, deformed steel, wire and rod; as well as the sales, import and export of iron ore, iron ore fines and scrap steel. The net profit for the reporting period amounted to RMB783.35 million. At the end of the reporting period, its total assets and net assets amounted to RMB11,678.23 million and RMB6,059.99 million, respectively.

During the reporting period, the revenue of Changjiang Steel from principal operation was RMB10,405.98 million, the profit therefrom was RMB1,568.89 million, and the net profit increased by 107.73% year-on-year, mainly due to the increase in the steel price and the tapping potential by benchmarking to reduce costs and improve efficiency.

2. *Masteel Group Finance Co. Ltd.*

Masteel Group Finance Co. Ltd. has a registered capital of RMB2,000 million, in which the Company holds a direct stake of 91%. Its business scope is as follows: financial and financing consultancy and relevant consultancy as well as agency business to members of the Group; guarantee provided; bill acceptance and discounting, loans and finance leasing to members of the Group; engagement in inter-bank borrowing; assisting members of the Group in the collection and payment of transaction amount; approved insurance agency business; handling entrusted loans, internal transfer and bill settlement, design of settlement and liquidation plans for members of the Group, and accepting deposits from member entities. The net profit for the reporting period amounted to RMB145.35 million. At the end of the reporting period, its total assets and net assets amounted to RMB23,100.51 million and RMB3,260.87 million, respectively.

During the reporting period, the revenue of Masteel Group Finance Co. Ltd. from principal operation was RMB264.20 million, the profit therefrom was RMB139.69 million, and the net profit decreased by 5.54% year on year, mainly due to the decrease in asset size and the yields.

III Management Discussion and Analysis (Continued)

4. THE PRINCIPAL OPERATION DURING THE REPORTING PERIOD (CONTINUED)

(6) Analysis of the group's major subsidiaries and investees (Continued)

2. Masteel Group Finance Co. Ltd. (Continued)

Indicator	Standard Ratio	Actual ratio for the period
Capital adequacy ratio	≥10.5%	28.30%
Liquidity ratio	≥25%	91.15%
Non-performing asset ratio	≤4%	–
Non-performing loan ratio	≤5%	–
Loan loss reserves adequacy ratio	≥100%	262.04%
Loans from other banks ratio	≤100%	–

3. Other major controlling subsidiaries

- Ma Steel (Hefei) Iron & Steel Co., Ltd. has a registered capital of RMB2,500 million, in which the Company holds a direct stake of 71%. It is mainly engaged in metallurgy and extended processing of ferrous metals and sales of resulting products and by-products; production and sales of coke and coke chemical products and energy, extended processing of iron and steel products, production and distribution of metallic products. The net profit for the reporting period amounted to RMB23.70 million. At the end of the reporting period, the total assets and net assets amounted to RMB4,541.29 million and RMB3,035.64 million, respectively.
- MG-VALDUNES has a registered capital of EUR150.20 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 RMB39.51 million; at the end of reporting period, the total assets and the net assets were RMB707.06 million and RMB372.80 million, respectively.
- Ma Steel (Hong Kong) Co., Ltd. has a registered capital of HK\$350 million, and is mainly engaged in trading of steel, iron ore and coal; provision of steel trading agency and transportation services. The net profit for the reporting period amounted to RMB31.66 million. At the end of the reporting period, it had total assets amounting to RMB1,053.40 million and net assets of RMB417.19 million.

III Management Discussion and Analysis (Continued)

4. THE PRINCIPAL OPERATION DURING THE REPORTING PERIOD (CONTINUED)

(6) Analysis of the group's major subsidiaries and investees (Continued)

4. Major investees

- Henan Jinma Energy Co. Ltd. has a registered capital of RMB535.421 million and the Company directly holds 26.89% of its equity. Its main businesses include coke, coal tar, crude benzene, ammonium sulfate, coke oven gas production and sales; coke oven gas power generation, heat production. The net profit for the reporting period was approximately RMB342.23 million. As at the end of the reporting period, the total assets and net assets were RMB7,082.03 million and RMB4,279.45 million, respectively.
- Shenglong Chemical Co., Ltd. has a registered capital of RMB568.8 million and the Company directly holds 31.99% of its equity. It's mainly engaged in the production and sales of coke, ammonium sulfate, and coal coke chemical products (excluding other dangerous chemicals); maintenance and processing of mechanical equipment (excluding special equipment). The net profit for the reporting period was approximately RMB327.42 million. At the end of the reporting period, the total assets and net assets were RMB4,260.28 million and RMB3,060.40 million, respectively.
- Maanshan BOC-Ma Steel Gases Company Limited has a registered capital of RMB468 million and the Company directly holds 50% of its equity. It's mainly engaged in the production and distribution of air or liquid form of air products as well as the preparation for other industrial gas products. During the reporting period, the net profit amounted to RMB102.93 million. At the end of reporting period, the total assets and net assets were RMB684.98 million and RMB615.50 million, respectively.

(7) During the reporting period, the company had no structured entity.

III Management Discussion and Analysis (Continued)

5. OTHER DISCLOSURES

(1) Potential risks

1. The risk of the COVID-19 pandemic: there are still many uncertain factors under the global pandemic. The pandemic situation has not been alleviated overseas, and there have been multiple outbreaks in China, leaving severe situation in the pandemic prevention.

Countermeasure: in addition to strictly implementing the national, provincial, municipal and China Baowu's requirements for the prevention and control of the pandemic, the Company, in accordance with the principle of "whoever employs employees shall be responsible for the management and the situation", will coordinate the prevention and control of the pandemic and strictly implement the prevention and control requirements, take the initiative to make arrangements to raise risk awareness, also further deepen the "double stability" work of overseas pandemic prevention and control, strengthen care and love for overseas employees, and make every effort to ensure the health and safety of employees.

2. The superposition of multiple risk factors under the condition of crude steel output reduction: the reduction of crude steel output is one of the most essential tasks of the iron and steel industry. According to the national policy of "controlling production capacity, reducing output and adjusting exports", the Company is facing pressure of reducing production in the second half of the year, but also alert to prevent risks caused to the cost of steel by large fluctuations in bulk raw materials and fuels. At the same time, environmental protection policies, export tax rebate policies, as well as the risks of raw material transportation and supply chain security risks caused by extreme weather, and the increased costs caused by carbon reduction will affect the production and operation of the Company.

III Management Discussion and Analysis (Continued)

5. OTHER DISCLOSURES (CONTINUED)

(1) Potential risks (Continued)

2. (Continued)

Countermeasure: with the change of policy boundaries in the second half of the year, the focus of the Company's production and operation will shift from heavy production to operating quality, and more efforts will be made in optimizing structure, improving quality and reducing costs. The Company will adhere to the guiding ideology of "stable, orderly and overall optimization", continue to optimize, dynamically organize production, give full play to the efficiency of each production line, and pursue systematic optimization. The Company will further strengthen inventory management with a pragmatic attitude of "no betting on the market and spare no effort", appropriately reduce raw and fuel inventories under the premise of ensuring production and supply, and rationally arrange the inventory of finished product on the basis of ensuring direct supply to customers and key customers. With ROE as the core, the Company will spare no efforts to improve the efficiency of asset operation; focus on cost reduction, continue to reduce costs and increase efficiency; continuously promote the management and control of "two funds", strengthen management of cash flow; and strictly control interest-bearing liabilities and asset-liability ratios. While ensuring the safe operation of production, in accordance with the latest national policies and combined with the actual situation of the Company, the Company will keep pace with the times in the ultra-low emission transformation, and strive to complete the ultra-low emission transformation of 92% of the production capacity by the end of the year, realising the most economical production and operation and the maximum operating efficiency.

III Management Discussion and Analysis (Continued)

5. OTHER DISCLOSURES (CONTINUED)

(2) Other disclosures

1. *Work of Audit Committee*

The Audit Committee of the Company comprises independent directors Ms. Zhu Shaofang, Ms. Zhang Chunxia and Mr. Wang Xianzhu. The Audit Committee has reviewed the 2021 interim financial report.

2. *Significant Event Affecting the Group after the reporting period*

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

3. *Purchase, Sale or Redemption of Listed Securities of the Company*

During the reporting period, the Company did not redeem any of its listed stocks, nor did the Company and its affiliated companies purchase or resale any of the listed stocks.

4. *Pre-emptive Rights*

According to Chinese laws and the Articles of Association of the Company, it is not required that the current shareholders shall purchase new shares based on their holding shares before the Company issues new shares.

5. *Code on Corporate Governance Practices*

During the reporting period, the Company has complied with all the code provisions of the Code on Corporate Governance Practices set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. No deviation behaviour from the code was found.

III Management Discussion and Analysis (Continued)

5. OTHER DISCLOSURES (CONTINUED)

(2) Other disclosures (Continued)

6. *Model Code for Securities Transactions by Directors of Listed Issuers*

During the reporting period, the Company had complied with the requirements stipulated by the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. No deviation behaviour from the code was found.

7. *Shareholders' Rights*

Any shareholder who holds shares carrying 10% or more of the voting rights in the Company, either individually or jointly, has the right to demand an extraordinary general meeting or a class general meeting according to Article 88 of the Articles of Association. When the Company convenes Annual General Meeting, any shareholder who meets the conditions specified in Article 60 of the Articles of Association is entitled to file a new bill with the Company in writing. Shareholders may send inquiries or comments to the Board by mail to the Company's office in Maanshan, Anhui (No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC).

IV Corporate Governance

1. SHAREHOLDERS' GENERAL MEETING

Session of Meeting	Date of Meeting	Specified Website for Publishing Resolutions	Publishing Date of Resolution	Resolution of Meeting
2020 Annual General Meeting	2021-6-29	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/new/2021-06-30/600808_20210630_1_LeUg1y0x.pdf	2021-6-30	Please refer to "Notes to the General Meeting" for details

Notes to the General Meeting:

On 30 April 2021, the Company issued the Notice of Maanshan Iron & Steel Company Limited on the Convening of the 2020 Annual General Meeting, which was scheduled to be convened on 18 June 2021.

On 2 June 2021, the Company received a written proposal from its controlling shareholder, the Holding, in relation to the proposal on the appointment of auditors for 2021 to be included in the 2020 Annual General Meeting. The Company requires additional time to make arrangements whereby the General Meeting will be postponed to 29 June 2021. For details, please refer to the Announcement on Postponement of the 2020 Annual General Meeting issued by the Company on 3 June 2021.

On 29 June 2021, the resolutions considered and approved at the 2020 Annual General Meeting include: the 2020 annual work report of the Board; the 2020 annual work report of the Supervisory Committee; the 2020 audited financial Report; the 2020 profit distribution plan; the 2020 remuneration of the Company's Directors, Supervisors and senior management personnel; the appointment of Ernst & Young Hua Ming LLP as the Company's auditor for the year 2021 and the board of directors was proposed to determine the remuneration of the auditor at the general meeting. In addition, the 2020 Annual General Meeting also heard the report of the independent Directors of the Company for 2020.

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>).

IV Corporate Governance (Continued)

2. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

Name	Position	Changes
Zhang Wenyang	Director and general manager	Resignation
Tian Jun	Deputy general manager	Resignation
Mao Zhanhong	Deputy general manager	Appointment
Qian Haifan	Director	Resignation

Notes to the changes in Directors, Supervisors and senior management of the Company:

On 16 March 2021, the Board agreed that Mr. Zhang Wenyang resigned from the position of Director and general manager of the Company due to work arrangement; agreed that Mr. Tian Jun resigned from the position of deputy general manager of the Company due to his mandatory age for retirement; and appointed Mr. Mao Zhanhong as the deputy general manager of the Company, with a term of office from the date of appointment to the election of new session of the Board at General Meeting of the Company.

On 19 March 2021, Mr. Qian Haifan resigned as a Director of the Company due to his mandatory age for retirement.

On 10 August 2021, the Board appointed Mr. Ren Tianbao as the deputy general manager of the Company, with a term of office from the date of appointment to the election of new session of the Board at General Meeting of the Company.

3. PROFIT DISTRIBUTION PROPOSAL OR THE PLAN FOR CONVERTING CAPITAL RESERVE TO BONUS SHARES

(1) Profit distribution plan or plan for the capitalisation of capital reserve declared

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

V Environmental and Social Responsibility

1. 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
Headquarters of Masteel	Waste gases	Dust, NO _x , SO ₂ , etc.	Emitted into the air via chimney stack after dust elimination, desulfidation and denitration	260 sets	315 distributed along the production lines
	Waste water	SS, COD, oil, ammonia nitrogen, etc.	Discharged after up to standard processing	68 sets	11
	Solid wastes	Iron dust, iron oxide scale, metallurgical slag, etc.	Recycled, outsourced compliance treatment, compliance storage	15 sets	-
Changjiang Steel	Waste gases	Dust, NO _x , SO ₂ , etc.	Emitted into the air via chimney stack after dust elimination, desulfidation and denitration	50 sets	65 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.	Recycled, outsourced compliance treatment	1 set under construction	-
Ma Steel (Hefei)	Waste gases	Dust, acid (alkali) fog, NO _x , SO ₂ , etc.	Discharged after up to standard processing	11 sets	16 distributed along the production lines
	Waste water	Acid and alkali, COD, oil, ammonia nitrogen, etc.	Discharged after up to standard processing	1 set	1
	Solid wastes	Emulsified liquid slag, oil sludge, waste filter paper, bottom residue, etc.	Outsourced compliance treatment, recycled	0	-

V Environmental and Social Responsibility (Continued)

1. ENVIRONMENTAL INFORMATION (CONTINUED)

(1) Notes on environmental protection by the company and its key subsidiaries listed among key pollution producers by the environment authority (Continued)

1. Pollutant emission information (Continued)

Note: The headquarters of Magang Stock has implemented standardized rectification of wastewater discharge outlets and the realization of rain and sewage diversion in the south area, and its industrial wastewater of each secondary unit has been collected and treated in a centralized manner, thereby the number of discharge outlets into the river was reduced by 11 compared with 2020.

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 (Tonne/Year)	Total Emissions During the Reporting Period (Tonne)
Masteel (Headquarters)	Waste gases	Dust	≤13.99mg/m ³	10,856.73	3,492.11
		SO ₂	≤7.14mg/m ³	16,952.86	1,782.25
		NO _x	≤16.11mg/m ³	31,623.15	4,021.48
	Waste water	COD	≤15.06mg/l	1,372.824	189.83
		Ammonia nitrogen	≤0.70mg/l	137.2824	8.85
Changjiang Steel	Waste gases	Dust	≤13.46mg/m ³	2,965.86	1,567.64
		SO ₂	≤8.28mg/m ³	3,243.25	499.84
		NO _x	≤16.47mg/m ³	7,091.74	994.03
	Waste water	COD	0mg/l	0	0
		Ammonia nitrogen	0mg/l	0	0
Ma Steel (Hefei)	Waste gases	Dust	≤18.5mg/m ³	51.9	1.99
		SO ₂	≤8.5mg/m ³	6.04	0.48
		NO _x	≤36mg/m ³	38.06	6.62
	Waste water	COD	≤26.6mg/L	106.82	7.53
		Ammonia nitrogen	≤0.67mg/L	16.1	0.48

V Environmental and Social Responsibility (Continued)

1. ENVIRONMENTAL INFORMATION (CONTINUED)

(1) Notes on environmental protection by the company and its key subsidiaries listed among key pollution producers by the environment authority (Continued)

1. Pollutant emission information (Continued)

Note: the total discharge amount during the reporting period is based on the standard statistics of the original Ministry of Environmental Protection (renamed as Ministry of Ecology and Environment of the PRC in 2018) in accordance with the Technical Specification for Application and Issuance of Discharge Permit for Iron and Steel Industry (HJ846–2017). During the reporting period, the total amount of smoke and dust emission of the headquarters of Magang Stock includes 2,694.94 tonnes of organised emission and 797.17 tonnes of unorganised emission. The total amount of smoke and dust emission of Changjiang Steel includes 812.37 tonnes of organised emission and 755.27 tonnes of unorganised emission. The total amount of smoke and dust emission of Ma Steel (Hefei) includes 1.99 tonnes of organised 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.

During the reporting period, 5.2864 million tonnes of general industrial solid waste was generated by the headquarters of Magang Stock, among which 250 tonnes were outsourced compliance treatment, 1,600 tonnes were stored, and 5.2845 million tonnes were recycled (including 1.3847 million tonnes for reproduction and utilization and 3.8998 million tonnes for external sold); 20,400 tonnes of hazardous waste was generated, among which 19,300 tonnes were treated in compliance, and 1,100 tonnes were stored in compliance. 1.1785 million tonnes of general industrial solid waste was generated by Changjiang Steel, among which 150 tonnes were outsourced compliance treatment, 1.1784 million tonnes were recycled (including 0.2786 million tonnes for reproduction and utilization and 0.8998 million tonnes for external sold); 123 tonnes of hazardous waste was generated, 134 tonnes were treated in compliance, and 22 tonnes were stored in compliance. 780 tonnes of general industrial solid waste and 660 tonnes of hazardous waste were generated by Ma Steel (Hefei), all of which were outsourced compliance treatment or utilised.

V Environmental and Social Responsibility (Continued)

1. ENVIRONMENTAL INFORMATION (CONTINUED)

(1) Notes on environmental protection by the company and its key subsidiaries listed among key pollution producers by the environment authority (Continued)

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

All processes of the Company are equipped with pollution prevention facilities and are operating normally in accordance with the requirements of the environmental assessment. As of 30 June 2021, there were 78 (sets) wastewater treatment facilities and 321 (sets) waste gas treatment facilities. The online monitoring and controlling facilities have been installed at the main discharge outlets of waste water and waste gas, and were included in the network in accordance with the requirements of the government. Among them, there are 315 sets of online monitoring facilities (172 sets under national control and 143 sets under internal control) in the headquarters of Masteel, and 188 sets of video surveillance facilities, an increase of 163 sets compared with last year; 18 sets of online monitoring facilities in Changjiang Steel and 1 set in Ma Steel (Hefei). Each production process of the Company is equipped with facilities such as noise elimination, noise reduction, sound insulation and isolation, which effectively control the emission of environmental noise. The comprehensive utilization facilities of industrial solid waste such as blast furnace slag, converter slag, electric furnace slag and Iron dust were complete.

In 2021, the Company continued to promote pollution regulation. In the first half of the year, 16 new environmental treatment facilities were built (including carryover), including No. 6 coke oven flue gas desulfurization and denitrification, environmental treatment of mixed system of iron making No.1, No.2, and No.3 sintering machines, fine desulfurization of coke oven gas in north and south areas, ultra-low emission transformation of gas boiler with pneumatic blower of No. 4 blast furnace, flue gas desulphurization and denitrification and ultra-low emission transformation of No. 2 sintering machine, flue gas desulfurization project of No. 13 gas-fired boiler in Masteel thermal power plant and dust removal system for the newly built molten iron inversion station of No. 1 steel rolling plant; 50 sets of environmental protection facilities have been transformed for higher standards, including the transformation of gravity dust removal and ash discharge of B furnace, the improvement of the batching area of AB machine, the upgrading of dust removal effect of AB machine, the improvement of dust removal in batching room, the upgrading of dust removal system in the port raw material plant, the transformation of dust collector for coking on-line operation, and the transformation project of electrostatic precipitator for No. 1 and No. 2 sintering machine tail and finished products; 2 new wastewater treatment facilities were built, including the wastewater treatment and reuse project in the north area and the upgrading of color coating water treatment.

V Environmental and Social Responsibility (Continued)

1. ENVIRONMENTAL INFORMATION (CONTINUED)

(1) Notes on environmental protection by the company and its key subsidiaries listed among key pollution producers by the environment authority (Continued)

3. *Environmental impact assessment of construction projects and other environmental protection administrative licenses*

The Company has received the EIA approval for three projects: Hazardous Waste Storage and Scrap Iron Barrel Utilization Project in Resources Branch, Reconstruction Project of Pulverized Coal Boiler Mixing with Industrial Sludge in Thermal Power Plant (old area) and Overhaul and Reconstruction Project of Coke Oven in General Coking Plant. The Company also has completed the environmental assessment registration for three projects, including the Environmental Protection Upgrade and Desilication System Reconstruction Project of Secondary Silicon Steel Acid Regeneration in Cold Rolling Plant, Reconstruction Project of Zero Discharge of Waste Water Treatment System in Color Coating Plant of Cold Rolling General Plant, and Renovation Project of South Area of Masteel.

In accordance with the requirements of the Management Measures for Sewage Discharge License and technical specifications for sewage discharge licence, the Company earnestly implemented post-licensing management, improved environmental management accounting, prepared and published sewage discharge licence implementation reports on a quarterly basis, and conducted self-monitoring and monitoring information disclosure. In the first half of the year, the headquarters of Masteel completed the modification and renewal of the sewage discharge licence, which is valid until August 2026.

4. *Prepared emergency response plans for environmental incidents*

The headquarters of Masteel, Changjiang Steel and Ma Steel (Hefei) took the legal entity as the main body respectively, strictly implemented the relevant requirements of the government for the management of prepared emergency response plans for environmental incidents, and carried out drills as planned according to their respective "prepared plans". On March 24 and June 11, the General Coking Plant of the headquarters of Masteel carried out emergency drills for ammonia leakage accidents and the emergency treatment of trip of the desulfurization and denitrification fans of coke oven. On May 25, the Cold Rolling Plant organized emergency drills for acid leakage emergencies; Ironmaking Plant of Changjiang Steel carried out "emergency drills for the trip accident of the dedusting fan in the iron yard".

V Environmental and Social Responsibility (Continued)

1. ENVIRONMENTAL INFORMATION (CONTINUED)

- (1) Notes on environmental protection by the company and its key subsidiaries listed among key pollution producers by the environment authority (Continued)

5. *Environmental self-monitoring programme*

In strict accordance with the requirements of the Measures for the Self-Monitoring and Information Disclosure by the Enterprises subject to Intensive Monitoring and Control of the State (for Trial Implementation) (No. 81 [2013] of the Ministry of Environmental Protection) (《國家重點監控企業自行監測及資訊公開辦法(試行)》(環發[2013]81號)), Self-monitoring Technical Guidelines of the State and Technical Specifications for Application and Issuance of Pollutant Permit, the Company comprehensively sorted out waste water, waste gas, noise, radiation, soil and groundwater points. The headquarters of Masteel, Changjiang Steel and Ma Steel (Hefei) have respectively compiled and completed the 2021 self-monitoring plan, and reported locally to the Ecological Environment Bureau of Maanshan City and Hefei City. The self-monitoring adopted two methods of continuous automatic monitoring and manual monitoring, and the discharge outlets were monitored continuously and automatically. All self-monitoring data were kept for more than 1 year, and the results were uploaded to the Information Disclosure Platform for Self-Monitoring and Supervisory Monitoring of Key Pollutant Discharge Units; the Company entrusted qualified third-party monitoring institutions to conduct manual monitoring, and the monitoring data was disclosed in real time.

6. *There were no administrative penalties for environmental issues during the reporting period.*

7. *Other environmental information that should be disclosed*

From 23 June to 25 June 2021, Changjiang Steel received the external review of the environmental management system by Beijing Xingguo Global Accreditations Limited and passed the review successfully.

- (2) No explanation on environmental protection situation of companies except the key pollutant producers.

V Environmental and Social Responsibility (Continued)

1. ENVIRONMENTAL INFORMATION (CONTINUED)

(3) Relevant information conducive to the protection of ecology, prevention and control of pollution and the fulfillment of environmental responsibilities

Centering on “ultra-low emission of waste gas, zero emission of waste water, no shipping out of solid waste”, the Company comprehensively analyzed and formulated an annual project plan to continuously promote key projects of “ultra-low emission of waste gas, zero emission of waste water, no shipping out of solid waste”, including ultra-low emission transformation and rain and sewage diversion. In the first half of the year, the headquarters has approved 19 projects, planning to invest RMB553 million to implement environmental treatment. As of 30 June, the Company’s emissions per ton of sulfur dioxide, oxynitride and chemical oxygen demand decreased by 46.68%, 48.45% and 38.11%, respectively, as compared with the same period last year.

The Company’s environmental protection information management system was launched and rebuilt in April 2020 and put into operation in June 2021. The system implements non-landing management of the online data of the Company’s environmental protection and data of manual monitoring, and realized online monitoring daily average data alert function, and intelligently identified the key unorganized emission control areas of the Company through AI video, which can effectively capture the picture of the unorganized abnormal emissions and then spread them to all management personnel. The monitoring of environmental protection facilities can provide the basis for judging and analyzing the abnormal online emissions, so that we can timely find the problems in the production process, further improving the management and control ability of the environmental protection process.

On 30 May, the Company issued Prepared Emergency Response Plans for “No Shipping Out of Solid Waste”, formulated relevant measures and planned supporting construction projects, including transformation of standardizing solid and hazardous waste storage yard in order to further improve the compliance level.

In order to enable the public better understand and support the Company, the Company carried out the 2021 plant environment public day opening activities on the occasion of the 50th World Environment Day, inviting about 60 people from the community around the plant to visit the exhibition hall, the production line and the intelligence park to experience the Company’s changes and progress in terms of green development and intelligent manufacturing.

In the first half of the year, the Company issued the Notice on Carrying Out the Special Supervision Action of Environmental Protection Self-inspection and Self-correction of Maanshan Iron and Steel Co., Ltd., conducting a full “examination” on the development of eco-environmental protection work.

V Environmental and Social Responsibility (Continued)

1. ENVIRONMENTAL INFORMATION (CONTINUED)

(4) Measures taken to reduce their carbon emissions during the reporting period and their effects

According to the national deployment of peaking carbon emissions by 2030 while achieving carbon neutrality by 2060, the Company has conscientiously implemented the “Key Work Arrangement of China Baowu 2021 Energy and Environmental Protection”, focusing on finding the difference from all-round benchmarking, and constantly raising the level of green development to ensure the completion of energy targets and tasks in the first year of the 14th Five-Year Plan. The Company formulated and issued the 2021 Energy Work Plan of Masteel and the 2021 Green and Low Carbon Competition Plan of Masteel. During the reporting period, the comprehensive energy consumption per ton of steel in Masteel was 540.94kgce/t, which was 13.43kgce/t lower than that in 2020. Among them, the headquarters of Masteel was 552.7kgce/t, which was 12.63kgce/t lower than that of 2020, and Changjiang Iron and Steel Company was 496.11kgce/t, which was 19.38kgce/t lower than that of 2020.

In order to deeply implement the requirements of the double carbon goal of China, strengthen the leadership of the green and low-carbon work, and comprehensively promote the related work of the Company's carbon emission management, the Company focuses on the green and low-carbon development goal of China Baowu of striving to peak carbon emissions by 2023, have the technological capacity of reducing carbon emissions by 30% by 2025, reduce carbon emissions by 30% by 2035, and achieve carbon neutrality by 2050, and carries out the preparation of the carbon peak action plan. The Company refines carbon reduction measures, including the energy structure, energy saving and emission reduction, energy efficiency improvement, to provide support for the Company to achieve carbon peak by 2023. In May 2021, the Company established the Leading Group of Carbon Neutralization Work Promotion System.

In terms of promoting the use of clean energy, the grid-connected capacity of the photovoltaic power station installed on factory buildings of the Company has reached 23.2156MW, and the installed capacity of the photovoltaic power station under construction is about 16.77MW. In the first half of the year, the project of CCGP gas high-efficient power generation has been completed for on-grid power generation. The upgrade and transformation of automatic steel heating of the 2250 reheating furnace of No. 4 steel making plant, the waste heat recovery of flue gas from No. 3/4 galvanised line of cold rolling plant, the lossless transformation project of No. 3/4 dryer of No. 11 air compressing station, and the energy-saving transformation of split air conditioning in iron making plant, etc., which have achieved the expected energy-saving effect.

V Environmental and Social Responsibility (Continued)

1. ENVIRONMENTAL INFORMATION (CONTINUED)

(4) Measures taken to reduce their carbon emissions during the reporting period and their effects (Continued)

Energy-saving projects completed in the first half of the year:

Name of project	Energy-saving effect
The upgrade and energy-saving project of automatic steel heating of the 2250 reheating furnace of No. 4 steel making plant	The reduction rate of gas consumption is more than 7%
The waste heat recovery project of flue gas from No. 3/4 galvanised line of cold rolling plant	The newly recovery of steam is 6t/h
The lossless transformation project of No. 3/4 dryer of No. 11 air compressing station	Reduce the loss of clean compressed air by 5.3 million cubic meters per year
The project of CCPP gas high-efficient power generation	Increase benefit by RMB210 million/year

In order to popularise the knowledge of carbon emissions and raise the level of awareness of carbon emissions, the Company organised departments and relevant personnel of various units to participate in a series of trainings on carbon peak and carbon trading in the iron and steel industry – special trainings on policies, cases and thinking held by the China Iron and Steel Association. China Metallurgical Industry Planning & Research Institute was invited to hold special lectures on carbon peak and carbon reduction action plan of Maanshan Iron and Steel Co., Ltd., and Beijing Grand Honour Certification Co., Ltd. was invited to hold training for internal auditors training of energy system.

According to the requirements including the “Administrative Measures for Carbon Emissions Rights Trading (Trial)”, the “Notice of the General Office of the Ministry of Ecological Environment on Strengthening the Management and Reporting of Greenhouse Gas Emission from Enterprises, the Notice of the Office of Department of Ecology and Environment of Anhui Province on the Verification of Reporting of Greenhouse Gas Emission form Provincial Key Emission Units in the Power Generation Industry in 2020, and in accordance with the Instructions on Greenhouse Gas Emission Accounting and Reporting for Power Generating Equipment of Enterprises”, the Company completed the preparation of Plan for Controlling Quality of Carbon Emission Data of Ancillary Power Plant, the Report of Carbon Emission of Ancillary Power Plant in 2020. Besides, the Company has completed the carbon emission verification work organized by Department of Ecology and Environment of Anhui Province.

V Environmental and Social Responsibility (Continued)

2. CONSOLIDATE AND EXPAND THE ACHIEVEMENTS IN POVERTY ALLEVIATION AND RURAL REVITALIZATION

(1) Assistance measures

The Company conscientiously implements the instruction of General Secretary Xi Jinping that “a grace period shall be allowed for previously impoverished population, village and counties, during which time poverty alleviation responsibilities, policies, assistance and supervision are continued”, and focuses on managing the work in the transition period of policy transformation, and promotes all kinds of work in an orderly manner.

Before the specific tasks of poverty alleviation assistance of rural revitalization are clearly defined by the country, provinces and cities, the Company promoted the poverty alleviation assistance work in accordance with the original plan to ensure that the assistance work never stands still and becomes discontinued. On the one hand, the Company liaised and communicated with the Provincial Poverty Alleviation Office, the Provincial SASAC, the Provincial Development and Reform Commission, and the China Baowu Poverty Alleviation Office to timely grasp the situation and tasks; on the other hand, the research team went to Liji Village and Malou Village in late March to carry out research on the feasibility of project of assistance work.

The Company established the leading group for rural revitalization, selected and arranged cadres of the eighth batch to offer poverty-relief assistance in the village to provide organizational guarantee for implementing rural revitalization and assistance work. According to the arrangement of Anhui Province, the targeted poverty alleviation counties was adjusted from Malou Village to Longtai Villiage of Lintou Town in Hanshan County, the pair-up village of Magang Village for rural revitalization is Liji Village, and Longtai Village of Lintou Town in Hanshan County. In order to implement the tasks of poverty alleviation assistance of rural revitalization, the Rejuvenation Office of the Company organized two new resident cadres in the villages to hold special meetings to understand their work and life in the village, discuss with them over measures of assistance work, and went to Longtai Village to liaise with these two cadres in order to better understand the basic situation of the village.

V Environmental and Social Responsibility (Continued)

2. CONSOLIDATE AND EXPAND THE ACHIEVEMENTS IN POVERTY ALLEVIATION AND RURAL REVITALIZATION (CONTINUED)

(1) Assistance measures (Continued)

The Company started the 2021 consumption support work, and has completed the notice issuance and task decomposition, requiring all units to implement centralized consumption assistance measures in the Mid-Autumn Festival, National Day, consumption support month and national support day, so as to further promote the supportive work of sustainable development of regional industries.

(2) Achievements of targeted poverty alleviation

The targeted poor households in Malou Village of Wangyan Town and Liji Village of Dicheng Town, Funan County have been lifted out of poverty by the Company. The collective economic income of Malou Village and Liji Village is located in the forefront of Funan County, which has made due contributions to poverty alleviation in Funan County. The targeted poverty alleviation work was rated as “good” in the year-end assessment of Anhui SASAC for three consecutive years.

The resident work team of Liji Village was rated as China Baowu advanced collective for poverty alleviation due to its remarkable achievements in poverty alleviation work, while Wang Sen, a village-resident cadre of Malou, was rated as an advanced individual for poverty alleviation in Anhui Province due to his excellent work.

VI Significant Events

1. THE STATUS OF IMPLEMENTATION OF THE MATTERS UNDERTAKEN

- (1) Undertakings made by the Company's beneficial controllers, shareholders, related parties, bidders and the Company subsisting during the reporting period or continue to the reporting period

During the period when applying to CSRC for redemption for cash offer acquisition of the A shares of the Company in 2019, China Baowu made the following three commitments:

1. In order to avoid horizontal competition, China Baowu issued "Commitment Letter on Avoiding Horizontal Competition";
2. In order to regulate and reduce connected transactions between China Baowu and the Company, China Baowu issued "Commitment Letter on Regulating and Reducing Related Party Transactions";
3. In order to maintain the independence of the Company, China Baowu issued "Commitment Letter on Ensuring the Independence of the Listed Company".

For details of these commitments, please refer to the Reply to the Notice of Feedback on "Notice Regarding the China Securities Regulatory Commission's First Feedback on the Review of Administrative Permission Items" of the CSRC published on the website of the SSE and stock exchange on 27 August 2019, and the 2019 annual report published on the website of the SSE on 31 March 2020 and the website of the SSE on 30 March 2020. During the reporting period, China Baowu did not violate these commitments.

2. THERE WAS NO MISAPPROPRIATION OF THE COMPANY'S FUNDS BY ITS CONTROLLING SHAREHOLDER OR OTHER RELATED PARTIES FOR NON-OPERATING PURPOSES DURING THE REPORTING PERIOD

3. THERE WAS NO VIOLATED GUARANTEE DURING THE REPORTING PERIOD

VI Significant Events (Continued)

4. AUDIT OF INTERIM REPORT

(1) Appointment and removal of auditors

During the reporting period, the board of directors proposed the renewal of Ernst & Young Hua Ming LLP as the Company's auditor. The resolution was approved by the Company's 2020 Annual General Meeting on 29 June 2021. During the reporting period, the Company did not appoint other accounting firms, nor did accounting firms issue non-standard auditor's reports to the Company.

5. THE ANNUAL REPORT OF THE COMPANY LAST YEAR IS A STANDARD AUDIT REPORT WITHOUT OPINIONS, AND THERE IS NO CHANGE AND HANDLING OF MATTERS INVOLVED IN NON-STANDARD AUDIT OPINIONS

6. THERE WERE NO INSOLVENCY OR RESTRUCTURING RELATED MATTERS DURING THE REPORTING PERIOD

7. THERE WERE NO MAJOR LITIGATION OR ARBITRATION CASES DURING THE REPORTING PERIOD

8. NO PUNISHMENT ON THE LISTED COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDERS, ACTUAL CONTROLLER AND ACQUIRERS WAS MADE BY COMPETENT AUTHORITIES DURING THE REPORTING PERIOD

9. NO EXPLANATION OF THE CREDIBILITY OF THE COMPANY, ITS CONTROLLING SHAREHOLDERS AND ACTUAL CONTROLLER DURING THE REPORTING PERIOD WAS NEEDED

VI Significant Events (Continued)

10. SUBSTANTIAL RELATED PARTY TRANSACTIONS

(1) Related party transactions related to normal operations

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

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

In 2018, the Company and the Holding signed the 2019–2021 “Sale and Purchase of Ore Agreement”, as approved at the shareholders’ general meeting. From 1 January 2021 to 30 June 2021, the amount of related party transactions under the agreement was as follows:

Unit: RMB’000

	Amount	Proportion of transaction of the same category (%)
Purchase of iron ore, limestone and dolomite	2,709,404	15.17

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

All Directors of the Board (including Independent Non-executive Directors) who are not associated with the Holding considered that those transactions were set and carried out in the daily course of business under normal commercial terms and in accordance with the terms of “Sale and Purchase of Ore Agreement”. The terms were fair and reasonable to the Company, and in the whole interest of the Company and its shareholders. During the reporting period, the transaction amount was under the annual cap of 2021 specified in the “Sale and purchase of Ore Agreement”, amounting to RMB5,762 million.

VI Significant Events (Continued)

10. SUBSTANTIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(1) Related party transactions related to normal operations (Continued)

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

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 2021 to 30 June 2021, 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	347,607	9.16
Sales of power, energy medium and finished goods	62,712	21.49
Total	410,319	/

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

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 2021 annual cap specified in the “Energy Saving and Environmental Protection Agreement”, amounting to RMB977 million.

VI Significant Events (Continued)

10. SUBSTANTIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(1) Related party transactions related to normal operations (Continued)

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

In 2018, the Company signed the 2019–2021 “Continuing Related Party Transaction Agreement” with the Holding, as approved by 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 the Holding. The agreement was approved by the shareholders’ general meeting on 29 June 2020. From 1 January 2021 to 30 June 2021, the amount of related party transactions 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	440,649	0.82
Fixed assets, building services, and other products and services purchased by the Company from the Holding	2,731,579	12.26
Total	3,172,228	/

The purchase or sales of such products and services conducted by the Group from or for the Holding and its affiliates adopted 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. During the reporting period, the transaction amount was under the annual cap of 2021 specified in the relevant agreement, amounting to RMB8,285 million.

VI Significant Events (Continued)

10. SUBSTANTIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(1) Related party transactions related to normal operations (Continued)

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

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

From 1 January 2021 to 30 June 2021, the amount of related party transactions under the agreement is as follows:

Unit: RMB’000

Business Nature		Amount of loan or deposit	Interest income/ expenses	
Deposit	Maximum daily deposit	9,380,624	Interest expenses	53,748
	Monthly average maximum daily deposit	8,729,944		
Loan	Maximum daily loan	2,875,420	Interest income	49,322
	Monthly average maximum daily loan	2,872,894		
Other income				
Net income from handling fee and commission				166
Income from discount interest				34,622

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 range of the same type of deposit set by the People’s Bank of China in the same period. It shall not be higher than the interest rate offered by other independent commercial banks in China to the Holding and its subsidiaries in the same period. When Masteel Finance provides loan services to the Holding and its subsidiaries, the interest rate charged on the loan shall not be lower than the interest rate range set by the People’s Bank of China for the same type of loan in the same period. It shall not be less than the interest rate charged by other independent commercial banks in China to the Holding and its subsidiaries for the same type of loan interest in the same period. When Masteel Finance provides other financial services to the Holding and its subsidiaries, the fees shall not be lower than the standard fees published by the People’s Bank of China for the same type of financial services in the same period (if applicable). It shall not be less than the fees charged by other independent commercial banks in China for providing the Holding and its subsidiaries with other financial services of the same type in the same period.

VI Significant Events (Continued)

10. SUBSTANTIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(1) Related party transactions related to normal operations (Continued)

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

All Directors of the Board (including Independent Non-executive Directors) who are not associated with the Holding considered that those transactions were 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, the transaction amount was under the annual cap of 2021 specified in the “Financial Services Agreement”, amounting 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 2019–2021 “Continuing Related Party Transactions Agreement” between the Company and Ouye Lianjin*

In 2018, the Company signed the 2019–2021 “Continuing Related Party Transactions Agreement” with Masteel Scrap (the precedent of Ouye Lianjin), as approved at the shareholders’ general meeting. Both parties signed the “Supplementary Agreement for Continuing Related Party Transaction” on 7 May 2020 to update the transaction caps for 2020 and 2021 provided the latest business of the Company and Ouye Lianjin. The agreement was approved by the shareholders’ general meeting dated 29 June 2020. From 1 January 2021 to 30 June 2021, the amount of 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 Ouye Lianjin from the Company	6,435	100
Scrap steel, agency services, and other products and services purchased by the Company from Ouye Lianjin	6,598,405	90.23
Total	6,604,840	/

VI Significant Events (Continued)

10. SUBSTANTIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(1) Related party transactions related to normal operations (Continued)

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

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

All Directors of the Board (including Independent Non-executive Directors) who are not associated with the Holding and Ouye Lianjin believe that such transactions were concluded by the Group with Ouye Lianjin in the ordinary course of business and conducted on normal commercial terms and in accordance with the agreements for relevant transactions. The terms were fair and reasonable, and in the interests of the shareholders of the Company as a whole. During the reporting period, the total amount of such transactions did not exceed the annual cap for 2021 as set out in the agreements for relevant transactions, amounting to RMB9,678 million.

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

In 2018, the Company signed the 2019–2021 "Continuing Related Party Transactions Agreement" with Magang Chemicals & Energy, as approved at the shareholders' general meeting. The amount of 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	826,404	70
Coke oven gas, wastewater treatment services and other products and services purchased by the Company from Magang Chemicals & Energy	633,821	100
Total	1,460,225	/

VI Significant Events (Continued)

10. SUBSTANTIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(1) Related party transactions related to normal operations (Continued)

6. *Continuing related party transactions under the 2019–2021 “Continuing Related Party Transactions Agreement” between the Company and Magang Chemicals & Energy (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 for 2021 as set out in the agreements for relevant transactions, amounting to RMB3,878 million.

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

In 2018, the Company signed the 2019–2021 "Continuing Related Party Transactions Agreement" with MaSteel K. Wah, as approved at the shareholders' general meeting. From 1 January 2021 to 30 June 2021, the amount of 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	419,143	83.45

VI Significant Events (Continued)

10. SUBSTANTIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(1) Related party transactions related to normal operations (Continued)

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

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

All Directors of the Board (including Independent Non-executive Directors) who are not associated with the Holding and MaSteel K. Wah believe that such transactions were concluded by the Group with MaSteel K. Wah in the ordinary course of business and conducted on normal commercial terms and in accordance with the agreements for relevant transactions. The terms were fair and reasonable, and in the interests of the shareholders of the Company as a whole. During the reporting period, the total amount of such transactions did not exceed the annual cap for 2021 as set out in the agreements for relevant transactions, amounting to RMB921 million.

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

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

VI Significant Events (Continued)

10. SUBSTANTIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(1) Related party transactions related to normal operations (Continued)

8. Continuing related party transactions under the 2020 "Daily Related Party Transaction Agreement" between the Company and China Baowu (Continued)

From 1 January 2021 to 30 June 2021, 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	166,643	30.90
Ore, infrastructure technology moderation and other products and services purchased by the Company from China Baowu	5,315,280	27.73
Total	5,481,923	/

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 and in accordance with the agreements in accordance with the agreements for transactions. The terms were fair and reasonable, and in the interest of the shareholders of the Company as a whole. During the reporting period, the total amount of such transactions was under the cap for 2021 specified in the related transaction agreement, amounting to RMB19,893 million.

VI Significant Events (Continued)

10. SUBSTANTIAL RELATED PARTY TRANSACTIONS (CONTINUED)

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

- Matters disclosed in provisional announcements but without developments or changes in subsequent implementation*

Event summary	Enquiry index
The absorption and merger of Ma Steel (Shanghai) Commercial Factoring Company Limited by Ouye Commercial Factoring Company Limited	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/new/2021-04-29/600808_20210429_4.pdf

(3) Significant related party transactions in relation to joint external investment

- Matters disclosed in provisional announcements but without subsequent development or changes during implementation*

Event summary	Enquiry index
Waiver of capital injection of Ma Steel (HK) to Huabao Duding (Shanghai) Finance Leasing Co., Ltd.	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/new/2021-06-30/600808_20210630_5_Va4hyntq.pdf

- During the reporting period, the Company did not have other debt transactions or pledge with each related party except for regular business transaction

VI Significant Events (Continued)

10. SUBSTANTIAL RELATED PARTY TRANSACTIONS (CONTINUED)

- (5) Financial business between the Company and Masteel Finance with related party relationship and between Masteel Finance, the Holding of the Company and related parties

1. *Deposit business*

Unit: RMB million

Related party	Related party relationships	Daily maximum deposit limit	Range of interest rate on the deposit	Opening balance of the reporting period	Amount for the period	Closing balance of the reporting period
The Holding and its subsidiaries	The Holding and its subsidiaries	Nil	0.42%-2.18%	6,069.11	2,659.77	8,728.88
Total	/	/	/	6,069.11	2,659.77	8,728.88

2. *Loan business*

Unit: RMB million

Related party	Related party relationships	Loan facility	Range of interest rates of the loans	Opening balance of the reporting period	Amount for the period	Closing balance of the reporting period
The Holding and its subsidiaries	The Holding and its subsidiaries	3,170	3.15%-5.65%	2,844.54	-219.14	2,625.40
Total	/	/	/	2,844.54	-219.14	2,625.40

VI Significant Events (Continued)

10. SUBSTANTIAL RELATED PARTY TRANSACTIONS (CONTINUED)

- (5) Financial business between the Company and Masteel Finance with related party relationship and between Masteel Finance, the Holding of the Company and related parties (Continued)

3. *Credit business or other financial business*

Unit: RMB million

Related party	Related party relationships	Business type	Total	Actual amount incurred
The Holding	The Holding and its subsidiaries	Other financial business	200.00	84.12
Total	/	/	200.00	84.12

11. MATERIAL CONTRACTS AND EXECUTION THEREOF

- (1) During the reporting period, there was no substantial entrustment, contracting and leasing made by the Company.

VI Significant Events (Continued)

11. MATERIAL CONTRACTS AND EXECUTION THEREOF (CONTINUED)

(2) Major guarantees

Unit: RMB '000 million

Guarantees Offered by the Company (excluding guarantees offered to subsidiaries)	
Total amount of guarantees incurred in the reporting period (excluding guarantees offered to subsidiaries)	–
Total ending balance of guarantees (A) (excluding guarantees offered to subsidiaries)	–
Guarantees Offered to Subsidiaries	
Total amount of guarantees newly offered to subsidiaries during the reporting period	–
Total ending balance of guarantees offered to subsidiaries (B)	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 (%)	8.64
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)	–
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)	–
Explanation on guarantees	The Company provided its wholly-owned subsidiary Ma Steel (Hong Kong) with a guarantee for banking facilities of RMB3 billion for its trade financing, and the actual amount thereof at the end of the reporting period was nil. The asset-liability ratio of MaSteel (Hong Kong) exceeded 70%, and such guarantee was approved by the shareholders' general meeting. Changjiang Steel, a controlling subsidiary of the Company, provided its wholly-owned subsidiaries with a guarantee of RMB150 million, and the actual amount thereof at the end of the reporting period was nil.

VI Significant Events (Continued)

12. OTHER MAJOR EVENTS

- (1) Compare with the previous accounting period, there were no changes in accounting policies, accounting estimates and accounting method
- (2) During the reporting period, there were no cases where corrections to major accounting errors needed to be restated retrospectively.
- (3) Index for information disclosure during the reporting period

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

Items	Date by published
Announcement on Estimated Increase in Profit in Annual Results of 2020	30 January 2021
Preliminary Results Announcement for the year of 2020	10 March 2021
2020 Results Presentation Announcement	20 March 2021
Announcement in relation to Resignation of Director	20 March 2021
Announcement on the Profit Distribution Plan for the Year 2020	26 March 2021
Announcement on Connected Transactions on Absorption and Merger of Masteel Factoring by Ouye Factoring	29 April 2021
Announcement on the Change of E-mail Address	1 June 2021
Announcement on the Addition of Temporary Proposals and Postponement of the 2020 Annual General Meeting	10 June 2021
Announcement on Appointment of Accounting Firm	10 June 2021
Announcement on Connected Transactions on Waiver of Capital Injection to Huabao Duding (Shanghai) Finance Leasing Co., Ltd.	30 June 2021

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.

VII Movements in Share Capital and Shareholders

1. SHARE MOVEMENTS

(1) Table on share movements

1. Table on share movements

Unit: Share

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

In the reporting period, there was no movements in total shares and shareholding structure of the Company.

VII Movements in Share Capital and Shareholders (Continued)

2. SHAREHOLDER

(1) Total shareholder

Numbers of Shareholder as at the end of the reporting period (*unit*) 160,960

(2) Shareholding of the top ten shareholders at the end of the reporting period and the top ten tradable-share holder (or shareholders without selling restrictions)

Unit: Share

Shareholding of the top ten shareholders							
Name of Shareholder (Full Name)	Increase/ decrease within the reporting period	No. of shares at the end of period	Percentage (%)	No. of shares under restricted condition for Sales	Pledged or Frozen Situations		Shareholder nature
					Share status	Number	
Magang (Group) Holding Co., Limited	-	3,506,467,456	45.535	-	None	-	State-owned shareholder
Hong Kong Securities Clearing Company (Nominees) Limited	564,750	1,717,665,800	22.305	-	Unknown	Unknown	Unknown
Hong Kong Securities Clearing Company Ltd.	161,364,164	267,213,293	3.470	-	Unknown	Unknown	Unknown
Masteel Group Investment Ltd.	-	158,282,159	2.055	-	None	-	State-owned shareholder
Central Huijin Investment Ltd.	-	142,155,000	1.846	-	Unknown	Unknown	State-owned shareholder
China Merchants Bank Ltd. - SSE Dividend Index ETF	47,848,122	127,011,726	1.649	-	Unknown	Unknown	Unknown
Zhang Wu	5,200,000	30,000,000	0.390	-	Unknown	Unknown	Unknown
Industrial and Commercial Bank of China Limited - Fullgoal CSI Dividend Index Enhanced Securities Investment Fund	Unknown	19,361,500	0.251	-	Unknown	Unknown	Unknown
Huatai Securities Co., Ltd.	Unknown	18,286,322	0.237	-	Unknown	Unknown	Unknown
Huang Xubin	Unknown	17,593,900	0.228	-	Unknown	Unknown	Unknown

VII Movements in Share Capital and Shareholders (Continued)

2. SHAREHOLDER (CONTINUED)

- (2) Shareholding of the top ten shareholders at the end of the reporting period and the top ten tradable-share holder (or shareholders without selling restrictions) (Continued)

Shareholdings of top 10 shareholders not subject to trading moratorium			
Name of Shareholder	Number of circulating shares not subject to trading moratorium	Type and number of shares	Number
		Type	
Magang (Group) Holding Co., Limited	3,506,467,456	Ordinary shares denominated in RMB	3,506,467,456
Hong Kong Securities Clearing Company (Nominees) Limited	1,717,665,800	Overseas listed foreign shares	1,717,665,800
Hong Kong Securities Clearing Company Ltd.	267,213,293	Ordinary shares denominated in RMB	267,213,293
Masteel Group Investment Ltd.	158,282,159	Ordinary shares denominated in RMB	158,282,159
Central Huijin Investment Ltd.	142,155,000	Ordinary shares denominated in RMB	142,155,000
China Merchants Bank Ltd. – SSE Dividend Index ETF	127,011,726	Ordinary shares denominated in RMB	127,011,726
Zhang Wu	30,000,000	Ordinary shares denominated in RMB	30,000,000
Industrial and Commercial Bank of China Limited – Fullgoal CSI Dividend Index Enhanced Securities Investment Fund	19,361,500	Ordinary shares denominated in RMB	19,361,500
Huatai Securities Co., Ltd.	18,286,322	Ordinary shares denominated in RMB	18,286,322
Huang Xubin	17,593,900	Ordinary shares denominated in RMB	17,593,900
Notes on the above shareholders' affiliated relation or concerned 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 1,717,665,800 H shares of the Company on behalf of its clients, among which, 883,293,958 shares are held on behalf of Baosteel Hong Kong Investment Company Limited. As of the date of this report, Baosteel Hong Kong Investment Company Limited held 846,390,000 H shares of the Company.

In the reporting period, no other shares held by Magang (Group) Holding Co., Limited and Masteel 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.

VII Movements in Share Capital and Shareholders (Continued)

2. SHAREHOLDER (CONTINUED)

(3) Interests or short positions recorded according to the Securities and Futures Ordinance

As at 30 June 2021, 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	883,293,958 (Long position)	50.97

As of the date of this report, Baosteel Hong Kong Investment Company Limited held 846,390,000 H shares of the Company, accounting for 48.84% of the H shares issued by the Company.

As at 30 June 2021, 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 30 June 2020, the Company was not aware of any interests or short positions recorded according to the Securities and Futures Ordinance.

VII Movements in Share Capital and Shareholders (Continued)

3. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

- (1) No changes in shareholdings of directors, supervisors and senior management currently holding office or having resigned during the reporting period, none of the personnel hold any shares in the Company.
- (2) There was no equity incentive granted to directors, supervisors and senior managers during the reporting period.

4. THE COMPANY'S CONTROLLING SHAREHOLDERS AND ACTUAL CONTROLLER HAVE NO CHANGE DURING THE REPORTING PERIOD

VIII Financial Statements

1. AUDIT REPORT

Applicable Not applicable

2. FINANCIAL STATEMENTS

Consolidated Statement of Financial Position

30 June 2021

Renminbi Yuan

ASSETS	<i>Note V</i>	30 June 2021 Unaudited	31 December 2020 Audited
CURRENT ASSETS			
Cash and bank balances	1	7,362,106,504	5,346,108,774
Financial assets held for trading	2	4,602,807,676	2,028,957,057
Trade receivables	3	1,260,377,317	1,043,606,041
Financing receivables	4	8,609,643,488	7,072,160,166
Prepayments	5	1,204,418,576	755,340,403
Other receivables	6	281,852,617	426,386,362
Inventories	7	13,313,594,564	10,900,294,231
Financial assets purchased under agreements to resell	8	–	1,346,725,440
Loans and advances to customers	9	5,254,576,220	4,636,066,439
Other current assets	10	5,912,335,916	3,981,226,262
Total current assets		47,801,712,878	37,536,871,175
NON-CURRENT ASSETS			
Other debt investments	11	104,202,399	–
Long-term equity investments	12	4,217,065,499	3,694,172,463
Other equity instrument investments	13	421,698,174	390,798,231
Investment properties	14	61,640,883	62,504,615
Property, plant and equipment	15	28,739,533,966	29,564,588,450
Construction in progress	16	9,140,195,717	6,980,279,959
Right-of-use assets	17	355,072,414	394,472,380
Intangible assets	18	1,850,927,159	1,881,124,406
Deferred tax assets	19	239,557,378	202,888,795
Other non-current assets		3,508,928	3,441,308
Total non-current assets		45,133,402,517	43,174,270,607
TOTAL ASSETS		92,935,115,395	80,711,141,782

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

Consolidated Statement of Financial Position (Continued)

30 June 2021

Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	<i>Note V</i>	30 June 2021 Unaudited	31 December 2020 Audited
CURRENT LIABILITIES			
Customer deposits	20	9,553,338,251	6,620,132,197
Repurchase agreements	21	555,263,406	198,480,944
Short-term loans	22	11,515,102,110	12,584,935,187
Financial liabilities held for trading	23	28,554,392	95,968,940
Notes payable	24	3,996,531,173	3,297,446,207
Trade payables	25	9,178,536,613	7,612,476,174
Contract liabilities	26	5,589,750,054	4,377,105,559
Payroll and employee benefits payable	27	527,139,397	549,348,136
Taxes payable	28	1,437,780,513	569,759,727
Other payables	29	5,610,915,235	4,123,490,248
Non-current liabilities due within one year	30	2,961,828,197	2,572,092,845
Provision	31	24,724,168	26,968,253
Other current liabilities	32	726,667,506	569,023,723
Total current liabilities		51,706,131,015	43,197,228,140
NON-CURRENT LIABILITIES			
Long-term loans	33	3,444,301,912	3,536,364,338
Lease liabilities	34	359,674,399	394,983,673
Long-term employee benefits payable	35	71,146,548	79,496,046
Deferred revenue	36	887,545,652	872,949,281
Deferred tax liabilities	19	17,651,347	18,934,339
Total non-current liabilities		4,780,319,858	4,902,727,677
TOTAL LIABILITIES		56,486,450,873	48,099,955,817

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

Consolidated Statement of Financial Position (Continued)

30 June 2021

Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY (CONTINUED)	<i>Note V</i>	30 June 2021 Unaudited	31 December 2020 Audited
SHAREHOLDERS' EQUITY			
Share capital	37	7,700,681,186	7,700,681,186
Capital reserve	38	8,362,605,153	8,361,457,903
Other comprehensive income	39	(25,400,040)	(23,151,783)
Special reserve	40	73,802,712	37,295,614
Surplus reserve	41	4,687,127,180	4,687,127,180
General reserve	42	248,156,969	248,156,969
Retained earnings	43	11,017,256,486	7,374,557,923
Equity attributable to owners of the parent		32,064,229,646	28,386,124,992
Non-controlling interests		4,384,434,876	4,225,060,973
Total shareholders' equity		36,448,664,522	32,611,185,965
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		92,935,115,395	80,711,141,782

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 six months ended 30 June 2021

Renminbi Yuan

	Note V	For the six months ended 30 June	
		2021 Unaudited	2020 Unaudited
Revenue	44	56,863,615,397	37,429,035,554
Less: Cost of sales	44	47,042,273,786	34,203,030,172
Taxes and surcharges	45	363,172,255	266,001,123
Selling expenses	46	551,111,957	530,439,865
General and administrative expenses	47	707,192,699	692,664,296
R&D expenses	48	2,046,087,559	636,396,202
Financial expenses	49	383,493,033	290,762,915
Including: Interest expense		352,060,365	335,172,239
Interest income		9,195,165	26,639,917
Add: Other income	50	60,339,953	41,630,457
Investment income	51	388,274,825	231,959,570
Including: Share of profits of associates and joint ventures		387,184,713	163,604,830
Gain from derecognition of financial assets measured at amortised cost		–	33,748,637
Gain on the changes in fair value	52	65,879,265	29,311,320
Credit impairment losses	53	(6,742,752)	(8,030,101)
Asset impairment losses	54	(26,303,476)	(73,128,980)
Gain/(loss) from disposal of assets	55	1,219,470	(62,159,618)
Operating profit		6,252,951,393	969,323,629
Add: Non-operating income	56	60,126,166	254,176,550
Less: Non-operating expenses	57	29,469,788	2,909,067
Profit before tax		6,283,607,771	1,220,591,112
Less: Income tax expense	58	1,245,769,164	222,966,726
Net profit		5,037,838,607	997,624,386
Categorised by operation continuity			
Net profit from continuing operations		5,037,838,607	997,624,386
Categorised by ownership			
Net profit attributable to owners of the parent		4,643,787,117	812,342,511
Net profit attributable to non-controlling interests		394,051,490	185,281,875

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

Consolidated Income Statement (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

	Note V	For the six months ended 30 June	
		2021 Unaudited	2020 Unaudited
Other comprehensive income, net of tax		(2,248,257)	9,910,422
Other comprehensive income attributable to owners of the parent, net of tax	39	(2,248,257)	9,910,422
Other comprehensive income that will not be reclassified to profit or loss:			
Changes in fair value of other equity instrument investments		23,174,957	(1,269,965)
Other comprehensive income that may be reclassified to profit or loss:			
Other comprehensive income using the equity method that may be reclassified to profit or loss		520,764	–
Exchange differences on translation of foreign operations		(27,620,789)	11,180,387
Changes in fair value of other debt investments		1,676,811	–
Other comprehensive income attributable to non-controlling interests, net of tax		–	–
Total comprehensive income		5,035,590,350	1,007,534,808
Attributable to:			
Owners of the parent		4,641,538,860	822,252,933
Non-controlling interests		394,051,490	185,281,875
EARNINGS PER SHARE:			
Basic earnings per share (cent/share)	59	60.30	10.55
Diluted earnings per share (cent/share)	59	60.30	10.55

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

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2021

Renminbi Yuan

For the six months ended 30 June 2021 (Unaudited)

	Attributable to owners of the parent							Sub-total	Non-controlling interests	Total shareholders' equity
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	General reserve	Retained earnings			
	(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 period	7,700,681,186	8,361,457,903	(23,151,783)	37,295,614	4,687,127,180	248,156,969	7,374,557,923	28,386,124,992	4,225,060,973	32,611,185,965
2. Increase/(decrease) during the period										
1) Total comprehensive income	-	-	(2,248,257)	-	-	-	4,643,787,117	4,641,538,860	394,051,490	5,035,590,350
2) Shareholders' contributions and reduction in capital										
(i) Capital contributions by shareholders	-	-	-	-	-	-	-	-	-	-
(ii) Changes in other equity of associates and joint ventures	-	1,147,250	-	-	-	-	-	1,147,250	-	1,147,250
3) Profit appropriation										
(i) Distribution to shareholders	-	-	-	-	-	-	(1,001,088,554)	(1,001,088,554)	(236,624,809)	(1,237,713,363)
4) Special reserve										
(i) Additions	-	-	-	45,193,058	-	-	-	45,193,058	1,947,222	47,140,280
(ii) Utilisation	-	-	-	(13,563,964)	-	-	-	(13,563,964)	-	(13,563,964)
(iii) Changes in the share of associates and joint ventures' special reserve, net	-	-	-	4,878,004	-	-	-	4,878,004	-	4,878,004
3. Balance at the end of the period	7,700,681,186	8,362,605,153	(25,400,040)	73,802,712	4,687,127,180	248,156,969	11,017,256,486	32,064,229,646	4,384,434,876	36,448,664,522

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

Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

For the six months ended 30 June 2020 (Unaudited)

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

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

Consolidated Statement of Cash Flows

For the six months ended 30 June 2021

Renminbi Yuan

	Note V	For the six months ended 30 June	
		2021 Unaudited	2020 Unaudited
1. Cash flows from operating activities			
Cash received from sale of goods and rendering of services		56,703,182,393	42,521,239,846
Tax refunds received		937,173	507,600
Net increase in repurchase agreements		356,782,462	–
Net decrease in financial assets purchased under agreements to resell		1,346,743,604	1,579,976,436
Net increase in customer deposits and balances from banks and other financial institutions and other financial institutions		2,933,206,054	–
Net decrease in loans and advances to customers		–	110,135,314
Cash received for interest charges, fees and commissions		210,780,490	167,331,978
Cash received relating to other operating activities	60(1)	160,080,223	633,974,979
Sub-total of cash inflows		61,711,712,399	45,013,166,153
Cash paid for purchases of goods and services		(45,077,268,193)	(36,140,092,608)
Net increase in deposits in the central bank		(99,173,001)	(335,930,540)
Net decrease in repurchase agreements		–	(1,287,511,698)
Net decrease in customer deposits and balances from banks and other financial institutions		–	(2,701,559,796)
Net increase in loans and advances to customers		(616,828,480)	–
Cash paid to or on behalf of employees		(2,545,095,520)	(2,266,071,870)
Taxes and surcharges paid		(1,664,109,422)	(994,813,398)
Cash paid for interest charges, fees and commissions		(84,452,912)	(78,834,835)
Cash paid relating to other operating activities	60(2)	(344,198,352)	(262,604,412)
Sub-total of cash outflows		(50,431,125,880)	(44,067,419,157)
Net cash flows from operating activities	61(1)	11,280,586,519	945,746,996
2. Cash flows from investing activities			
Cash received from disposal of investments		13,008,836,113	12,326,891,853
Cash received from investment income		98,680,140	100,295,318
Proceeds from disposal of items of property, plant and equipment, intangible assets, and other non-current assets		33,221,561	84,791,996
Sub-total of cash inflows		13,140,737,814	12,511,979,167

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

Consolidated Statement of Cash Flows (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

	Note V	For the six months ended 30 June	
		2021 Unaudited	2020 Unaudited
2. Cash flows from investing activities (continued)			
Purchases of property, plant and equipment, intangible assets and other non-current assets		(2,846,413,330)	(2,864,306,125)
Cash paid for investments		(18,213,779,330)	(10,111,867,800)
Cash paid relating to other investing activities	60(3)	(46,449,040)	(54,631,062)
Sub-total of cash outflows		(21,106,641,700)	(13,030,804,987)
Net cash flows used in investing activities		(7,965,903,886)	(518,825,820)
3. Cash flows from financing activities			
Cash received from borrowings		7,896,208,250	6,604,241,946
Cash received from investors		–	13,125,000
Including: Capital injection from a subsidiary's non-controlling interests		–	13,125,000
Cash received relating to other financing activities	60(4)	–	102,230,000
Sub-total of cash inflows		7,896,208,250	6,719,596,946
Repayment of borrowings		(8,658,473,101)	(5,342,610,627)
Cash paid for distribution of dividends or profits and for interest expenses		(579,325,052)	(635,840,386)
Including: Dividends or profits paid to non-controlling interests by subsidiaries		(236,624,809)	(277,635,590)
Cash paid relating to other financing activities	60(5)	(16,934,619)	(18,937,361)
Sub-total of cash outflows		(9,254,732,772)	(5,997,388,374)
Net cash flows (used in)/from financing activities		(1,358,524,522)	722,208,572
4. Effect of foreign exchange rate changes on cash and cash equivalents		(23,517,507)	29,334,217
5. Net increase in cash and cash equivalents		1,932,640,604	1,178,463,965
Add: Cash and cash equivalents at the beginning of the period		3,123,596,841	7,239,650,634
6. Cash and cash equivalents at the end of the period	61(2)	5,056,237,445	8,418,114,599

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

Statement of Financial Position

30 June 2021

Renminbi Yuan

ASSETS	<i>Note XIV</i>	30 June 2021 Unaudited	31 December 2020 Audited
CURRENT ASSETS			
Cash and bank balances		4,559,448,958	2,296,089,258
Financial assets held for trading		2,581,140	11,640,010
Trade receivables	1	2,772,282,362	2,355,816,934
Financing receivables		6,407,150,155	4,959,472,316
Prepayments		715,715,141	349,980,035
Other receivables	2	250,695,452	371,032,767
Inventories		8,857,972,786	7,272,793,836
Other current assets		–	359,808,604
Total current assets		23,565,845,994	17,976,633,760
NON-CURRENT ASSETS			
Long-term equity investments	3	12,550,896,305	11,761,010,351
Other equity instrument investments		335,581,928	304,681,987
Investment properties		61,640,883	62,504,615
Property, plant and equipment		21,798,614,312	22,530,651,256
Construction in progress		7,262,991,568	5,554,453,327
Right-of-use assets		338,950,131	348,919,252
Intangible assets		1,104,839,957	1,123,273,009
Deferred tax assets		67,570,800	104,388,391
Total non-current assets		43,521,085,884	41,789,882,188
TOTAL ASSETS		67,086,931,878	59,766,515,948

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

Statement of Financial Position (Continued)

30 June 2021

Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	30 June 2021 Unaudited	31 December 2020 Audited
CURRENT LIABILITIES		
Short-term loans	12,032,103,002	12,518,307,366
Financial liabilities held for trading	28,554,392	95,968,940
Notes payable	1,114,709,685	692,285,784
Trade payables	8,190,956,607	7,591,202,079
Contract liabilities	3,530,949,409	2,953,248,445
Payroll and employee benefits payable	408,826,001	325,256,459
Taxes payable	963,323,328	285,290,128
Other payables	5,428,466,365	3,726,054,061
Non-current liabilities due within one year	2,960,981,083	2,849,362,390
Other current liabilities	459,023,423	383,922,298
Total current liabilities	35,117,893,295	31,420,897,950
NON-CURRENT LIABILITIES		
Long-term loans	3,444,301,912	3,536,364,338
Lease liabilities	343,506,977	350,464,514
Long-term employee benefits payable	46,435,615	52,563,465
Deferred revenue	740,978,812	720,633,372
Total non-current liabilities	4,575,223,316	4,660,025,689
Total liabilities	39,693,116,611	36,080,923,639
SHAREHOLDERS' EQUITY		
Share capital	7,700,681,186	7,700,681,186
Capital reserve	8,367,122,869	8,365,975,619
Other comprehensive income	122,575,210	98,879,489
Special reserve	44,905,447	15,187,813
Surplus reserve	3,850,340,593	3,850,340,593
Retained earnings	7,308,189,962	3,654,527,609
Total shareholders' equity	27,393,815,267	23,685,592,309
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	67,086,931,878	59,766,515,948

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

Statement of Income Statement

For the six months ended 30 June 2021

Renminbi Yuan

	Note XIV	For the six months ended 30 June	
		2021 Unaudited	2020 Unaudited
Revenue	4	48,734,989,252	31,014,552,959
Less: Cost of sales	4	41,502,235,858	29,249,524,299
Taxes and surcharges		264,124,709	201,787,501
Selling expenses		249,744,241	201,264,104
General and administrative expenses		497,746,664	449,822,150
R&D expenses		1,578,945,775	500,142,055
Financial expenses		354,589,912	325,013,474
Including: Interest expense		325,078,941	346,073,726
Interest income		6,211,643	27,818,360
Add: Other income		41,469,740	24,732,855
Investment income	5	1,055,277,477	688,950,161
Including: Share of profits of associates and joint ventures		384,177,630	161,374,556
Gain on the changes in fair value		66,632,058	398,849
Credit impairment gains/(losses)		4,837,299	(3,643,894)
Assets impairment losses		(32,096,255)	(56,423,169)
Gain/(loss) from disposal of non-current assets		70,289,895	(39,955,791)
Operating profit		5,494,012,307	701,058,387
Add: Non-operating income		57,611,312	250,176,058
Less: Non-operating expenses		6,957,195	1,791,075
Profit before tax		5,544,666,424	949,443,370
Less: Income tax expense		889,915,517	23,380,560
Net profit		4,654,750,907	926,062,810
Categorised by operation continuity			
Net profit from continuing operations		4,654,750,907	926,062,810
Other comprehensive income, net of tax		23,695,721	(1,275,411)
Other comprehensive income that will not be reclassified to profit or loss:			
Changes in fair value of other equity instrument investments		23,174,957	(1,275,411)
Other comprehensive income that may be reclassified to profit or loss:			
Other comprehensive income using the equity method that may be reclassified to profit or loss		520,764	–
Total comprehensive income		4,678,446,628	924,787,399

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

Statement of Changes in Equity

For the six months ended 30 June 2021

Renminbi Yuan

For the six months ended 30 June 2021 (unaudited)

	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Total shareholders' equity
1. Balance at the beginning of the period	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
2. Increase/(decrease) during the period							
1) Total comprehensive income	-	-	23,695,721	-	-	4,654,750,907	4,678,446,628
2) Capital contributions and reduction	-	1,147,250	-	-	-	-	1,147,250
3) Profit appropriation							
(i) Transfer to surplus reserve	-	-	-	-	-	-	-
(ii) Distribution to shareholders	-	-	-	-	-	(1,001,088,554)	(1,001,088,554)
4) Special reserve							
(i) Additions	-	-	-	38,403,594	-	-	38,403,594
(ii) Utilisation	-	-	-	(13,563,964)	-	-	(13,563,964)
(iii) Changes in the share of associates and joint ventures' special reserve, net	-	-	-	4,878,004	-	-	4,878,004
3. Balance at the end of the period	7,700,681,186	8,367,122,869	122,575,210	44,905,447	3,850,340,593	7,308,189,962	27,393,815,267

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

Statement of Changes in Equity (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

For the six months ended 30 June 2020 (unaudited)

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

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

Statement of Cash Flows

For the six months ended 30 June 2021

Renminbi Yuan

	For the six months ended 30 June	
	2021 Unaudited	2020 Unaudited
1. Cash flows from operating activities		
Cash received from sale of goods and rendering of services	40,830,576,727	39,908,929,072
Tax refunds received	–	–
Cash received relating to other operating activities	242,495,337	761,253,190
Sub-total of cash inflows	41,073,072,064	40,670,182,262
Cash paid for purchase of goods and services	(33,126,139,940)	(35,953,793,662)
Cash paid to or on behalf of employees	(2,076,612,371)	(1,771,252,373)
Taxes and surcharges paid	(973,996,751)	(425,464,839)
Cash paid relating to other operating activities	(160,093,611)	(155,878,230)
Sub-total of cash outflows	(36,336,842,673)	(38,306,389,104)
Net cash flows from operating activities	4,736,229,391	2,363,793,158
2. Cash flows from investing activities		
Cash received from disposal of investments	–	5,878,340
Cash received from investment income	847,294,395	550,262,283
Net cash received from disposal of property, plant and equipment, intangible assets and other non-current assets	35,268,411	66,659,427
Sub-total of cash inflows	882,562,806	622,800,050
Purchase of property, plant and equipment, intangible assets and other non-current assets	(2,030,084,760)	(2,548,851,311)
Cash paid for investments	(50,726,160)	(1,592,800)
Net cash paid for acquisition of a subsidiary and other operating units	(263,292,082)	(74,375,000)
Cash paid relating to other investing activities	(46,449,042)	(54,631,062)
Sub-total of cash outflows	(2,390,552,044)	(2,679,450,173)
Net cash flows used in investing activities	(1,507,989,238)	(2,056,650,123)

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

Statement of Cash Flows (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
3. Cash flows from financing activities		
Cash received from borrowings	9,223,518,163	7,370,489,814
Cash received relating to other financing activities	19,938,242	94,420,000
Sub-total of cash inflows	9,243,456,405	7,464,909,814
Repayment of borrowings	(9,685,850,057)	(5,926,935,548)
Cash paid for the distribution of dividend or profits and for interest expenses	(316,811,308)	(334,250,800)
Cash paid relating to other financing activities	(15,895,529)	(15,561,763)
Sub-total of cash outflows	(10,018,556,894)	(6,276,748,111)
Net cash flows (used in)/generated from financing activities	(775,100,489)	1,188,161,703
4. Effect of foreign exchange rate changes on cash and cash equivalents	(54,370,143)	22,158,349
5. Increase in cash and cash equivalents	2,398,769,521	1,517,463,087
Add: Cash and cash equivalents at the beginning of the period	2,160,679,437	2,652,770,395
6. Cash and cash equivalents at the end of the period	4,559,448,958	4,170,233,482

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

Notes to the Financial Statements

For the six months ended 30 June 2021

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 licence is 91340000610400837Y. The Company's A shares and H shares were issued and listed on the Shanghai Stock Exchange and Hong Kong Stock Exchange, respectively. The headquarters of the Company is located at No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC.

As of 30 June 2021, the Company had issued 7,700,681,186 shares in total, including ordinary A shares of 5,967,751,186 shares and ordinary H shares of 1,732,930,000 shares. The nominal value of each share is RMB1.

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

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

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

The financial statements were approved by the Board of Directors on 25 August 2021.

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

II. BASIS OF PREPARATION

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

The financial statements are prepared on a going concern basis.

As of 30 June 2021, the net current liabilities of the Group amounted to RMB3,904,418,137. The directors of the Company have considered the availability of funding sources, including but not limited to unutilised banking facilities of RMB27.3 billion as at 30 June 2021 and the expected cash inflows from the operating activities in the upcoming 12 months. The Board of Directors of the Company believes that the Group has sufficient working capital to continue as a going concern for not less than 12 months after the end of the reporting period. Therefore, the Board of Directors of the Company prepared the Group's financial statements for the six months ended 30 June 2021 on a going concern basis.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

II. BASIS OF PREPARATION (CONTINUED)

The financial statements have been prepared under the historical cost convention, except for certain financial instruments which have been measured at fair value. Assets classified as held for sale are disclosed at the lower of 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, amortisation of intangible assets, impairment of non-current assets excluding the financial instruments (other than goodwill), recognition of deferred tax assets, recognition and measurement of revenue, etc.

1. Statement of compliance with the CAS

The financial statements have been prepared in accordance with the CAS, and present truly and completely the financial position of the Company and the Group as of 30 June 2021, and the results of their operations and cash flows for the six months ended 30 June 2021.

2. Accounting period

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

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".

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

4. Business combinations (Continued)

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.

Business combinations involving entities not under common control

Business combinations 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.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

4. Business combinations (Continued)

Business combinations involving entities not under common control (Continued)

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

5. Consolidated financial statements

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

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

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

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

5. Consolidated financial statements (Continued)

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 six months ended 30 June 2021

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 six months ended 30 June 2021

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 six months ended 30 June 2021

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 six months ended 30 June 2021

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 instrument investments measured at amortised cost

A financial asset shall be measured at amortised cost if both of the following conditions are met: (a) the financial asset is held 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 instrument investments measured at fair value through other comprehensive income

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met: (a) the financial asset is held within a business model whose objective will be achieved by both collecting contractual cash flows and trading financial assets and; (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This type of financial asset using 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 instrument investments measured at fair value through other comprehensive income

The Group irrevocably choose to designate the equity instrument investments not held for trading as financial assets measured at fair value through other comprehensive income at initial recognition. Dividends are recognised in profit or loss (except for dividends which are clearly recovered as part of the investment costs) and the changes in fair value shall be recognised in other comprehensive income, 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 six months ended 30 June 2021

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 assets are 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 depends 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.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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 liabilities depends on their classifications as follows:
(Continued)

Other financial liabilities

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

Impairment of financial assets

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

For receivables that do not contain 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.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (Continued)

Impairment of financial assets (Continued)

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 flow of financial assets, the Group will directly write off the book value of the financial assets.

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 amortisation amount determined according to the revenue recognition principle.

Derivative financial instruments

The Group uses derivative financial instruments such as forward exchange contracts and commodity forward contracts to hedge the exchange risk. Derivative financial instruments are measured at 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 is recognised in profit or loss, except for those related to hedge accounting.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (Continued)

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

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 assets 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 accounted for using the perpetual inventory system.

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

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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 constitute long-term equity investments after the disposal and are fully charged to profit or loss when they are reclassified to financial instruments after the disposal. For business 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 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. 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 six months ended 30 June 2021

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.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Long-term equity investments (Continued)

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

When long-term equity investments are disposed of, the difference between the carrying amount and the actual proceeds received should be charged to profit or loss. For long-term equity investments under the equity method, if the method would not be adopted after the disposal, the basis of the accounting treatment on the related other comprehensive income under 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.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Long-term equity investments (Continued)

If the Company loses control of an investee with joint control or significant influence retained after partial disposal of its shares, the equity investment should be accounted 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.

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.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

13. Property, plant and equipment (Continued)

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.

15. Borrowing costs

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

All the borrowing costs that are directly attributable to construction or production of all qualifying assets are capitalised and other borrowing costs are treated as an expense. A qualifying asset is defined as a 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.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

15. Borrowing costs (Continued)

The capitalisation of borrowing costs commences when:

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

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

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

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

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

16 Right-of-use assets

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

16 Right-of-use assets (Continued)

At the commencement date, the Group recognises the right of using leased assets within the lease term as right-of-use assets, the 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 six months ended 30 June 2021

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

17 Intangible assets (Continued)

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

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

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

Land use rights that are purchased by the Group are accounted for as intangible assets. For internally generated plants and other buildings, the land use rights and buildings are accounted for as intangible assets and 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 amortisation 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; and (e) its ability to measure reliably the expenditure attributable to the intangible asset during its development. Product development expenditure which does not meet these criteria is expensed when incurred.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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 six months ended 30 June 2021

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 six months ended 30 June 2021

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.

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

Notes to the Financial Statements (Continued)

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

21. Provisions (Continued)

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

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

22. Repurchase and reverse repurchase transactions

Assets sold under agreements to repurchase at a specified future date (“repos”) are not derecognised from the statement of financial position. The corresponding cash received, including accrued interest, is recognised as “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.

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.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

23. Revenue (Continued)

Revenue from contracts with customers (Continued)

Contracts for the sale of goods

Contracts for the sale of goods between the Group and its customers usually only 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 six months ended 30 June 2021

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 six months ended 30 June 2021

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.

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.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. Government grants (Continued)

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

If the grant is a compensation for related expenses or losses in 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.

26. Income tax

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

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

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

26. Income tax (Continued)

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

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

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

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

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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.

Separating lease components from non-lease components

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

Assessment of the lease term

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

27. Leases (Continued)

As a lessee

Please refer to Note III. 16 and Note III. 20 for the accounting policies 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.

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.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

27. Leases (Continued)

As a lessee (Continued)

Short-term leases and leases of low-value 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.

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.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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.

30. General reserve

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

31. Fair value measurement

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

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

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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 six months ended 30 June 2021

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 30 June 2021, the Group held 16.34% equity interests in Anhui Xinchuang Energy Saving and Environmental Protection Science and Technology Co., Ltd. (“Xinchuang Energy Saving”). The Company designates one director and one supervisor to Xinchuang Energy Saving according to the Articles of Association and the directors of the Company believe the Company can exercise significant influence over Xinchuang Energy Saving, despite the equity share is under 20%. Thus, the Group accounts for the investment in Xinchuang Energy Saving as an associate.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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 30 June 2021, the Group held 18.19% equity interests in Phima Intelligence Technology Co., Ltd. (“Phima Intelligence”) through the subsidiary Ma Steel Hefei Iron and Steel Co., Ltd. (“Ma Steel (Hefei)”). Ma Steel (Hefei) 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 held by Ma Steel (Hefei) is under 20%. Thus, the Group accounts for the investment in Phima Intelligence as an associate.

As of 30 June 2021, 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 30 June 2021, 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.

As of 30 June 2021, the Group held 16.14% equity interests in Ouyeel Commercial Factoring Co., Ltd. (“Ouyeel Factoring”). The Company designates one director to Ouyeel Factoring according to the Articles of Association. The directors of the Company believe the Company can exercise significant influence over Ouyeel Factoring, despite the equity share is under 20%. Thus, the Company accounts for the investment in Ouyeel Factoring as an associate.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Significant accounting judgments and estimates (Continued)

Judgments (Continued)

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

The Group determines the lease term as the non-cancellable period of a lease, together with periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option. Some leases of the Group contain options to extend the leases to an 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.

Business model

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

The characteristics of contractual cash flows

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Significant accounting judgments and estimates (Continued)

Estimation uncertainty

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

Impairment of financial assets

The Group adopts the expected credit loss model to assess the impairment of financial assets. The application of the expected credit loss model requires significant judgements and estimates. Management needs to consider all reasonable and supportable information including 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.

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.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Significant accounting judgments and estimates (Continued)

Estimation uncertainty (Continued)

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 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.

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.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Significant accounting judgments and estimates (Continued)

Estimation uncertainty (Continued)

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 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)

For the six months ended 30 June 2021

Renminbi Yuan

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 rate of 13%.
Income tax	<p>The Group’s subsidiaries, Mascometal Co.,Ltd.(“Mascometal”) and Baowu Group Masteel Rail Transit Material Technology Co., Ltd. (“Masteel Transportation Materail”) are recognised as high-tech enterprises, which adopted preferential tax rate and are subject to corporate income tax (“CIT”) at a rate of 15% on their taxable profits. In addition to 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.</p> <p>Maanshan Iron & Steel (HK) Limited (“Ma Steel (HK)”) was established and registered in Hong Kong (China), the applicable income tax rate is 16.5%. Maanshan Iron and Steel (Australia) Proprietary Limited (“Ma Steel (Australia)”) was established and registered in Australia, the applicable income tax rate is 30%. MG Trading and Development GmbH (“MG Trading”) was established and registered in Germany, the applicable income tax rate is 30%. MG-VALDUNES S.A.S was established and registered in France,the applicable income tax rate is 28%. MASTEEL AMERICA INC (“Masteel America”) was established and registered in the United States, the applicable income tax rate is 30%. Masteel Middle East General Industrial (“Masteel Middle East”) was established and registered in Dubai, the applicable income tax rate is 0%.</p>
Land appreciation tax	Payable based on appreciation of land use rights and buildings at tax rates of 30% to 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.

Notes to the Financial Statements (Continued)

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IV. TAX (CONTINUED)

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

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.

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.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and bank balances

	30 June 2021 Unaudited	31 December 2020 Audited
Cash on hand	3,375	190,580
Bank balances	5,056,234,070	3,221,279,761
Other monetary assets	1,267,447,995	1,185,390,370
Mandatory reserves of Masteel Finance deposited in the central bank	1,038,421,064	939,248,063
	7,362,106,504	5,346,108,774
Including: Restricted amount due to be mortgaged, pledged or frozen	1,267,447,995	1,185,390,370

As of 30 June 2021, the Group had cash and bank balances amounting to RMB749,405,691 that have been deposited outside the PRC (31 December 2020: RMB633,402,172).

Cash deposited in current accounts earns interest at floating interest rates. The terms of time deposits are from three months, six months, one year and three years respectively, depending on the cash flow demand of the Group. Such deposits earn interest at the respective bank deposit rates. As of 30 June 2021, the Group had no time deposits (31 December 2020: RMB97,873,500) with terms over three months.

2. Financial assets held for trading

	30 June 2021 Unaudited	31 December 2020 Audited
Financial assets at fair value through profit or loss		
Derivative financial assets- Futures contracts	2,581,140	11,640,010
Debt instrument investments	4,600,226,536	2,017,317,047
	4,602,807,676	2,028,957,057

As of 30 June 2021, 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 2021.

As of 30 June 2021, the Group's debt instrument investments were mainly investments in financial and trust products. There was no material restriction on the realisation of these investments.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

3. Trade receivables

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

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

	30 June 2021 Unaudited	31 December 2020 Audited
Within one year	1,243,475,199	1,029,732,092
One to two years	23,425,806	22,158,556
Two to three years	18,575,371	10,688,621
Over three years	44,728,292	42,043,744
	1,330,204,668	1,104,623,013
Less: Provisions for bad debts	69,827,351	61,016,972
	1,260,377,317	1,043,606,041

The balances of trade receivables are analysed as follows:

	30 June 2021 (Unaudited)				31 December 2020 (Audited)					
	Book value		Provision for bad debts		Book value		Provision for bad debts		Book value	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)		
Assessed bad debt provision individually	-	-	-	-	-	-	-	-	-	
Assessed bad debt provision in portfolios based on credit risk characteristics	1,330,204,668	100	(69,827,351)	5	1,260,377,317	1,104,623,013	100	(61,016,972)	6	1,043,606,041
	1,330,204,668	100	(69,827,351)	5	1,260,377,317	1,104,623,013	100	(61,016,972)	6	1,043,606,041

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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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:

	30 June 2021 (Unaudited)			31 December 2020 (Audited)		
	Carrying amount expected to default	Expected credit loss ratio (%)	Expected credit loss	Carrying amount expected to default	Expected credit loss ratio (%)	Expected credit loss
Within one year	1,243,475,199	1	(12,434,752)	1,029,732,092	1	(10,297,321)
One to two years	23,425,806	16	(3,748,129)	22,158,556	16	(3,545,369)
Two to three years	18,575,371	48	(8,916,178)	10,688,621	48	(5,130,538)
Over three years	44,728,292	100	(44,728,292)	42,043,744	100	(42,043,744)
	1,330,204,668		(69,827,351)	1,104,623,013		(61,016,972)

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

	Opening balance	Increase during the period/year	Turn-Back during the period/year	Write-off during the period/year	Exchange gains and losses	Closing balance
2021	61,016,972	25,132,159	(15,602,874)	-	(718,906)	69,827,351
2020	52,406,346	24,617,062	(16,615,257)	-	608,821	61,016,972

As of 30 June 2021 and 31 December 2020, there were no trade receivables that were derecognised due to the transfer of financial assets.

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

30 June 2021 (Unaudited)	Relationship with the Group	Ending balance	Ageing	Percentage of trade receivables	Ending balance of bad debt provision
Company 1	Third party	114,686,942	Within 1 year	9%	(1,146,870)
Company 2	Third party	64,628,817	Within 1 year	5%	(646,288)
Company 3	Third party	61,168,870	Within 1 year	5%	(611,689)
Company 4	Third party	57,467,940	Within 1 year	4%	(574,679)
Company 5	Third party	52,513,969	Within 1 year	4%	(525,140)
		350,466,538		27%	(3,504,666)

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

3. Trade receivables (Continued)

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

31 December 2020 (Audited)	Relationship with the Group	Ending balance	Ageing	Percentage of trade receivables	Ending balance of bad debt 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)
Company 5	Third party	48,312,244	Within 3 years and over 3 years	4%	(23,462,514)
		324,602,241		29%	(26,225,414)

As of 30 June 2021, the Group had no assets or liabilities derived from transferring trade receivables in which the Group was continuingly involved (31 December 2020: Nil).

4. Financial receivables

	30 June 2021 Unaudited	31 December 2020 Audited
Bank acceptance notes	8,609,643,488	7,072,160,166

As of 30 June 2021, there were no bank acceptance notes pledged (31 December 2020: RMB108,365,962) to obtain a short-term loan, and there were no bank acceptance notes pledged (31 December 2020: Nil) to issue notes payable.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

4. Financial receivables (Continued)

The undue notes endorsed or discounted were as follows:

	30 June 2021 (Unaudited)		31 December 2020 (Audited)	
	Derecognised	Not derecognised	Derecognised	Not derecognised
Bank acceptance notes	12,941,841,849	121,826,452	8,889,821,875	157,975,562

As of 30 June 2021 and 31 December 2020, 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 RMB3,039,706,963 (2020: RMB1,589,777,784), and recognised discount expense amounting to RMB31,989,141 (2020: RMB20,100,719).

5. Prepayments

Aging analysis of the prepayments is as follows:

	30 June 2021 (Unaudited)		31 December 2020 (Audited)	
	Book value	Ratio (%)	Book value	Ratio (%)
Within one year	1,180,789,898	98	737,480,610	98
One to two years	22,869,870	2	17,859,793	2
Two to three years	758,808	—	—	—
	1,204,418,576	100	755,340,403	100

Prepayments aged over one year were mainly unsettled prepayments for the materials and equipment purchased. The relevant goods were not yet delivered as of 30 June 2021.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

5. Prepayments (Continued)

The top five prepayments classified by debtors are as follows:

30 June 2021 (Unaudited)	Relationship with the Group	Ending balance	Ageing	Percentage of prepayments
Company 1	Third party	259,517,164	Within 1 year	22%
Company 2	Third party	226,216,064	Within 1 year	19%
Company 3	Associate of the Holding	147,491,980	Within 1 year	12%
Company 4	Third party	69,916,740	Within 1 year	6%
Company 5	Third party	62,731,828	Within 1 year	5%
765,873,776				64%

31 December 2020 (Audited)	Relationship with the Group	Ending balance	Ageing	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%

6. Other receivables

	30 June 2021 Unaudited	31 December 2020 Audited
Interest receivable	95,888	83,808
Dividends receivable	34,548,244	33,247,960
Other receivables	247,208,485	393,054,594
	281,852,617	426,386,362

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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

6. Other receivables (Continued)

Interest receivable

	30 June 2021 Unaudited	31 December 2020 Audited
Interest from time deposits	95,888	83,808

Dividends receivable

	30 June 2021 Unaudited	31 December 2020 Audited
Associate – Ouyeel Factoring	1,300,284	–
Associate – OCI Chemical	3,312,407	3,312,407
Associate – Ouyeel Blockchain Finance	29,935,553	29,935,553
	34,548,244	33,247,960

Other receivables

Ageing analysis of other receivables is as follows:

	30 June 2021 Unaudited	31 December 2020 Audited
Within one year	251,838,939	397,461,827
One to two years	5,076,294	6,131,217
Two to three years	570,245	802,911
Over three years	418,776,695	418,427,843
	676,262,173	822,823,798
Less: Provision for bad debts	429,053,688	429,769,204
	247,208,485	393,054,594

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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:

	30 June 2021 Unaudited	31 December 2020 Audited
Due from trading companies	403,317,627	542,930,681
Deposit for steel futures	167,295,965	120,846,925
Prepaid import tariff and VAT deposit	36,459,646	105,140,963
Tax refunds	237,911	237,911
Others	68,951,024	53,667,318
	676,262,173	822,823,798
Less: Provision for bad debts	429,053,688	429,769,204
	247,208,485	393,054,594

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

30 June 2021 (Unaudited)

	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	1,124,541	16,345,580	412,299,083	429,769,204
Changes due to the opening balance	(1,589)	1,589	-	-
- Shift to Phase II	(1,589)	1,589	-	-
- Shift to Phase III	-	-	-	-
- Back to Phase II	-	-	-	-
- Back to Phase I	-	-	-	-
Accrual	-	-	-	-
Reversal	(700,295)	-	-	(700,295)
Other changes	(15,221)	-	-	(15,221)
Closing balance	407,436	16,347,169	412,299,083	429,053,688

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

6. Other receivables (Continued)

Other receivables (Continued)

31 December 2020 (Audited)

	Stage I 12-month expected credit losses	Stage II Lifetime expected credit losses	Stage III Credit-impaired financial assets (lifetime expected credit losses)	Total
Opening balance	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

The movement of provision for bad debts against other receivables were as follows:

	Balance at the beginning of the period/year	Provided	Turn-back	Write-off	Exchange gains and losses	Balance at the end of the period/year
2021	429,769,204	–	(700,295)	–	(15,221)	429,053,688
2020	418,934,858	10,824,934	–	–	9,412	429,769,204

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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

6. Other receivables (Continued)

Other receivables (Continued)

As of 30 June 2021, the top five other receivables were as follows:

	Carrying amount	Ratio in other receivables (%)	Nature	Ageing	Provision for bad debts
Company 1	132,058,434	20	Due from trading companies	Over 3 years	(132,058,434)
Company 2	127,685,368	19	Due from trading companies	Over 3 years	(127,685,368)
Company 3	97,381,725	14	Deposit for steel futures	Within one year	–
Company 4	69,912,240	10	Deposit for steel futures	Within one year	–
Company 5	60,939,960	9	Due from trading companies	Over 3 years	(60,939,960)
	487,977,727	72			(320,683,762)

As of 31 December 2020, the top five other receivables were as follows:

	Carrying amount	Ratio in other receivables (%)	Nature	Ageing	Provision for bad debts
Company 1	132,058,434	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)

For the six months ended 30 June 2021

Renminbi Yuan

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

6. Other receivables (Continued)

Other receivables (Continued)

As of 30 June 2021, the government grants receivable were as follows:

	Government grant project	Balance	Ageing	Expected receiving time, amount and basis
Other receivables due from Taibai Town Government	Policy return from 2004 to 2009	237,911	Over three years	Note

As of 31 December 2020, the government grants receivable were as follows:

	Government grant project	Balance	Ageing	Expected receiving time, amount and basis
Other receivables due from Taibai Town Government	Policy return from 2004 to 2009	237,911	Over three years	Note

Note: The balance is the government grant received by a subsidiary named Anhui Changjiang Iron and Steel Co., Ltd. ("Anhui Chang Jiang Iron and Steel") in 2009 from the Town Government of Taibai, Dangtu in Anhui Province for 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 by the second half year of 2021.

The balances of other receivables as of 30 June 2021 and 31 December 2020 did not contain any amount derecognised due to the transfer of financial assets.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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

7. Inventories

	30 June 2021 (Unaudited)			31 December 2020 (Audited)		
	Book amount	Provision for impairment	Carrying amount	Book amount	Provision for impairment	Carrying amount
Raw materials	6,767,368,133	(29,739,639)	6,737,628,494	5,424,896,934	(73,479,440)	5,351,417,494
Work in progress	1,514,589,031	(12,716,012)	1,501,873,019	1,170,707,153	(19,797,548)	1,150,909,605
Finished goods	3,839,338,849	(65,889,427)	3,773,449,422	3,220,415,514	(64,728,353)	3,155,687,161
Spare parts	1,201,832,468	(134,663,488)	1,067,168,980	1,143,506,516	(134,701,194)	1,008,805,322
Others	233,474,649	-	233,474,649	233,474,649	-	233,474,649
	13,556,603,130	(243,008,566)	13,313,594,564	11,193,000,766	(292,706,535)	10,900,294,231

The movements of impairment provision against inventories were as follows:

30 June 2021 (Unaudited)

	Opening balance	Provided	Decrease		Closing balance
			Reversal or write-off	Exchange gains or losses	
Raw materials	73,479,440	4,593,445	(47,828,002)	(505,244)	29,739,639
Work in progress	19,797,548	6,251,511	(13,025,077)	(307,970)	12,716,012
Finished goods	64,728,353	21,488,609	(20,089,160)	(238,375)	65,889,427
Spare parts	134,701,194	-	-	(37,706)	134,663,488
	292,706,535	32,333,565	(80,942,239)	(1,089,295)	243,008,566

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

7. Inventories (Continued)

The movements of impairment provision against inventories were as follows: (continued)

31 December 2020 (Audited)

	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

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

As of 30 June 2021, the Group had no constrained inventories (31 December 2020: Nil).

8. Financial assets purchased under agreements to resell

	30 June 2021 Unaudited	31 December 2020 Audited
Bonds	–	1,346,743,604
Less: Provision for impairment	–	18,164
	–	1,346,725,440

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 six months ended 30 June 2021

Renminbi Yuan

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

9. Loans and advances to customers

	30 June 2021 Unaudited	31 December 2020 Audited
Loans	2,850,575,008	2,983,414,614
Discounted notes	2,545,660,181	1,795,992,095
	5,396,235,189	4,779,406,709
Less: Bad debts provision for loans and advances to customers	141,658,969	143,340,270
	5,254,576,220	4,636,066,439

An analysis of loans and advances to customers, based on guarantee methods, is as follows:

	30 June 2021 Unaudited	31 December 2020 Audited
Unsecured loans	5,306,194,649	4,749,355,483
Pledged loans	90,040,540	30,051,226
	5,396,235,189	4,779,406,709

All customers related to loans and advances are the Holding and its subsidiaries. The Group applies the "expected credit loss ("ECL") model" to evaluate the credit loss of loans and advances to customers. As of 30 June 2021, there was no non-performing loan in the Group's loans and advances to customers.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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 between January and June 2021 are as follows:

	Stage I 12-month expected credit losses	Stage II Lifetime expected credit losses	Stage III Credit-impaired financial assets (lifetime expected credit losses)	Total
Opening balance	143,340,270	–	–	143,340,270
Changes due to the opening balance	–	–	–	–
– Shift to Phase II	–	–	–	–
– Shift to Phase III	–	–	–	–
– Back to Phase II	–	–	–	–
– Back to Phase I	–	–	–	–
Accrual	–	–	–	–
Reversal	(1,681,301)	–	–	(1,681,301)
Closing balance	141,658,969	–	–	141,658,969

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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 2020 are as follows:

	Stage I 12-month expected credit losses	Stage II Lifetime expected credit losses	Stage III Credit-impaired financial assets (lifetime expected credit losses)	Total
Opening balance	114,165,040	–	–	114,165,040
Changes due to the opening balance	–	–	–	–
– Shift to 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

Loans and advances to customers due from related parties as of 30 June 2021 and 31 December 2020 are stated in Note X. 6 to the financial statements.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

10. Other current assets

	30 June 2021 Unaudited	31 December 2020 Audited
Prepaid income tax	5,669,985	281,840,409
Deductible value added tax	273,422,896	435,459,098
Debt instrument investments (note)	5,633,243,035	3,263,926,755
	5,912,335,916	3,981,226,262

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

	30 June 2021 (Unaudited)			31 December 2020 (Audited)		
	Book amount	Provision for impairment	Carrying amount	Book amount	Provision for impairment	Carrying amount
Interbank deposits	5,633,868,539	(625,504)	5,633,243,035	3,264,636,713	(709,958)	3,263,926,755

The movements of provisions for bad debts against debt instrument investments between January and June 2021 are as follows:

	Stage I 12-month expected credit losses	Stage II Lifetime expected credit losses	Stage III Credit-impaired financial assets (lifetime expected credit losses)	Total
Opening balance	709,958	-	-	709,958
Changes due to the opening balance	-	-	-	-
- Shift to Phase II	-	-	-	-
- Shift to Phase III	-	-	-	-
- Back to Phase II	-	-	-	-
- Back to Phase I	-	-	-	-
Provided	-	-	-	-
Reversal	(84,454)	-	-	(84,454)
Closing balance	625,504	-	-	625,504

Notes to the Financial Statements (Continued)

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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:

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

11. Other debt investments

	30 June 2021 Unaudited	31 December 2020 Audited
Financial bonds	104,202,399	–

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

12. Long-term equity investments

30 June 2021 (Unaudited)

	Opening balance	Movement during the period							Closing balance	Impairment at the end of the period
		Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend declared			
Joint ventures										
Maanshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel")	298,485,434	-	-	51,462,792	-	302,795	(42,500,000)	307,751,021	-	
Associates										
Henan JinMa Energy Co., Ltd. ("Henan JinMa Energy")	772,463,295	-	-	106,923,909	520,764	32,939	(28,800,000)	851,140,907	-	
Shenglong Chemical Co., Ltd. ("Shenglong Chemical")	910,994,190	-	-	104,742,321	-	1,674,949	(38,388,000)	979,023,460	-	
Xinchuang Energy Saving	76,617,756	-	-	6,572,226	-	131,321	-	83,321,303	-	
Ouyeel Factoring (Note 1)	158,306,896	-	-	(502,285)	-	1,147,250	(1,300,284)	157,651,577	-	
Anhui Magang Chemicals & Energy Technology Co., Ltd. ("Magang Chemicals & Energy")	664,859,819	-	-	56,919,624	-	2,736,000	-	724,515,443	-	
Anhui Masteel K.Wah New Building Materials Co., Ltd. ("Masteel K. Wah")	103,135,911	-	-	11,797,772	-	-	(7,504,007)	107,429,676	-	
Ouyeel Blockchain Finance and Metal Recycling Resource Co., Ltd. ("Ouyeel Blockchain Finance")	315,521,893	-	-	45,797,507	-	-	-	361,319,400	-	
Phima Intelligence	201,422,813	-	-	3,007,082	-	-	-	204,429,895	-	
OBEI	192,364,456	247,654,596	-	463,765	-	-	-	440,482,817	-	
	3,694,172,463	247,654,596	-	387,184,713	520,764	6,025,254	(118,492,291)	4,217,065,499	-	

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

12. Long-term equity investments (Continued)

31 December 2020 (Audited)

	Movement during the year								Impairment at the end of the year
	Opening balance	Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend declared	Closing balance	
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 Energy Saving	66,964,108	-	-	15,362,859	-	(578,635)	(5,130,576)	76,617,756	-
Ma-Steel OCI Chemical Co., Ltd. ("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	-
Ma-Steel Financial Leasing	85,759,551	-	(81,424,965)	1,053,858	-	-	(5,388,444)	-	-
Magang Chemicals & Energy	659,192,523	-	-	32,731,236	-	2,714,893	(29,778,833)	664,859,819	-
Masteel K. Wah	103,703,230	-	-	19,691,935	-	-	(20,259,254)	103,135,911	-
Ouyeel Blockchain Finance	327,305,595	-	-	20,831,209	-	7,958,142	(40,573,053)	315,521,893	-
Phima Intelligence	201,845,959	-	-	4,504,092	-	-	(4,927,238)	201,422,813	-
OBEI	-	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	-

Note 1: Ouyeel Factoring and Ma-Steel Commercial Factoring, as the holding company of China Baowu, signed an absorption merger agreement on 26 April, 2021. The agreement stipulates that Ouyeel Factoring will absorb and merge Ma-Steel Commercial Factoring, and agree to use 30 June, 2020 as the audit and valuation base date to determine the equity structure of the parties after the merger and acquisition based on the registered valuation figures. After the merger, the shareholding ratio of the Group has decreased from 25% for Ma-Steel Commercial Factoring to 16.14% for Ouyeel Factoring. According to the Articles of Association of Ouyeel Factoring, the Group has the right to appoint one director, occupying 1/7 of the board seats. The directors of the Group believe that the Group can still have a significant impact on the Ouyeel Factoring after the merger, thus, the Company accounts for the investment in Ouyeel Factoring as an associate.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

13. Other equity instrument investments

30 June 2021 (Unaudited)

	Cost	Changes in fair value accumulated in other comprehensive income	Provision for impairment	Fair value	Dividend	
					Equity instruments derecognised in the period	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	-	-
Shanghai LuoJing Ore Quay Co., Ltd. ("Shanghai LuoJing")	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	(14,940,712)	1,196,509	-	-
CFHI (Group) Maanshan Heavy Industry Co., Ltd. ("CFHI Maanshan")	16,030,500	-	-	1,089,788	-	-
Guoqi (Beijing) Lightweight of Automotive Technology Institute Co., Ltd. ("Guoqi Institute")	3,000,000	141,005	-	3,141,005	-	-
Linhuan Coking	114,500,456	87,396,198	-	201,896,654	-	(8,099,164)
Masteel Lihua Metal Resources Co., Ltd. ("Masteel Lihua")	3,000,000	164,369	-	3,164,369	-	(85,740)
Huabao Duding	82,951,875	-	-	82,951,875	-	-
	328,204,991	166,564,255	(73,071,072)	421,698,174	-	(8,184,904)

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

13. Other equity instrument investments (Continued)

31 December 2020 (Audited)

	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	10,000,000	26,271,740	-	36,271,740	-	-
MCC17	8,554,800	52,312,173	-	60,866,973	-	(2,880,000)
Shanghai Luojing	88,767,360	-	(58,130,360)	30,637,000	-	-
Zhonglian Steel	1,000,000	(517,739)	-	482,261	-	-
Anshan Huatai	400,000	796,509	-	1,196,509	-	(100,000)
CFHI Maanshan	16,030,500	-	(14,940,712)	1,089,788	-	-
Guoqi Institute	3,000,000	141,005	-	3,141,005	-	-
Linhuancoking	114,500,456	56,496,255	-	170,996,711	-	(5,400,000)
Masteel Lihua	3,000,000	164,369	-	3,164,369	-	-
Huabao Duding	82,951,875	-	-	82,951,875	-	-
	328,204,991	135,664,312	(73,071,072)	390,798,231	-	(8,380,000)

As neither the Group participates 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.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

14. Investment properties

Investment properties measured using the cost method:

30 June 2021 (Unaudited)

	Plant and buildings
Cost:	
Opening balance	77,302,542
Addition	–
Closing balance	77,302,542
Accumulated depreciation:	
Opening balance	14,797,927
Provided	863,732
Closing balance	15,661,659
Provision for impairment:	
Opening and closing balance	–
Net carrying amount:	
At the ending of the period	61,640,883
At the beginning of the period	62,504,615

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

14. Investment properties (Continued)

Investment properties measured using the cost method: (Continued)

31 December 2020 (Audited)

	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

15. Property, plant and equipment

	30 June 2021 Unaudited	31 December 2020 Audited
Property, plant and equipment	28,714,082,775	29,554,236,140
Property, plant and equipment to be disposed of	25,451,191	10,352,310
	28,739,533,966	29,564,588,450

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

15. Property, plant and equipment (Continued)

Property, plant and equipment

30 June 2021 (Unaudited)

	Plant and buildings	Machinery and equipment	Motor vehicles	Office equipment	Land (Note 1)	Total
Cost:						
At the beginning of the period	28,036,395,314	55,695,677,993	259,770,649	342,251,176	11,274,841	84,345,369,973
Addition	1,636,717	5,753,938	2,072,566	856,227	-	10,319,448
Transferred from construction in progress (Note V. 16)	25,521,089	715,829,059	281,396	1,383,081	-	743,014,625
Reclassification	(12,396,465)	12,396,465	-	-	-	-
Disposal	(9,289,372)	(26,733,209)	(4,187,249)	(153,831)	-	(40,363,661)
Exchange realignment	(596,086)	(9,358,483)	(395,150)	(239,109)	(476,002)	(11,064,830)
At the end of the period	28,041,271,197	56,393,565,763	257,542,212	344,097,544	10,798,839	85,047,275,555
Accumulated depreciation:						
At the beginning of the period	14,085,075,509	39,727,665,363	191,961,384	279,848,150	-	54,284,550,406
Provided	420,504,058	1,133,742,691	9,528,950	9,548,221	-	1,573,323,920
Reclassification	(9,656,062)	9,656,062	-	-	-	-
Disposal	(3,931,304)	(16,141,236)	(2,779,014)	(113,520)	-	(22,965,074)
Exchange realignment	(262,990)	(2,852,185)	(289,572)	(200,424)	-	(3,605,171)
At the end of the period	14,491,729,211	40,852,070,695	198,421,748	289,082,427	-	55,831,304,081
Impairment:						
At the beginning of the period	48,408,319	455,273,461	2,532,415	369,232	-	506,583,427
Provided	-	-	-	-	-	-
Disposal	-	-	-	-	-	-
Exchange realignment	(435,533)	(4,137,157)	(106,450)	(15,588)	-	(4,694,728)
At the end of the period	47,972,786	451,136,304	2,425,965	353,644	-	501,888,699
Net carrying amount:						
At the end of the period	13,501,569,200	15,090,358,764	56,694,499	54,661,473	10,798,839	28,714,082,775
At the beginning of the period	13,902,911,486	15,512,739,169	65,276,850	62,033,794	11,274,841	29,554,236,140

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

15. Property, plant and equipment (Continued)

Property, plant and equipment (Continued)

31 December 2020 (Audited)

	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. 16)	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 to 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 to 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	91,230,102	395,930,616	60,161	-	-	487,220,879
Disposal	(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 ending 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)

For the six months ended 30 June 2021

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

15. 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.

As of 30 June 2021, certificates of ownership in respect of 52 buildings of the Group in Mainland China, mainly used for production and operation, with an aggregate cost of RMB1,120,160,085 (31 December 2020: RMB1,116,201,510), 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 30 June 2021, the Group had no idle property, plant and equipment (31 December 2020: Nil).

Property, plant and equipment to be disposed of

	30 June 2021 Unaudited	31 December 2020 Audited
Plant and buildings	1,810,156	1,304,152
Machinery and equipment	23,605,293	6,986,846
Motor vehicles	35,742	2,061,312
	25,451,191	10,352,310

16. Construction in progress

	30 June 2021 Unaudited	31 December 2020 Audited
Construction in progress	9,140,195,717	6,980,279,959
Construction materials	–	–
	9,140,195,717	6,980,279,959

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

16. Construction in progress (Continued)

Construction in progress

	30 June 2021 (Unaudited)			31 December 2020 (Audited)		
	Carrying amount	Provision for impairment	Carrying amount	Carrying amount	Provision for impairment	Carrying amount
Product quality projects	2,713,559,234	–	2,713,559,234	1,846,460,111	–	1,846,460,111
Energy-saving and environmental protection projects	3,645,895,921	–	3,645,895,921	3,210,490,390	–	3,210,490,390
Equipment advancement and other modification projects	1,755,184,132	–	1,755,184,132	1,078,736,694	–	1,078,736,694
Other projects	1,025,556,430	–	1,025,556,430	844,592,764	–	844,592,764
Total	9,140,195,717	–	9,140,195,717	6,980,279,959	–	6,980,279,959

For the six months ended 30 June 2021, the movements of significant projects were as follows:

Name of projects	Budget RMB'000	Opening balance RMB	Addition RMB	Transferred	Transferred to	Closing balance RMB	Source of fund	The proportion of project investment to budget (%)	Percentage of completion (%)	Capitalized interest accumulated RMB	The capitalized interest in current period RMB	The capitalized interest rate in current period (%)
				to fixed assets (Note V. 15) RMB	intangible assets (Note V. 18) RMB							
Product quality projects	8,323,524	1,846,460,111	1,290,024,649	(422,925,525)	–	2,713,559,235	Internally financed	38	38	–	–	–
Energy-saving and environmental protection projects	7,727,004	3,210,490,390	662,769,962	(227,364,432)	–	3,645,895,920	Internally financed	50	50	–	–	–
Equipment advancement and other modification projects	6,494,036	1,078,736,694	753,943,042	(77,495,604)	–	1,755,184,132	Internally financed	28	28	–	–	–
Other projects	N/A	844,592,764	196,192,730	(15,229,064)	–	1,025,556,430	Internally financed	N/A	N/A	–	–	–
Less: impairment		6,980,279,959	2,902,930,383	(743,014,625)	–	9,140,195,717						
		6,980,279,959	2,902,930,383	(743,014,625)	–	9,140,195,717						

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

16. Construction in progress (Continued)

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 fixed assets (Note V. 15) RMB	Transferred to intangible assets (Note V. 18) RMB	Closing balance RMB	Source of fund	The proportion of project investment to budget (%)	Percentage of completion RMB	Capitalized interest accumulated RMB	The capitalized interest in current year RMB	The capitalized interest rate in current year (%)
Product quality projects	11,484,437	1,620,800,177	3,233,874,368	(3,008,214,434)	-	1,846,460,111	Internally financed/loan	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/loan	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/loan	30	30	-	-	-
Other projects	N/A	194,069,879	710,801,568	(59,593,083)	(685,600)	844,592,764	Internally financed/loan	N/A	N/A	-	-	-
Less: impairment		3,259,704,984	7,206,609,077	(3,485,348,502)	(685,600)	6,980,279,959						
		3,259,704,984	7,206,609,077	(3,485,348,502)	(685,600)	6,980,279,959						

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

17. Right-of-use assets

For the six months ended 30 June 2021 (Unaudited)

	Plant and buildings	Motor vehicles	Land use rights	Total
Cost				
At the beginning of the period	423,945,762	15,681,935	3,578,032	443,205,729
Addition	–	–	–	–
Disposal	(19,334,678)	(15,681,935)	–	(35,016,613)
At the end of the period	404,611,084	–	3,578,032	408,189,116
Accumulated depreciation:				
At the beginning of the period	45,348,235	3,136,386	248,728	48,733,349
Provided	10,510,524	–	47,079	10,557,603
Disposal	(3,037,864)	(3,136,386)	–	(6,174,250)
At the end of the period	52,820,895	–	295,807	53,116,702
Impairment:				
At the beginning of the period and at the end of the period	–	–	–	–
Net carrying amount:				
At the end of the period	351,790,189	–	3,282,225	355,072,414
At the beginning of the period	378,597,527	12,545,549	3,329,304	394,472,380

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

17. Right-of-use assets (Continued)

31 December 2020 (Audited)

	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 six months ended 30 June 2021

Renminbi Yuan

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

18. Intangible assets

For the six months ended 30 June 2021 (Unaudited)

	Concession rights (Note)	Land use rights	Mining rights	Patents	Total
Cost:					
At the beginning of the period	152,483,993	2,590,576,967	139,046,867	2,362,860	2,884,470,687
Addition	-	727,771	-	43,427	771,198
Transferred from construction in progress	-	-	-	-	-
Disposal	-	-	-	-	-
Exchange realignment	-	-	(4,532,058)	(99,758)	(4,631,816)
At the end of the period	152,483,993	2,591,304,738	134,514,809	2,306,529	2,880,610,069
Accumulated amortisation:					
At the beginning of the period	55,353,785	807,200,366	139,046,867	1,745,263	1,003,346,281
Provided	3,227,965	27,474,555	-	243,357	30,945,877
Disposal	-	-	-	-	-
Exchange realignment	-	-	(4,532,058)	(77,190)	(4,609,248)
At the end of the period	58,581,750	834,674,921	134,514,809	1,911,430	1,029,682,910
Impairment:					
At the beginning of the period and at the end of the period	-	-	-	-	-
Net carrying amount:					
At the end of the period	93,902,243	1,756,629,817	-	395,099	1,850,927,159
At the beginning of the period	97,130,208	1,783,376,601	-	617,597	1,881,124,406

The intangible assets without the property right certificate are as follows:

	30 June 2021	31 December 2020	Reason for not completing the Property Ownership Certificate
Land use rights	25,048,509	41,704,663	The relevant materials for applying the certificate have not been obtained

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

18. Intangible assets (Continued)

31 December 2020 (Audited)

	Concession rights (Note)	Land use rights	Mining rights	Patents	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 Amortisation:					
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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

18. Intangible assets (Continued)

Note: 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 includes: industrial water supply, and designing, constructing, occupying, operating and maintaining the industrial water treatment plant, water abstraction and pipe networks. The infrastructure construction contract was applied, and no construction service revenue was recognised. According to the agreement, the payment for the project during the construction was recognised as an intangible asset. The specified concession service period is 25 years. Hefei Water Supply is obliged to transfer all infrastructures to the grantor, the Administrative Committee of Hefei Circle Economy Park, at the end of the period of the Arrangement with a smooth operation guaranteed.

19. Deferred tax assets/liabilities

Deferred tax assets and deferred liabilities before being offset:

	30 June 2021		31 December 2020	
	Unaudited		Audited	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Asset impairment provision	140,857,013	36,025,068	149,502,912	38,038,481
Sales incentive	198,222,347	49,555,587	213,495,927	53,373,982
Payroll payable	37,290,729	9,869,954	44,698,138	11,703,372
Government grants	233,680,874	58,420,218	271,367,195	67,841,799
Others	507,654,964	127,327,615	260,630,154	65,847,239
	1,117,705,927	281,198,442	939,694,326	236,804,873

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

19. Deferred tax assets/liabilities (Continued)

	30 June 2021		31 December 2020	
	Unaudited Taxable temporary differences	Unaudited Deferred tax liabilities	Audited Taxable temporary differences	Audited Deferred tax liabilities
Deferred tax liabilities				
Fair value adjustments related to business combinations not under common control	70,605,384	17,651,347	75,737,356	18,934,339
Changes in fair value of other equity instrument investments	166,564,255	41,641,064	135,664,312	33,916,078
	237,169,639	59,292,411	211,401,668	52,850,417

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

	30 June 2021		31 December 2020	
	Unaudited Offset amount	Unaudited Net amount	Audited Offset amount	Audited Net amount
Deferred tax assets	41,641,064	239,557,378	33,916,078	202,888,795
Deferred tax liabilities	41,641,064	17,651,347	33,916,078	18,934,339

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

	30 June 2021 Unaudited	31 December 2020 Audited
Deductible temporary differences	3,576,785,953	3,785,264,977
Deductible tax losses	627,114,657	1,220,966,171
	4,203,900,610	5,006,231,148

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

19. Deferred tax assets/liabilities (Continued)

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

	30 June 2021 Unaudited	31 December 2020 Audited
To expire in 2021	51,362,231	65,700,348
To expire in 2022	4,926,604	6,894,359
To expire in 2023	12,362,353	12,362,353
To expire in 2024	29,968,860	646,845,203
To expire in 2025	14,883,372	14,883,373
To expire in 2026 and subsequent years (Note)	513,611,237	474,280,535
Total	627,114,657	1,220,966,171

Note: As of 30 June 2021, overseas subsidiaries of the Company have deductible tax losses amounting to RMB513,580,597 (31 December 2020: RMB474,280,535) without an expiration date.

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:

	30 June 2021 Unaudited	31 December 2020 Audited
Taxable temporary differences (Note)	1,690,834,382	1,646,064,334

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.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

20. Customer deposits

	30 June 2021 Unaudited	31 December 2020 Audited
Demand deposits	5,456,008,735	3,287,215,937
Notice deposits	809,917,203	1,066,778,296
Time deposits	3,287,412,313	2,266,137,964
	9,553,338,251	6,620,132,197

Details of customer deposits of Masteel Finance related to the related parties as of 30 June 2021 and 31 December 2020 are disclosed in Note X.6.

21. Repurchase agreements

	30 June 2021 Unaudited	31 December 2020 Audited
Notes	555,263,406	198,480,944

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

22. Short-term loans

	30 June 2021 Unaudited	31 December 2020 Audited
Pledged loans (<i>Note 1</i>)	–	108,365,962
Unsecured loans	11,066,488,084	11,369,236,466
Inward documentary notes and letters of credit	448,614,026	1,107,332,759
	11,515,102,110	12,584,935,187

Note 1: As of 30 June 2021, the Group had not obtained the bank loan (31 December 2020: RMB108,365,962) by pledging bank acceptance notes.

As of 30 June 2021, the interest rates of the above short-term loans ranged from 0.690%-4.750% (31 December 2020: 0.690%-4.350%).

As of 30 June 2021, the Group had no overdue short-term loans.

23. Financial liabilities held for trading

	30 June 2021 Unaudited	31 December 2020 Audited
Derivative financial liabilities -		
Forward foreign exchange contracts	28,554,392	95,968,940

As of 30 June 2021, 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 the period.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

24. Notes payable

	30 June 2021	31 December 2020
	Unaudited	Audited
Bank acceptance notes	3,996,531,173	3,297,446,207

As of 30 June 2021 and 31 December 2020, the ageing of the Group's notes payable was all within six months, and there were no overdue notes.

25. Trade payables

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

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

	30 June 2021	31 December 2020
	Unaudited	Audited
Within one year	9,139,853,365	7,561,813,731
One to two years	27,974,660	29,631,818
Two to three years	4,753,874	10,103,644
Over three years	5,954,714	10,926,981
	9,178,536,613	7,612,476,174

The amounts due to related parties among the balances of trade payables as of 30 June 2021 and 31 December 2020 are stated in Note X.6 to the financial statements.

As of 30 June 2021, the material trade payables aged over one year were as follows:

	Amount due	Reason for non-settlement
Company 1	5,805,862	Note
Company 2	1,839,920	Note
Company 3	1,639,950	Note
Company 4	1,616,476	Note
Company 5	1,517,087	Note
	12,419,295	

Note: The Group's trade payables ageing over one year are mainly because of not due for settlement.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

26. Contract liabilities

	30 June 2021 Unaudited	31 December 2020 Audited
Advances from customers	5,589,750,054	4,377,105,559

As of 30 June of 2021, contract liabilities aged over one year amounting to RMB19,696,998 (31 December 2020: RMB31,818,182), were mainly due to the contracts that were not fully executed.

27. Payroll and employee benefits payable

For the six months ended 30 June 2021 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Short-term employee benefits	480,455,438	2,006,541,245	2,147,386,272	339,610,411
Post-employment benefits (defined contribution plans)	29,130,023	260,294,214	287,520,183	1,904,054
Supplementary retirement benefits due within one year <i>(i)</i> <i>(Note V.35)</i>	2,170,341	2,139,549	2,170,341	2,139,549
One-off termination compensation <i>(ii)</i>	18,345,621	274,860,191	125,086,925	168,118,887
Early retirement benefits due within one year <i>(Note V.35)</i>	19,246,713	8,073,228	11,953,445	15,366,496
	549,348,136	2,551,908,427	2,574,117,166	527,139,397

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

27. Payroll and employee benefits payable (Continued)

31 December 2020 (Audited)

	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

- (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 six months ended 30 June 2021

Renminbi Yuan

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

27. Payroll and employee benefits payable (Continued)

Short-term employee benefits:

For the six months ended 30 June 2021 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Salaries, bonuses and subsidies	428,772,989	1,534,094,955	1,696,545,746	266,322,198
Welfare	13,894,069	125,554,072	91,583,285	47,864,856
Social insurance	7,373,818	112,422,574	117,963,839	1,832,553
Including: Medical insurance	6,885,704	101,288,385	106,353,545	1,820,544
Work-related injury insurance	352,768	7,559,265	7,904,659	7,374
Maternity insurance	135,346	3,574,924	3,705,635	4,635
Housing fund	19,902,287	179,297,972	199,197,129	3,130
Labor union fee and employee education fee	10,512,275	55,171,672	42,096,273	23,587,674
	480,455,438	2,006,541,245	2,147,386,272	339,610,411

31 December 2020 (Audited)

	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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

27. Payroll and employee benefits payable (Continued)

Defined contribution plans:

For the six months ended 30 June 2021 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Pension insurance	15,654,936	201,105,545	214,867,287	1,893,194
Unemployment insurance	607,724	6,524,236	7,126,177	5,783
Supplementary pension scheme	12,867,363	52,664,433	65,526,719	5,077
	29,130,023	260,294,214	287,520,183	1,904,054

31 December 2020 (Audited)

	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

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 basis of social insurance premiums as their deposit base. The deposit rates of the Group and employees were 5% and 1%, respectively.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

28. Taxes payable

	30 June 2021 Unaudited	31 December 2020 Audited
Value-added tax	138,878,487	35,921,953
Corporate income tax	915,095,769	223,110,128
Land use tax	107,892,078	104,028,865
Personal income tax	48,465,907	8,849,660
Water conservancy funds	154,727,382	141,317,556
City construction and maintenance tax	11,586,831	4,217,499
Environment protection tax	7,084,344	11,561,885
Other taxes	54,049,715	40,752,181
	1,437,780,513	569,759,727

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

29. Other payables

	30 June 2021 Unaudited	31 December 2020 Audited
Dividends payable	1,007,701,287	6,612,733
Other payables	4,603,213,948	4,116,877,515
	5,610,915,235	4,123,490,248

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

29. Other payables (Continued)

Dividends payable

	30 June 2021 Unaudited	31 December 2020 Audited
Dividends paid	1,007,701,287	6,612,733

As of 30 June 2021, due to the unclaimed dividends declared from the year of 2007 to 2011, the Group has accumulated unpaid dividends payable over one year amounting to RMB6,612,733.

Other payables

	30 June 2021 Unaudited	31 December 2020 Audited
Payable for forfeiting	2,856,436,408	2,087,767,846
Special funds (<i>Note 1</i>)	808,315,754	760,608,867
Payable for construction, maintenance and inspection fees	97,801,295	300,478,896
Sales incentives	387,285,352	383,306,198
Employee settlement for productivity shutting down	152,568,484	152,568,484
Tax risk provision	–	85,000,000
Social welfare and housing fund payable	12,283,420	30,199,399
Service fees payable	21,530	27,632,877
Others	288,501,705	289,314,948
	4,603,213,948	4,116,877,515

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 six months ended 30 June 2021

Renminbi Yuan

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

29. Other payables (Continued)

Other payables (Continued)

At of 30 June 2021, significant other payables aged over one year were as follows:

	Amount payable	Reason for non-settlement
Company 1	696,685,404	<i>Note</i>
Company 2	152,568,484	<i>Note</i>
Company 3	8,000,000	<i>Note</i>
Company 4	6,440,000	<i>Note</i>
Company 5	3,000,000	<i>Note</i>
	866,693,888	

Note: The Group's other payables aged over one year were mainly special funds, employee settlement for productivity shutting down. Since the project did not meet the terms of settlement, the payments were not settled.

30. Non-current liabilities due within one year

	30 June 2021 Unaudited	31 December 2020 Audited
Long-term loans due within one year (<i>Note V.33</i>)	2,950,000,000	2,555,949,215
Lease liabilities due within one year (<i>Note V.34</i>)	11,828,197	16,143,630
	2,961,828,197	2,572,092,845

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

31. Accrued liabilities

For the six months ended 30 June 2021 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Pending litigation or arbitration	8,810,245	557,495	1,467,122	7,900,618
Pending onerous contract (<i>Note</i>)	14,820,090	–	625,675	14,194,415
Others	3,337,918	2,229,507	2,938,290	2,629,135
	26,968,253	2,787,002	5,031,087	24,724,168

31 December 2020 (Audited)

	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 (<i>Note</i>)	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

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 the provision accordingly.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

32. Other current liabilities

	30 June 2021 Unaudited	31 December 2020 Audited
Advances for output tax	726,667,506	569,023,723

33. Long-term loans

	30 June 2021 Unaudited	31 December 2020 Audited
Guaranteed loans (<i>Note</i>)	13,200,000	44,000,000
Unsecured loans	6,381,101,912	6,048,313,553
	6,394,301,912	6,092,313,553
Less: Long-term loans due within one year (<i>Note V.30</i>)	2,950,000,000	2,555,949,215
	3,444,301,912	3,536,364,338

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

As of 30 June 2021, the interest rates of the above long-term loans ranged from 1.20% to 4.75% (31 December 2020: from 1.20% to 4.75%).

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

33. Long-term loans (Continued)

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

	30 June 2021 Unaudited	31 December 2020 Audited
Within one year or on demand (<i>Note V.30</i>)	2,950,000,000	2,555,949,215
One to two years (inclusive)	38,200,000	1,250,000,000
Two to three years (inclusive)	3,367,601,912	2,229,164,338
Three to five years (inclusive)	38,500,000	44,000,000
Over five years	–	13,200,000
	6,394,301,912	6,092,313,553

34. Lease liabilities

	30 June 2021 Unaudited	31 December 2020 Audited
Plant and buildings	368,042,695	394,485,318
Motor vehicles	–	13,132,819
Land use rights	3,459,901	3,509,166
	371,502,596	411,127,303
Less: Lease liabilities due within one year (<i>Note V.30</i>)	11,828,197	16,143,630
	359,674,399	394,983,673

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

35. Long-term payroll and employee benefits payable

	30 June 2021 Unaudited	31 December 2020 Audited
1. Early retirement benefits (<i>Note 1</i>)	63,929,649	74,969,837
Less: Early retirement benefits due within one year	15,366,496	19,246,713
2. Supplementary retirement benefit (<i>Note 2</i>)	24,722,944	25,943,263
Less: Supplementary retirement benefits due within one year	2,139,549	2,170,341
	71,146,548	79,496,046

Note 1: Early retirement benefits

	For the six months ended 30 June 2021	Opening balance	Increase during the period	Unrecognised financing expense	Decrease during the period	Closing balance	Less: Due within one year	Closing balance
Early retirement benefits	74,969,837	-	913,257	11,953,445	63,929,649	15,366,496	48,563,153	

Note 2: Supplementary retirement benefits

	For the six months ended 30 June 2021	Opening balance	Increase during the period	Decrease during the period	Closing balance	Less: Due within one year	Closing balance
Supplementary retirement benefits	25,943,263	950,022	2,170,341	24,722,944	2,139,549	22,583,395	

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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:

	30 June 2021 Unaudited	31 December 2020 Audited
Undiscounted value		
Within one year	15,366,496	19,246,713
One to two years	13,306,740	16,134,657
Two to three years	10,566,720	14,611,344
Over three years	28,901,642	30,102,329
	68,141,598	80,095,043
Financing expense unrecognised	(4,211,949)	(5,125,206)
	63,929,649	74,969,837
Less: Due within one year	15,366,496	19,246,713
	48,563,153	55,723,124

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 internal policy, 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 30 June 2021 and accounted for in general and administrative expenses. As of 30 June 2021, the current portion of the payment responsibility that would be paid within 12 months was accounted for in short-term employee benefits.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

36. Deferred revenue

30 June 2021 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Government grants	872,949,281	54,141,723	39,545,352	887,545,652

31 December 2020 (Audited)

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Compensation of land purchasing and storage	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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

36. Deferred revenue (Continued)

As of 30 June 2021, liabilities related to government grants were as follows:

	Opening balance	Increase during the period	Included in other income	Closing balance	Related to assets/ income
Subsidy funds for 4# blast furnace project	158,614,655	-	(4,312,004)	154,302,651	assets
Technological transformation fund for Phase II silicon steel	68,641,669	-	(2,200,000)	66,441,669	assets
Subsidy for the hot-rolled 1580 project	30,888,750	-	(990,000)	29,898,750	assets
New-zone Thermal Power Plant CAPP system engineering	13,817,972	-	(2,156,000)	11,661,972	assets
EMU steel wheel production line project	26,174,990	-	(1,100,000)	25,074,990	assets
Environmental subsidy funds for flue gas desulfurization and 135 MW thermal power	10,676,900	-	(283,800)	10,393,100	assets
Subsidy for a thin plate project	40,001,037	-	(2,364,247)	37,636,790	assets
Environmental funds for desulfurization project of 3rd iron plant's flue gas (BOT)	11,107,275	-	(295,244)	10,812,031	assets
Alloy bar production line refinement project of electric furnace plant	28,898,040	-	(741,840)	28,156,200	assets
Subsidy for Maanshan railway industry (Maanshan)	22,036,100	-	(1,050,000)	20,986,100	assets
Comprehensive utilization of gas for power generation of a thermal power plant	20,336,063	-	(545,380)	19,790,683	assets
Intelligent manufacturing special fund	15,253,122	-	(686,719)	14,566,403	assets
Subsidies for galvanization projects	10,656,175	-	(453,455)	10,202,720	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 desulfurization and denitration project	1,251,840	-	(23,467)	1,228,373	assets
Transformation of flue gas desulfurization and denitrification of 3# sintering machine in the southern ironmaking area	4,981,667	-	(110,000)	4,871,667	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	2,863,977	-	-	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
Ironmaking plant 1#2# sintering machine transformation project	-	20,800,000	-	20,800,000	assets
Others	369,229,049	33,341,723	(22,233,196)	380,337,576	assets
Total	872,949,281	54,141,723	(39,545,352)	887,545,652	

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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 CAPP 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	
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 desulfurization and denitration project	-	1,280,000	(28,160)	1,251,840	assets
Transformation of flue gas desulfurization and desulfurization 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	

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

37. Share capital

30 June 2021 (Unaudited)

Registered, issued and fully paid	Opening balance		Increase/(decrease) during the period			Closing balance	
	Number of shares	Percentage (%)	Shares issued	Others	Sub-total	Number of shares	Percentage (%)
A. Shares with selling restrictions							
1. State-owned shares	-	-	-	-	-	-	-
2. State-owned legal person shares	-	-	-	-	-	-	-
3. Other domestically owned shares	-	-	-	-	-	-	-
Including: Shares owned by domestic natural persons	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-
B. Shares without selling restrictions							
1. A shares	5,967,751,186	77.5	-	-	-	5,967,751,186	77.5
2. H shares	1,732,930,000	22.5	-	-	-	1,732,930,000	22.5
Sub-total	7,700,681,186	100.0	-	-	-	7,700,681,186	100.0
C. Total shares	7,700,681,186	100.0	-	-	-	7,700,681,186	100.0

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

37. Share capital (Continued)

31 December 2020 (Audited)

Registered, issued and fully paid	Opening balance		Increase/(decrease) during the year			Closing balance	
	Number of shares	Percentage (%)	Shares issued	Others	Sub-total	Number of shares	Percentage (%)
A. Shares with selling restriction							
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 restriction							
1. A shares	5,967,751,186	77.5	-	-	-	5,967,751,186	77.5
2. H shares	1,732,930,000	22.5	-	-	-	1,732,930,000	22.5
Sub-total	7,700,681,186	100.0	-	-	-	7,700,681,186	100.0
C. Total shares	7,700,681,186	100.0	-	-	-	7,700,681,186	100.0

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

38. Capital reserve

30 June 2021 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Share premium	8,333,840,683	–	–	8,333,840,683
Others (Note)	27,617,220	1,147,250	–	28,764,470
Total	8,361,457,903	1,147,250	–	8,362,605,153

Note: The increased share premium in the current period was due to the other equity changes caused by equity dilution of Ouyeel Factoring, the Company's associate.

31 December 2020 (Audited)

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	8,333,840,683	–	–	8,333,840,683
Others	19,659,078	7,958,142	–	27,617,220
Total	8,353,499,761	7,958,142	–	8,361,457,903

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 2020	Increase/ (decrease)	31 December 2020 Audited	Increase/ (decrease)	30 June 2021 Unaudited
Other comprehensive income that may not be reclassified to profit or loss:					
Change in fair value of other equity instrument investments	24,992,545	76,755,689	101,748,234	23,174,957	124,923,191
Other comprehensive income that will be reclassified to profit or loss:					
Changes in the fair value of other debt investments	–	–	–	1,676,811	1,676,811
Other comprehensive income to be reclassified to profit or loss under the equity method	(2,745,469)	–	(2,745,469)	520,764	(2,224,705)
Exchange differences arising from foreign currency translation	(122,007,880)	(146,668)	(122,154,548)	(27,620,789)	(149,775,337)
	(99,760,804)	76,609,021	(23,151,783)	(2,248,257)	(25,400,040)

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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:

For the six months ended 30 June 2021 (Unaudited)

	Amount before tax	Less: charged to other comprehensive income before and reclassified to profit or loss in the current period	Less: charged to other comprehensive income before and reclassified to retained earnings in the current period	Less: income tax	Attributable to owners of the parent	Attributable to non-controlling interests
Other comprehensive income that may not be reclassified to profit or loss:						
Change in fair value of other equity instrument investments	30,899,943	-	-	(7,724,986)	23,174,957	-
Other comprehensive income that will be reclassified to profit or loss:						
Changes in the fair value of other debt investments	1,676,811	-	-	-	1,676,811	-
Other comprehensive income using the equity method that may be reclassified to profit or loss	520,764	-	-	-	520,764	-
Exchange differences arising from foreign currency translation	(27,620,789)	-	-	-	(27,620,789)	-
	5,476,729	-	-	(7,724,986)	(2,248,257)	-

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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)

For the six months ended 30 June 2020 (Unaudited)

	Amount before tax	Less: charged to other comprehensive income before and reclassified to profit or loss in current period	Less: charged to other comprehensive income before and reclassified to retained earnings in current period	Less: income tax	Attributable to owners of the parent	Attributable to non- controlling interests
Other comprehensive income that may not be reclassified to profit or loss:						
Change in fair value of other equity instrument investments	(1,693,287)	-	-	423,322	(1,269,965)	-
Other comprehensive income that will be reclassified to profit or loss:						
Exchange differences arising from foreign currency translation	11,180,387	-	-	-	11,180,387	-
	9,487,100	-	-	423,322	9,910,422	-

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

40. Special reserve

30 June 2021 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Safety fund	37,295,614	50,071,062	(13,563,964)	73,802,712

31 December 2020 (Audited)

	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

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.

41. Surplus reserve

30 June 2021 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Statutory reserve (Note i)	3,996,775,944	–	–	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
	4,687,127,180	–	–	4,687,127,180

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

41. Surplus reserve (Continued)

31 December 2020 (Audited)

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory reserve (<i>Note i</i>)	3,960,901,258	35,874,686	–	3,996,775,944
Discretionary surplus reserve (<i>Note ii</i>)	529,154,989	–	–	529,154,989
Reserve fund (<i>Note iii</i>)	95,685,328	–	–	95,685,328
Enterprise expansion fund (<i>Note iii</i>)	65,510,919	–	–	65,510,919
	4,651,252,494	35,874,686	–	4,687,127,180

- (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 of directors, the discretionary surplus reserve can be used to cover losses or increase capital.
- (iii) Upon the approval of the board of directors, these subsidiaries are required to allocate certain of their profit after tax as determined in accordance with the CAS and related regulations to the enterprise expansion fund and the reserve fund. The allocation rates are determined by their respective boards of directors.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

42. General reserve

	30 June 2021 Unaudited	31 December 2020 Audited
General reserve (<i>Note</i>)	248,156,969	248,156,969

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

	30 June 2021 Unaudited	31 December 2020 Audited
Retained earnings at beginning of the period/year	7,374,557,923	5,966,218,930
Net profit attributable to owners of the parent	4,643,787,117	1,982,638,821
Less: Transfer to surplus reserve	–	35,874,686
Transfer to general reserve	–	(77,629,353)
Distribute to shareholders (<i>Note V.63</i>)	1,001,088,554	616,054,495
Retained earnings at the end of the period/year	11,017,256,486	7,374,557,923

44. Revenue and cost of sales

	For the six months ended 30 June			
	2021 (Unaudited)		2020 (Unaudited)	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal operating income	55,824,864,196	46,224,301,710	36,780,404,394	33,632,240,893
Other operating income	1,038,751,201	817,972,076	648,631,160	570,789,279
	56,863,615,397	47,042,273,786	37,429,035,554	34,203,030,172

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

44. Revenue and cost of sales (Continued)

Revenue is presented as follows:

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
Revenue from contracts with customers	56,650,103,349	37,257,186,422
Rental income	2,731,558	4,517,154
Interest income	210,780,490	167,331,978
	56,863,615,397	37,429,035,554

Timing of revenue recognition from contracts with customers:

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
At a point in time		
Sale of steel products	53,925,575,938	35,351,066,137
Sale of other products	2,552,459,319	1,792,501,354
Over time		
Processing	42,834,353	38,120,343
Packaging services	46,654,941	31,433,082
Others	82,578,798	44,065,506
	56,650,103,349	37,257,186,422

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

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
Revenue from contracts with customers	4,329,736,982	3,723,552,719

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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 period end are expected to be recognised as revenue as follows:

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
Within one year	5,589,750,054	3,903,969,212

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

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
City construction and maintenance tax	86,830,165	44,137,257
Land usage tax	51,531,824	48,295,440
Education surcharge	68,452,939	32,104,393
Property tax	55,657,386	53,990,519
Environment protection tax	27,478,566	31,328,358
Stamp duty	34,929,332	23,592,588
Water conservancy funds	34,339,094	29,335,863
Vehicle and vessel usage tax	86,219	124,968
Other taxes	3,866,730	3,091,737
	363,172,255	266,001,123

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

46. Selling expenses

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
Transportation fees	441,018,308	424,770,627
Employee benefits	66,658,065	54,706,075
Insurance premium	6,022,282	3,384,072
Others	37,413,302	47,579,091
	551,111,957	530,439,865

47. General and administrative expenses

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
Employee benefits	280,699,188	284,514,066
Employee termination benefits	142,335,903	53,194,407
Office expenses	123,123,608	151,397,184
Depreciation of property, plant and equipment	41,999,762	40,977,789
Amortisation of intangible assets	23,447,672	26,186,744
Maintenance expenses	14,301,020	29,581,872
Travel and entertainment expenses	6,036,001	15,840,443
Others	75,249,545	90,971,791
	707,192,699	692,664,296

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

48. R&D expenses

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
Fuel and power expenses	784,694,876	226,565,252
Material expenses	806,058,156	141,143,795
Depreciation of property, plant and equipment	186,016,336	90,952,437
Employee benefits	156,120,794	116,450,532
Testing and processing expenses	33,796,501	17,035,465
Others	79,400,896	44,248,721
	2,046,087,559	636,396,202

49. Financial expenses

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
Interest expense (<i>Note</i>)	352,060,365	335,172,239
Less: Interest income	9,195,165	26,639,917
Less: Capitalised interest	–	–
Exchange loss/(gain)	35,274,931	(28,788,425)
Others	5,352,902	11,019,018
	383,493,033	290,762,915

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

50. Other income

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
Government grants related to daily operating activities	59,429,780	40,902,893
Refund of withholding personal income tax commission	910,173	727,564
	60,339,953	41,630,457

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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:

	For the six months ended 30 June		Related to assets/income
	2021 Unaudited	2020 Unaudited	
Advanced enterprises rising and energy-saving technology reform fund	4,400,530	3,101,914	income
Special subsidies for science and technology	311,856	378,029	income
Tax incentives for development zone	–	3,625,864	income
Green ecological development award	–	1,000,000	income
Refund of land usage tax	–	480,600	income
Technological transformation fund for phase II silicon steel	2,200,000	2,200,000	assets
Subsidy for the hot-rolled 1580 project	990,000	990,000	assets
New-zone thermal power plant CCP system engineering	2,156,000	2,156,000	assets
EMU steel wheel production line project	1,100,000	1,100,000	assets
Environmental subsidy funds for flue gas desulfurization and 135 MW thermal power	283,800	283,800	assets
Subsidy for a thin plate project	2,364,247	2,364,247	assets
Environmental funds for desulfurization project of 3rd iron plant's flue gas (BOT)	295,244	295,244	assets
Alloy bar production line refinement project of electric furnace plant	741,840	741,840	assets
Subsidy for Maanshan railway industry (Maanshan)	1,050,000	504,000	assets
Comprehensive utilization of gas for power generation of a thermal power plant	545,380	545,380	assets
Subsidy funds for 4# blast furnace project	4,312,004	4,312,004	assets
Subsidies for galvanization projects	453,455	453,453	assets
Intelligent manufacturing special fund	686,719	–	assets
Coking plant 8# coke oven flue gas desulfurization and denitration project	23,467	–	assets
Transformation of flue gas desulfurization and denitrification of 3# sintering machine in the southern ironmaking area	110,000	–	assets
Other grants related to income	15,172,042	3,821,305	income
Other grants related to assets	22,233,196	12,549,213	assets
	59,429,780	40,902,893	

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

51. Investment income

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
Investment income from long-term equity investments under the equity method	387,184,713	163,604,830
Gain from dividend income of other equity investments in duration	8,184,904	8,280,000
Gain from disposal of financial assets held for trading	89,491,945	26,326,103
Loss from disposal of financial liabilities held for trading	(96,586,737)	–
Gain from disposal of debt instrument investments	–	33,748,637
	388,274,825	231,959,570

52. Gain on the changes in fair value

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
Financial assets held for trading	(1,535,283)	27,720,772
Including: Derivative financial instruments	(782,490)	(1,191,700)
Financial liabilities held for trading	67,414,548	1,590,548
	65,879,265	29,311,320

53. Credit impairment losses

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
Bad debt impairment	7,147,689	8,030,101
Debt instrument investment impairment	(84,454)	–
Provision – loan commitment	(302,319)	–
Impairment losses for financial assets purchased under agreement to resell	(18,164)	–
	6,742,752	8,030,101

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

54. Asset impairment losses

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
Provision for inventories	26,303,476	73,128,980

55. Gain/(loss) from disposal of assets

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
Gain/(loss) on disposal of property, plant and equipment	1,219,470	(62,159,618)

56. Non-operating income

	For the six months ended 30 June		
	2021	2020	Included in 2021 non-recurring gains and losses
	Unaudited	Unaudited	Unaudited
Government grants not related to the ordinary course of business	–	251,011,204	–
Scrap gains of property, plant and equipment	47,629,832	–	47,629,832
Others	12,496,334	3,165,346	12,496,334
	60,126,166	254,176,550	60,126,166

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

57. Non-operating expenses

	For the six months ended 30 June		
	2021	2020	Included in
	Unaudited	Unaudited	2021 non-recurring gains and losses Unaudited
Scrap losses of property, plant and equipment	17,009,074	–	17,009,074
Penalty expenditure	3,782,462	1,958,373	3,782,462
Charity donation	230,000	337,249	230,000
Others	8,448,252	613,445	8,448,252
	29,469,788	2,909,067	29,469,788

58. Income tax expense

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
Mainland China current income tax expense	1,275,768,356	194,310,119
Hong Kong current income tax expense	–	3,868,481
Overseas current income tax expense	15,677,369	548,207
Deferred tax expense	(45,676,561)	24,239,919
	1,245,769,164	222,966,726

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

58. Income tax expense (Continued)

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

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
Profit before tax	6,283,607,771	1,220,591,112
Tax at the applicable tax rate of 25% (<i>Note</i>)	1,570,901,943	305,147,778
Effect of different tax rates of subsidiaries	(757,275)	(3,997,314)
Non-deductible expenses	29,443,434	21,636,437
Adjustments in respect of current income tax of previous periods	100,427,621	(12,046,686)
Other tax preference	(208,629,174)	(77,592,438)
Income not subject to tax	(18,765,654)	(9,266,505)
Unrecognised deductible temporary difference and tax losses	66,184,821	114,923,641
Utilised previous years' tax losses	(196,240,374)	(73,277,589)
Share of profit or loss of joint ventures and associates	(96,796,178)	(42,560,598)
Tax charge at the Group's effective rate	1,245,769,164	222,966,726
The Group's effective rate	19.83%	18.27%

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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

59. Earnings per share

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
	cent/share	cent/share
Basic earnings per share		
Continuing operations	60.30	10.55
Diluted earnings per share		
Continuing operations	60.30	10.55

Basic earnings per share shall be calculated by dividing profit attributable to owners of the parent (the numerator) by the weighted average number of ordinary shares in issue (the denominator). During the six months ended 30 June 2021 and 2020, the Company did not have any dilutive items that should adjust the basic earnings per share.

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

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
Earnings		
Profit attributable to owners of the parent Continuing operations	4,643,787,117	812,342,511
Number of shares		
Weighted average number of ordinary shares in issue during the period	7,700,681,186	7,700,681,186

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

60. Notes to the statement of cash flows

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
(1) Cash received relating to other operating activities:		
Government grants	74,026,151	21,416,433
Employee relocation compensation received from the government	–	250,175,531
Interest income	9,195,165	26,639,917
Decrease in deposits of notes, letters of credit and guarantees	–	328,973,996
Others	76,858,907	6,769,102
	160,080,223	633,974,979
(2) Cash paid relating to other operating activities:		
Increase in deposits for notes, credit and guarantee	82,057,625	–
Office expenses	91,602,468	116,497,225
Safety fund	13,563,964	34,727,868
Bank charges	5,349,713	9,603,712
Travel and entertainment expenses	9,610,998	21,018,596
Insurance expenses	14,969,610	5,853,835
Environmental improvement fee	10,420,959	3,429,107
Research and development expenses	71,576,670	5,970,866
Others	45,046,345	65,503,203
	344,198,352	262,604,412
(3) Cash paid relating to other investing activities:		
Payment of steel futures deposits	46,449,040	54,631,062
(4) Cash received relating to other financing activities:		
Notes discounted	–	102,230,000
(5) Cash paid relating to other financing activities:		
Lease liability expenditure	16,934,619	18,937,361

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

61. Supplements to the statement of cash flows

(1) Reconciliation of net profit to cash flows from operating activities

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
Net profit	5,037,838,607	997,624,386
Add: Provision for bad debts	6,742,752	8,030,101
Provision for asset impairment losses	26,303,476	73,128,980
Depreciation of property, plant and equipment	1,573,323,920	1,515,488,515
Amortisation of right-of-use assets	10,557,603	12,042,873
Amortisation of intangible assets	30,945,877	29,838,184
Amortisation of investment properties	863,732	1,174,599
Amortisation of deferred revenue	(39,545,352)	(28,495,181)
Disposal (gain)/loss on property, plant and equipment, intangible assets and other long-term assets	(31,840,228)	62,159,618
Increase in special reserve	31,629,094	10,101,186
Financial expenses	353,618,504	306,383,814
Investment income	(388,274,825)	(231,959,570)
Gain on fair value changes	(65,879,265)	(29,311,320)
(Increase)/decrease in deferred tax assets	(44,393,569)	25,522,912
Decrease in deferred tax liabilities	(1,282,992)	(1,282,992)
(Increase)/decrease in inventories	(2,438,514,513)	440,014,592
(Increase)/decrease in receivables from operating activities	(1,543,907,098)	5,443,846,162
Increase/(decrease) in payables from operating activities	8,762,400,796	(7,688,559,863)
Net cash flows from operating activities	11,280,586,519	945,746,996
Endorsement of bank acceptance bills received for the sale of goods and the provision of services	12,729,533,837	5,734,196,391

Note : The Group had no significant non-cash investing and financing activities (as of 30 June 2020: nil).

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

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

(2) Cash and cash equivalents

Net changes of cash and cash equivalents:

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
Ending balance of cash	5,056,237,445	8,418,114,599
Less: Opening balance of cash	3,123,596,841	7,239,650,634
Add: Ending balance of cash equivalents	–	–
Less: Opening balance of cash equivalents	–	–
Net increase in cash and cash equivalents	1,932,640,604	1,178,463,965

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
Cash		
Including: Cash on hand	3,375	39,816
Balances in banks without restrictions	5,056,234,070	8,418,074,783
Ending balance of cash and cash equivalents	5,056,237,445	8,418,114,599

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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

62. Restricted assets

	30 June 2021 Unaudited	31 December 2020 Audited	
Cash and bank balances (<i>Note V.1</i>)	2,305,869,059	2,124,638,433	<i>(i)</i>
Financing receivables (<i>Note V.4</i>)	–	108,365,962	<i>(ii)</i>
	2,305,869,059	2,233,004,395	

(i) As of 30 June 2021, the Group's restricted cash and bank balances include cash deposits as collateral amounting to RMB1,267,447,995 (31 December 2020: RMB1,185,390,370) pledged as security for trade facilities and performance for bank acceptance notes, letters of credit and guarantees, and mandatory reserves with the central bank of RMB1,038,421,064 (31 December 2020: RMB939,248,063).

(ii) As of 30 June 2021, the Group had not pledged the bank acceptance notes (31 December 2020: RMB108,365,962) to obtain a short-term loan.

63. Dividends

According to the "2020 Annual Profit Distribution Plan" approved by the Group's 2020 Annual General Meeting on 29 June 2021, the Group would distribute dividends to all shareholders at RMB0.13 per share (tax included) (2020: RMB0.08 per share), for 7,700,681,186 shares amounting to RMB1,001,088,554 (2020: RMB616,054,495). The dividends had not been paid by 30 June 2021 and were included in the financial statements.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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

64. Monetary items denominated in foreign currencies

	30 June 2021 (Unaudited)			31 December 2020 (Audited)		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
Cash and bank balances						
USD	139,401,480	6.4601	900,547,501	151,691,652	6.5249	989,772,860
EUR	16,537,771	7.6862	127,112,615	30,217,787	8.0250	242,497,741
AUD	29,231,392	4.8528	141,854,099	37,229,891	5.0163	186,756,302
HKD	81,735,732	0.8321	68,012,303	39,630,345	0.8416	33,352,898
CAD	549,889	4.8027	2,640,952	2,094,874	5.1161	10,717,585
AED	753,745	1.7587	1,325,611	660,940	1.7761	1,173,896
ZAR	2,487	0.4501	1,119	1,269,433	0.4458	565,913
GBP	206	8.9410	1,842	177	8.8903	1,574
JPY	26	0.0584	2	3,983	0.0632	252
			1,241,496,044			1,464,839,021
Trade receivables						
EUR	21,722,442	7.6862	166,963,034	19,255,534	8.0250	154,525,660
USD	16,654,153	6.4601	107,587,494	19,346,045	6.5249	126,231,009
AUD	–	4.8528	–	478,917	5.0163	2,402,391
HKD	–	0.8321	–	108,778	0.8416	91,548
AED	1,279	1.7587	2,249	1,279	1.7761	2,272
			274,552,777			283,252,880
Other receivables						
EUR	1,064,933	7.6862	8,185,288	1,196,972	8.0250	9,605,700
HKD	533,765	0.8321	444,146	533,765	0.8416	449,217
AED	19,758	1.7587	34,748	19,758	1.7761	35,092
USD	4,151	6.4601	26,816	4,151	6.5249	27,085
AUD	33	4.8528	160	21	5.0163	105
			8,691,158			10,117,199
Trade payables						
EUR	9,167,189	7.6862	70,460,848	10,747,471	8.0250	86,248,455
USD	22,500	6.4601	145,352	103,504	6.5249	675,353
AUD	12,750	4.8528	61,873	45,600	5.0163	228,743
			70,668,073			87,152,551

Notes to the Financial Statements (Continued)

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

64. Monetary items denominated in foreign currencies (Continued)

	30 June 2021 (Unaudited)			31 December 2020 (Audited)		
	Original currency	Exchange rate	Equivalent of RMB	Original currency	Exchange rate	Equivalent of RMB
Other payables						
USD	442,172,585	6.4601	2,856,479,116	319,969,325	6.5249	2,087,767,849
HKD	4,029,613	0.8321	3,353,041	4,029,613	0.8416	3,391,322
EUR	1,490,477	7.6862	11,456,104	1,745,367	8.0250	14,006,570
AED	45,915	1.7587	80,751	32,500	1.7761	57,723
AUD	–	4.8528	–	11,380	5.0163	57,085
			2,871,369,012			2,105,280,549
Short-term loan						
USD	200,203,313	6.4601	1,293,333,422	272,281,371	6.5249	1,776,608,718

VI. CHANGE IN THE SCOPE OF CONSOLIDATION

1. Newly established subsidiary

For the six months ended 30 June 2021, there were no newly established subsidiaries.

2. Disposal of a subsidiary

For the six months ended 30 June 2021, there was no disposal of a subsidiary.

3. Changes in scope of consolidation for other reasons

For the six months ended 30 June 2021, there was no change in the scope of consolidation for other reasons.

Notes to the Financial Statements (Continued)

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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	Percentage of equity (%)		
				Paid-in capital	Direct	Indirect
Subsidiaries acquired by establishment or investment						
Ma Steel (Wuhu) Processing and Distribution Co., Ltd. ("Ma Steel (Wuhu)")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB35,000,000	70	30
Ma Steel (Cihu) Processing and Distribution Co., Ltd. ("Ma Steel (Cihu)")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB30,000,000	92	-
Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. ("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	-

Notes to the Financial Statements (Continued)

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in subsidiaries (Continued)

	Place of operation	Place of registration	Business nature	Percentage of equity (%)		
				Paid-in capital	Direct	Indirect
Subsidiaries acquired by establishment or investment (continued)						
Maanshan (Shanghai) Iron and Steel Sales Co., Ltd. ("Ma Steel Shanghai Sales")	Shanghai, PRC	Shanghai, PRC	Trading	RMB10,000,000	100	-
Anhui Chang Jiang Iron and Steel Trading Co., Ltd., Hefei ("Chang Jiang Iron and Steel, Hefei")	Anhui, PRC	Anhui, PRC	Trading	RMB30,000,000	-	100
Anhui Chang Jiang Iron and Steel Trading Co., Ltd., Nanjing ("Chang Jiang Iron and Steel, Nanjing")	Jiangsu, PRC	Jiangsu, PRC	Trading	RMB30,000,000	-	100
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	France	France	Manufacturing	EUR150,200,000	100	-
Masteel America	USA	USA	Service industry	USD500,000	100	-
Anhui Ma Steel Antitrust Material Technology Co., Ltd. ("Ma Steel Antitrust")	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")	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	-
Anhui Masteel Gas Technology Co., Ltd ("Masteel Gas")	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	Anhui, PRC	Anhui, PRC	Manufacturing	RMB1,486,296,194	100	-
Mascometal	Anhui, PRC	Anhui, PRC	Manufacturing	EUR32,000,000	66	-
Subsidiary acquired under common control						
Masteel Finance	Anhui, PRC	Anhui, PRC	Financial services	RMB2,000,000,000	91	-

Note 1: The above companies incorporated in China are all limited companies.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in subsidiaries (Continued)

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

	30 June 2021 Unaudited	31 December 2020 Audited
The proportion of equity held by non-controlling interests:		
Anhui Chang Jiang Iron and Steel	45%	45%
Ma Steel (Hefei)	29%	29%
Masteel Finance	9%	9%

Profit or loss attributable to non-controlling interests:

	For the six months ended 30 June	
	2021 Unaudited	2020 Unaudited
Anhui Chang Jiang Iron and Steel	352,509,234	169,693,740
Ma Steel (Hefei)	6,874,407	4,808,509
Masteel Finance	13,081,632	13,848,618

Dividends paid to non-controlling interests:

	For the six months ended 30 June	
	2021 Unaudited	2020 Unaudited
Anhui Chang Jiang Iron and Steel	205,200,000	270,000,000
Ma Steel (Hefei)	—	—
Masteel Finance	21,084,247	6,835,590

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in subsidiaries (Continued)

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

	30 June 2021	31 December 2020
	Unaudited	Audited
Anhui Chang Jiang Iron and Steel	2,726,996,907	2,579,098,511
Ma Steel (Hefei)	880,335,376	872,102,909
Masteel Finance	293,477,915	301,329,617

The summarised financial information of the above subsidiaries is as follows. The amounts listed below are the amounts before group intra-elimination.

	Anhui Chang Jiang Iron and Steel	Ma steel (Hefei)	Masteel Finance
30 June 2021(Unaudited) or for the six months ended 30 June 2021 (Unaudited)			
Current assets	6,653,553,654	1,861,470,145	20,981,704,917
Non-current assets	5,024,677,844	2,679,822,005	2,118,810,022
Total assets	11,678,231,498	4,541,292,150	23,100,514,939
Current liabilities	(5,572,592,709)	(1,449,934,880)	(19,831,787,497)
Non-current liabilities	(45,645,662)	(55,718,043)	(7,861,720)
Total liabilities	(5,618,238,371)	(1,505,652,923)	(19,839,649,217)
Revenue	10,450,742,865	3,758,995,356	264,201,305
Net profit	783,353,853	23,704,851	145,351,472
Total comprehensive income	783,353,853	23,704,851	145,351,472
Net cash flows from operating activities	1,303,661,739	(131,769,731)	6,534,513,774

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in subsidiaries (Continued)

	Ma Steel (Hefei)	Anhui Chang Jiang Iron and Steel	Masteel Finance
31 December 2020 (Audited) or for the six months ended 30 June 2020 (Unaudited)			
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	7,150,438,144	2,203,305,746	250,775,578
Net profit	377,097,200	16,581,065	153,873,533
Total comprehensive income	377,097,200	16,581,065	153,873,533
Net cash flows from operating activities	407,291,974	(16,384,121)	2,428,541,357

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Interests in joint ventures and associates

	Place of operation	Place of registration	Business nature	Registered capital	Percentage of equity (%)		Accounting method
					Direct	Indirect	
Joint ventures							
BOC-Ma Steel	Anhui, PRC	Anhui, PRC	Manufacturing	RMB468,000,000	50	-	Equity method
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 Energy Saving (Note 1)	Anhui, PRC	Anhui, PRC	Service industry	RMB122,381,990	16.34	-	Equity method
Ouyeel Factoring (Note 2)	Shanghai, PRC	Shanghai, PRC	Service industry	RMB1,000,000,000	16.14	-	Equity method
Ouyeel Blockchain Finance (Note 3)	Anhui, PRC	Anhui, PRC	Trading	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 4)	Anhui, PRC	Anhui, PRC	Information technology service industry	RMB361,093,720	-	18.19	Equity method
OBEI (Note 5)	Shanghai, PRC	Shanghai, PRC	Trading	RMB4,000,000,000	11	-	Equity method

Note 1: As of 30 June 2021, the Group held 16.34% equity interests of Xinchuang Energy Saving. The directors believed that the Company was able to exercise significant influence over Xinchuang Energy Saving through one director and one supervisor designated by the Company in Xinchuang Energy Saving, although the equity interests in it was less than 20%. Thus, the equity investment in Xinchuang Energy Saving was accounted for as an associate.

Note 2: As of 30 June 2021, the Group held 16.14% equity interests of Ouyeel Factoring. The directors believed that the Company was able to exercise significant influence over Ouyeel Factoring through one director designated by the Company in Ouyeel Factoring, although the equity interest in it was less than 20%. Thus, the equity investment in Ouyeel Factoring was accounted for as an associate.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Interests in joint ventures and associates (Continued)

Note 3: As of 30 June 2021, 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 4: As of 30 June 2021, the Group held 18.19% equity interests in Phima Intelligence Technology Co., Ltd. ("Phima Intelligence") through the subsidiary Ma Steel Hefei Iron and Steel Co., Ltd. ("Ma Steel (Hefei)"). Ma Steel (Hefei) 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 held by Ma Steel (Hefei) is under 20%. Thus, the Group accounts for the investment in Phima Intelligence as an associate.

Note 5: As of 30 June 2021, 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.

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

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Interests in joint ventures and associates (Continued)

	30 June 2021 or for the six months ended 30 June 2021 Unaudited	31 December 2020 or for the six months ended 30 June 2020 Unaudited
Current assets	578,886,356	542,221,622
Non-current assets	106,094,511	134,380,064
Total assets	684,980,867	676,601,686
Current liabilities	69,478,826	79,630,819
Non-current liabilities	–	–
Total liabilities	69,478,826	79,630,819
Equity attributable to owners of the parent	615,502,041	596,970,867
The Group's share of net assets	307,751,021	298,485,434
Adjustment	–	–
The carrying value of the investment	307,751,021	298,485,434
Revenue	321,911,113	302,908,474
Income tax expenses	35,601,844	35,469,166
Net profit	102,925,584	101,416,787
Other comprehensive income	–	–
Total comprehensive income	102,925,584	101,416,787
Dividends received	42,500,000	27,000,000

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

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)

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:

JinMa Energy	30 June 2021 or for the six months ended 30 June 2021 Unaudited	31 December 2020 or for the six months ended 30 June 2020 Unaudited
Current assets	3,408,031,000	3,466,688,858
Non-current assets	3,674,001,000	2,834,569,781
Total assets	7,082,032,000	6,301,258,639
Current liabilities	2,251,834,000	1,836,790,076
Non-current liabilities	550,749,000	507,753,477
Total liabilities	2,802,583,000	2,344,543,553
Non-controlling interests	1,150,203,000	1,084,036,413
Equity attributable to owners of the parent	3,129,246,000	2,872,678,673
The Group's share of net assets	851,140,907	772,463,295
Adjustment	-	-
The carrying value of the investment	851,140,907	772,463,295
Revenue	3,035,392,000	3,372,591,000
Income tax expense	121,171,000	87,386,000
Net profit	342,231,000	241,479,000
Total comprehensive income	342,937,000	243,148,000
Dividends received	28,800,000	43,200,000

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)

Shenglong Chemical	30 June 2021 or for the six months ended 30 June 2021 Unaudited	31 December 2020 or for the six months ended 30 June 2020 Unaudited
Current assets	2,465,699,800	2,207,517,672
Non-current assets	1,794,580,049	1,551,752,727
Total assets	4,260,279,849	3,759,270,399
Current liabilities	1,160,804,038	872,452,512
Non-current liabilities	39,071,122	39,071,122
Total liabilities	1,199,875,160	911,523,634
Non-controlling interests	–	–
Equity attributable to owners of the parent	3,060,404,689	2,847,746,765
The Group's share of net assets	979,023,460	910,994,190
Adjustment	–	–
The carrying value of the investment	979,023,460	910,994,190
Revenue	1,753,434,069	2,219,194,612
Income tax expense	98,687,864	16,939,063
Net profit	327,422,073	86,831,275
Total comprehensive income	327,422,073	86,831,275
Dividends received	38,388,000	–

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)

Magang Chemicals & Energy	30 June 2021 or for the six months ended 30 June 2021 Unaudited	31 December 2020 or for the six months ended 30 June 2020 Unaudited
Current assets	773,255,868	730,435,276
Non-current assets	1,330,651,597	1,118,747,341
Total assets	2,103,907,465	1,849,182,617
Current liabilities	185,336,032	92,618,001
Non-current liabilities	38,130,976	8,692,220
Total liabilities	223,467,008	101,310,221
Non-controlling interests	269,000,000	268,999,992
Equity attributable to owners of the parent	1,611,440,457	1,478,872,404
The Group's share of net assets	725,148,206	665,492,582
Adjustment	(632,763)	(632,763)
The carrying value of the investment	724,515,443	664,859,819
Revenue	1,163,537,644	1,080,933,907
Income tax expense	37,682,841	5,331,541
Net profit	126,488,054	16,806,064
Total comprehensive income	126,488,054	16,806,064
Dividends received	-	-

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Interests in joint ventures and associates (Continued)

Ouyeel Blockchain Finance	30 June 2021 or for the six months ended 30 June 2021 Unaudited	31 December 2020 or for the six months ended 30 June 2020 Unaudited
Current assets	13,948,285,543	8,110,500,640
Non-current assets	1,042,102,404	652,996,063
Total assets	14,990,387,947	8,763,496,703
Current liabilities	11,004,990,121	6,083,575,678
Non-current liabilities	871,581,469	176,439,952
Total liabilities	11,876,571,590	6,260,015,630
Non-controlling interests	1,174,746,809	814,534,448
Equity attributable to owners of the parent	1,939,069,548	1,688,946,625
The Group's share of net assets	355,043,634	309,246,127
Adjustment	6,275,766	6,275,766
The carrying value of the investment	361,319,400	315,521,893
Revenue	46,571,016,879	10,043,449,649
Income tax expense	109,667,874	43,087,784
Net profit	308,420,145	9,769,071
Total comprehensive income	308,420,145	9,769,071
Dividends received	–	10,637,500

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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:

	30 June 2021 Unaudited	31 December 2020 Unaudited
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Joint ventures		
The carrying value of the Group's investments	-	-

	For the six months ended June	
	2021 Unaudited	2020 Unaudited

Total shown as below (calculated according to the respective equity holding percentage)		
Net profit	-	-
Other comprehensive income	-	-
Total comprehensive income	-	-

	30 June 2021 Unaudited	31 December 2020 Unaudited
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Associates		
The carrying value of the Group's investments	993,315,268	731,847,832

	For the six months ended June	
	2021 Unaudited	2020 Unaudited

Total shown as below (calculated according to the respective equity holding percentage)		
Net profit	21,338,560	16,713,032
Other comprehensive income	-	-
Total comprehensive income	21,338,560	16,713,032

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS

1. Classification of financial instruments

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

30 June 2021 (Unaudited)

Financial assets

	Financial assets at fair value			Financial assets at fair value		Total
	through profit or loss		Financial assets measured at amortised cost	through other comprehensive income		
	According to standard	Designated		According to standard	Designated	
Cash and bank balances	-	-	7,362,106,504	-	-	7,362,106,504
Financial assets held for trading	4,602,807,676	-	-	-	-	4,602,807,676
Trade receivables	-	-	1,260,377,317	-	-	1,260,377,317
Financing receivables	-	-	-	8,609,643,488	-	8,609,643,488
Other receivables	-	-	268,968,827	-	-	268,968,827
Loans and advances to customers	-	-	5,254,576,220	-	-	5,254,576,220
Debt instrument investments	-	-	5,633,243,035	-	-	5,633,243,035
Other debt instrument investments	-	-	-	104,202,399	-	104,202,399
Other equity instrument investments	-	-	-	-	421,698,174	421,698,174
	4,602,807,676	-	19,779,271,903	8,713,845,887	421,698,174	33,517,623,640

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

1. Classification of financial instruments (Continued)

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

30 June 2021 (Unaudited) (Continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortised cost	Total
	According to standard	Designated		
Deposits and balances from banks and other financial institutions	–	–	9,553,338,251	9,553,338,251
Repurchase agreements	–	–	555,263,406	555,263,406
Short-term loans	–	–	11,515,102,110	11,515,102,110
Financial liabilities held for trading	28,554,392	–	–	28,554,392
Notes payable	–	–	3,996,531,173	3,996,531,173
Trade payables	–	–	9,178,536,613	9,178,536,613
Other payables	–	–	5,605,085,747	5,605,085,747
Non-current liabilities due within one year	–	–	2,961,828,197	2,961,828,197
Long-term loans	–	–	3,444,301,912	3,444,301,912
Lease liabilities	–	–	359,674,399	359,674,399
	28,554,392	–	47,169,661,808	47,198,216,200

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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 (Audited)

Financial assets

	Financial assets at fair value through profit or loss		Financial assets measured at amortised cost	Financial assets at fair value through other comprehensive income		Total
	According to standard	Designated		According to standard	Designated	
	Cash and bank balances	-		-	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 six months ended 30 June 2021

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 (Audited) (Continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortised cost	Total
	According to standard	Designated		
Deposits and balances from banks and other financial institutions	–	–	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 six months ended 30 June 2021

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

2. Offsetting of financial instruments

For the six months ended 30 June 2021, there were no offsetting arrangements for account receivables (2020: Nil).

3. Transfer of financial assets

Financial assets transferred but not yet fully derecognised

As of 30 June 2021, the Group endorsed (but not yet fully derecognised) bank acceptance notes to its suppliers with a carrying amount of RMB121,826,452 for settlement of trade payables (31 December 2020: RMB49,609,600), and there were no bank acceptance notes discounted to banks (31 December 2020: RMB108,365,962). As of 30 June 2021, 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 accounts payable associated therewith. After the endorsement or discount, the Group no longer reserved the rights to use them, including the rights to sell, transfer or pledge to any other third party. As of 30 June 2021, the carrying amount of trade payables settled by the Group through them amounted to RMB121,826,452 (31 December 2020: RMB49,609,600). As of 30 June 2021, there were no short-term loans obtained from the pledge of notes receivable (31 December 2020: RMB108,365,962)

Transferred financial assets fully derecognised but with continuing involvement

As of 30 June 2021, the Group endorsed (and fully derecognised) bank acceptance notes to its suppliers with a carrying amount of RMB10,170,072,641 (31 December 2020: RMB8,039,033,075) for settlement of trade payables, and the bank acceptance notes discounted to banks which were fully derecognised amounted to RMB2,771,768,508 (31 December 2020: RMB850,788,800). As of 30 June 2021, 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 transferred substantially all their risks and rewards, the Group had derecognised them and then settled account payables associated therewith.

For the six months ended 30 June 2021, 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 current period.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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, 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 six months ended 30 June 2021

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 instrument 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% (2020: 9%) and 27% (2020: 29%) 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 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' initial recognition, 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 I, 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 II, and the Group measures the loss provision for those instruments at an amount equal to lifetime expected credit losses.
- Phase 3: Financial instruments that are evidently credit-impaired at the financial position date will be included in phase III and the Group measures the loss provision of those financial instruments at an amount equal to lifetime expected credit losses.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instrument risks (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 for 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 instrument has increased significantly:

Quantitative criteria:

- As of the financial position date, the default risk in the rest of expected lifetime has increased over 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 principal and interest) has reached a specific period.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instrument risks (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.

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 counterparty, the guarantee method, the nature of collateral and the repayment style), as well as forecast information to establish the model for default probability, default loss rate and default risk exposure.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instrument risks (Continued)

Credit risk (Continued)

Parameters of expected credit losses measurement (Continued)

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 chosen 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 occurs and is calculated based on 12-month expected credit losses or lifetime expected credit losses;
- Default risk exposure is the amount to be recovered by the Group when default 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 analysing 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 result of 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.

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.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instrument risks (Continued)

Credit risk (Continued)

Parameters of expected credit losses measurement (Continued)

The carrying amount of financial assets by the credit risk level is disclosed as follows:

30 June 2021 (Unaudited)

	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 and advances to customers				
– Loans	2,760,534,468	–	90,040,540	–
Loans and advances to customers				
– Discounted notes	2,545,660,181	–	–	–
Other current assets				
– Debt instrument investments	5,633,243,035	–	–	–
	10,939,437,684	–	90,040,540	–

31 December 2020 (Audited)

	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 and advances to customers				
– Loans	2,864,838,087	–	29,100,263	–
Loans and advances to customers				
– Discounted notes	1,742,128,089	–	–	–
Financial assets purchased under agreements to resell	1,346,725,440	–	–	–
Other current assets				
– Debt instrument investments	3,263,926,755	–	–	–
	9,217,618,371	–	29,100,263	–

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instrument risks (Continued)

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 30 June 2021, 92% of the Group's debts were due within 1 year (31 December 2020: 90%).

A liquidity analysis of the undiscounted contractual cash flows of the financial liabilities is as shown in the table belows.

30 June 2021 (Unaudited)

	Within 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total
Customer deposits	9,553,338,251	-	-	-	-	9,553,338,251
Repurchase agreements	555,263,406	-	-	-	-	555,263,406
Short-term loans	11,515,102,110	-	-	-	-	11,515,102,110
Financial liabilities held for trading	28,554,392	-	-	-	-	28,554,392
Notes payable	3,996,531,173	-	-	-	-	3,996,531,173
Trade payables	9,178,536,613	-	-	-	-	9,178,536,613
Other payables	5,605,085,747	-	-	-	-	5,605,085,747
Non-current liabilities due within one year	2,961,828,197	-	-	-	-	2,961,828,197
Long-term loans	322,440,176	136,306,189	3,409,426,706	38,969,700	129,617	3,907,272,388
Lease liabilities	18,847,317	33,522,200	33,522,200	67,044,400	411,970,214	564,906,331
Total	43,735,527,382	169,828,389	3,442,948,906	106,014,100	412,099,831	47,866,418,608

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instrument risks (Continued)

Liquidity risk (Continued)

31 December 2020 (Audited)

	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

Market risk

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instrument risks (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
For the six months ended 30 June 2021 (Unaudited)		
RMB	50	(11,555,882)
USD	50	(524,007)
RMB	(50)	11,555,882
USD	(50)	524,007
For the six months ended 30 June 2020 (Unaudited)		
RMB	50	(8,783,515)
USD	50	(232,832)
RMB	(50)	8,783,515
USD	(50)	232,832

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 is principally located in the PRC. While most of the transactions are conducted in Renminbi, certain of its sales, purchases and borrowings are denominated in United States dollars, Euros and Australian dollars. Fluctuations of the exchange rates of Renminbi against these foreign currencies can affect the Group's results of operations.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instrument risks (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, trade receivables, other receivables, short term loans, trade payables and other payables are stated in Note V.64 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, net of tax	Increase/ (decrease) in equity
30 June 2021 (Unaudited)				
Depreciation of RMB to USD	1%	(21,072,435)	60,960	(21,011,475)
Depreciation of RMB to EUR	1%	1,250,166	3,802,409	5,052,575
Depreciation of RMB to AUD	1%	–	1,617,393	1,617,393
Depreciation of RMB to HKD	1%	493,272	4,083,079	4,576,351
Appreciation of RMB to USD	(1%)	21,072,435	(60,960)	21,011,475
Appreciation of RMB to EUR	(1%)	(1,250,166)	(3,802,409)	(5,052,575)
Appreciation of RMB to AUD	(1%)	–	(1,617,393)	(1,617,393)
Appreciation of RMB to HKD	(1%)	(493,272)	(4,083,079)	(4,576,351)

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instrument risks (Continued)

Market risk (Continued)

Exchange rate risk (Continued)

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in net profit	Increase/ (decrease) in other comprehensive income, net of tax	Increase/ (decrease) in equity
30 June 2020 (Unaudited)				
Depreciation of RMB to USD	1%	(13,554,742)	54,107	(13,500,635)
Depreciation of RMB to EUR	1%	206,938	3,321,886	3,528,824
Depreciation of RMB to AUD	1%	–	2,818,722	2,818,722
Depreciation of RMB to HKD	1%	101	4,691,832	4,691,933
Appreciation of RMB to USD	(1%)	13,554,742	(54,107)	13,500,635
Appreciation of RMB to EUR	(1%)	(206,938)	(3,321,886)	(3,528,824)
Appreciation of RMB to AUD	(1%)	–	(2,818,722)	(2,818,722)
Appreciation of RMB to HKD	(1%)	(101)	(4,691,832)	(4,691,933)

5. Capital management

The main objective 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 six months ended 30 June 2021, capital management objectives, policies or procedures of the Group did not change.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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 and bank balances. Capital refers to total capital attributable to owners of the parent. The Group's gearing ratio at the end of the reporting period was as follows:

	30 June 2021 Unaudited	31 December 2020 Audited
Customer deposits	9,553,338,251	6,620,132,197
Repurchase agreements	555,263,406	198,480,944
Short-term loans	11,515,102,110	12,584,935,187
Financial liabilities held for trading	28,554,392	95,968,940
Notes payable	3,996,531,173	3,297,446,207
Trade payables	9,178,536,613	7,612,476,174
Payroll and employee benefits payable	527,139,397	549,348,136
Other payables	5,610,915,235	4,123,490,248
Other current liabilities	726,667,506	569,023,723
Non-current liabilities due within one year	2,961,828,197	2,572,092,845
Long-term loans	3,444,301,912	3,536,364,338
Lease liabilities	359,674,399	394,983,673
Long-term employee benefits payable	71,146,548	79,496,046
Less: Cash and bank balances	7,362,106,504	5,346,108,774
Net liabilities	41,166,892,635	36,888,129,884
Capital attributable to owners of the parent	32,064,229,646	28,386,124,992
Capital and net liabilities	73,231,122,281	65,274,254,876
Gearing ratio	56%	57%

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

IX. DISCLOSURE OF FAIR VALUE

1. Financial assets and liabilities measured at fair value

30 June 2021 (Unaudited)

	Inputs used for fair value measurement			Total
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	
Financial assets				
Recurring fair value measurement for				
Financial assets held for trading	2,581,140	–	4,600,226,536	4,602,807,676
Financing receivables	–	8,609,643,488	–	8,609,643,488
Other debt instrument investments	104,202,399	–	–	104,202,399
Other equity instrument Investments	–	331,351,137	90,347,037	421,698,174
	106,783,539	8,940,994,625	4,690,573,573	13,738,351,737
Financial liabilities				
Recurring fair value measurement for financial liabilities held for trading	28,554,392	–	–	28,554,392

31 December 2020 (Audited)

	Inputs used for fair value measurement			Total
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	
Financial assets				
Recurring fair value measurement for				
Financial assets held for trading	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 six months ended 30 June 2021

Renminbi Yuan

IX. DISCLOSURE OF FAIR VALUE (CONTINUED)

1. Financial assets and liabilities measured at fair value (Continued)

The Group's level 1 fair value measurement items mainly include funds, forward foreign exchange contracts and futures contracts. The fair value of the funds was determined by the net value reported by the fund manager plus the fund shares that the Group held on the last trading day of June 2021. The fair value of forward foreign exchange contracts was determined by the forward foreign exchange rate on the last trading day of June 2021. 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 date in the first half year of 2021.

The Group's level 2 fair value measurement items mainly include unlisted equity investment and debt investments. The fair value of the unlisted equity investment was determined by the comparable company multiplier method based on the financial statement information of these unlisted companies as of 30 June 2021 and the information of the comparable listed companies in the same industry. Financing receivables measured at fair value through other comprehensive income were discounted by the market interest rate.

The Group's level 3 fair value measurement items mainly include financial products, trust products and unlisted equity 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 30 June 2021.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

IX. DISCLOSURE OF FAIR VALUE (CONTINUED)

2. Financial assets and liabilities disclosed at fair value

30 June 2021 (Unaudited)

	Inputs used for fair value measurement			Total
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	
Financial liabilities				
Long-term loans		– 3,606,742,098	– 3,606,742,098	
Lease liabilities		– 359,674,399	– 359,674,399	
		– 3,966,416,497	– 3,966,416,497	

31 December 2020 (Audited)

	Inputs used for fair value measurement			Total
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	
Financial liabilities				
Long-term loans		– 3,671,337,168	– 3,671,337,168	
Lease liabilities		– 394,983,673	– 394,983,673	
		– 4,066,320,841	– 4,066,320,841	

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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	
	30 June 2021	31 December 2020	30 June 2021	31 December 2020
	Unaudited	Audited	Unaudited	Audited
Financial liabilities				
Long-term loans	3,444,301,912	3,536,364,338	3,606,742,098	3,671,337,168

Management had assessed the fair value of cash and bank balances, trade receivables, other receivables, debt instrument 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 above-mentioned 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 30 June 2021, the default risk for the long-term loans was evaluated as not significant.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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	6,666,280,395	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.

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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X. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Other related parties (Continued)

Name	Relationship with the Company
Magang (Group) Holding Company Limited Qiangyang Cloud Mine	Controlled by the Holding
Anhui Masteel Zhang Zhuang Mining Co., Ltd.	Controlled by the Holding
Anhui Masteel Luo He Mining Co., Ltd.	Controlled by the Holding
Magang Group Biding and Consulting Co., Ltd.	Controlled by the Holding
Baowu Heavy Industry Co., Ltd. (Note)	Controlled by the Holding
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
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 Energy Saving	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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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X. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Other related parties (Continued)

Name	Relationship with the Company
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
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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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X. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Other related parties (Continued)

Name	Relationship with the Company
Ouyeel (Jingjiang) Blockchain Finance and Metal Recycling Resources Co., Ltd.	Controlled by the Holding
LiaoNing Jiheyuan Renewable Resources Co., Ltd.	Controlled by the Holding
Ouyeel (Pingxiang) Blockchain Finance and Metal Recycling Resources Co., Ltd.	Controlled by the Holding
Anhui Masteel Mining Resources Group Taochong Mining Co., Ltd.	Controlled by the Holding
Masteel (Group) Holding Co., Ltd.	Controlled by the Holding
Anhui Maanshan Iron & Steel Mining Resources Group Building Materials Technology Co., Ltd.	Controlled by the Holding
Anhui Maanshan Iron & Steel Mining Resources Group Material Technology Co., Ltd.	Controlled by the Holding
Anhui Maanshan Iron & Steel Mining Resources Group Nanshan Mining Co., Ltd.	Controlled by the Holding
Anhui Maanshan Iron & Steel Mining Resources Group Gushan Mining Co., Ltd.	Controlled by the Holding
Anhui Maanshan Iron & Steel Mining Resources Group Mining Technology Service Co., Ltd.	Controlled by the Holding
Dalian Changxing Environmental Service Co., Ltd.	Controlled by the Holding
Anhui Maanshan Iron & Steel Automobile Transportation Service Co., Ltd. Hongqi South Road Gas Station	Controlled by the Holding
Anhui Masteel Chemical Energy Technology Co., Ltd.	Controlled by the Holding
Anhui Masteel K.Wah New Building Materials Co., Ltd.	Controlled by the Holding
Ouyeel Blockchain Finance and Metal Recycling Resource Co., Ltd.	Controlled by the Holding
Shanghai MA Steel International Trade Company Limited	Controlled by the Holding
Hubei Lvbang Renewable Resources Co., Ltd.	Controlled by the Holding
Ouyeel Blockchain Finance (Hubei) and Metal Recycling Resource	Controlled by the Holding
Shanxi Ruisaige Waste Resources Comprehensive Utilization Co., Ltd.	Controlled by the Holding
Ouyeel Blockchain Finance (Fuyang) and Metal Recycling Resource	Controlled by the Holding
Ouyeel Blockchain Finance (Shaoguan) and Metal Recycling Resource	Controlled by the Holding

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

X. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Other related parties (Continued)

Name	Relationship with the Company
Shanghai Chanan Renewable Resources Co., Ltd.	Controlled by the Holding
Ningbo Chanan Renewable Resources Co., Ltd.	Controlled by the Holding
Dangtu Majia New Building Materials Co., Ltd.	Controlled by the Holding
Anhui Keda Intelligent Energy Technology Co., Ltd.	Controlled by the Holding
Anhui Maanshan Iron & Steel Metallurgical Industry Technical Service 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
Maanshan China-Japan Resource Regeneration Technology Co., Ltd.	Associate of the Holding
Maanshan Iron Construction Group Co., Ltd.	Associate of the Holding
Anhui Nanda Masteel Environment Technology Co., Ltd.	Associate of the Holding
Maanshan Zhongye Huaxin Water Environment Control Co., Ltd.	Associate of the Holding
Suzhou Suma Industry Development Co., Ltd.	Associate of the Holding
Anhui Keda Smart Energy Technology Co., Ltd.	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	Associate of the Holding
Maanshan BOC-Ma Steel Gases Co., Ltd.	Joint venture of the Holding
Henan JinMa Energy Co., Ltd.	Associate of the Holding
Shenglong Chemical Co., Ltd.	Associate of the Holding
CRM East China Co., Ltd.	Associate of the Holding
Maanshan Quanyong Jinchí Bathing Co., Ltd.	Associate of the Holding
China Baowu Steel Group Co., Ltd.	Ultimate controlling party
Baoshan Iron & Steel Co., Ltd.	Controlled by the ultimate controlling party

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

X. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Other related parties (Continued)

Name	Relationship with the Company
Shanghai Baosteel Trading Co., Ltd.	Controlled by the ultimate controlling party
Shenyang Baosteel Northeast Trading Co., Ltd.	Controlled by the ultimate controlling party
Wuhan Iron and 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
Shanghai Baosteel Engineering & 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
Shanghai Baosight Software Co., Ltd.	Controlled by the ultimate controlling party
Nanjing Meibao New Building Material 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
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
Baosteel Resources Co., Ltd.	Controlled by the ultimate controlling party

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

X. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Other related parties (Continued)

Name	Relationship with the Company
Baowu Raw Material Supply Co., Ltd.	Controlled by the ultimate controlling party
Shanxi Taigang Stainless Steel Co., Ltd.	Controlled by the ultimate controlling party
Baowu Water Technology Co., Ltd.	Controlled by the ultimate controlling party
Guangzhou Baosteel South Trade Co., Ltd.	Controlled by the ultimate controlling party
Huabao Duding (Shanghai) Financial Leasing Co., Ltd.	Controlled by the ultimate controlling party
Ouyeel Commercial Factoring Co., Ltd.	Controlled by the ultimate controlling party
Baosteel Construction Co., Ltd.	Controlled by the ultimate controlling party
Baowu Huanke Nanjing Resources Utilization Co., Ltd.	Controlled by the ultimate controlling party
OBEI	Controlled by the ultimate controlling party
Shanghai Baosteel Steel Trading Co., Ltd.	Controlled by the ultimate controlling party
Baosteel Metals Co., Ltd.	Controlled by the ultimate controlling party
Wuhu Weissco Material Technology 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
Taicang 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
Wisco Xingda Economic Development Co., Ltd.	Associate of the ultimate controlling party

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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 (20) disclosed below, except for the transactions under items (15) to (18), 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	For the six months ended 30 June	
		2021 Unaudited	2020 Unaudited
Baosteel Resources Co.,Ltd.	(ii)	2,223,287,498	–
Anhui Masteel Mining Resources Group Co., Ltd.	(i)	2,574,601,541	–
Baowu Raw Material Supply Co., Ltd.	(ii)	1,677,947,389	–
Baosteel Resources Holdings (Shanghai) Co., Ltd.	(ii)	609,919,225	170,836,104
Anhui Masteel Zhang Zhuang Mining Co., Ltd.	(i)	124,164,949	–
The Holding	(i)	9,155,966	2,021,156,694
Anhui Wanbao Mining Limited Co., Ltd.	(i)	1,481,623	–
		7,220,558,191	2,191,992,798

(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 Plats 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)

For the six months ended 30 June 2021

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	For the six months ended 30 June	
		2021 Unaudited	2020 Unaudited
Magang (Group) Logistics Co., Ltd.	(iii)	629,477,927	41,819,705
Ruitai Masteel New Material Technology Co., Ltd.	(iii)	582,308,836	557,035,099
Anhui Masteel Equipment Maintenance Co., Ltd.	(iii)	281,651,593	220,794,798
Xinchuang Energy Saving Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	222,562,206	257,188,764
Shanxi Taigang Stainless Steel Co., Ltd.	(iii)	198,752,574	156,980,516
Anhui Maanshan Iron & Steel Metallurgical Industry Technical Service Co., Ltd.	(iii)	170,712,803	–
Masteel Automobile Transportation Service Co., Ltd.	(iii)	169,666,163	–
Shanghai Baosight Software Co., Ltd.	(iii)	152,074,719	215,594,376
Anhui Zhonglian Shipping Co., Ltd.	(iii)	104,508,904	230,375
Phima Intelligence	(iii)	98,499,792	73,366,071
Baowu Water Technology Co., Ltd.	(iii)	97,090,348	145,612,390
Masteel Transportation Equipment Manufacturing Co., Ltd.	(iii)	71,366,835	–
Baowu Heavy Industry Co., Ltd.	(iii)	54,879,943	55,439,097
Baowu Equipment Intelligent Technology Co., Ltd.	(iii)	54,066,735	75,039,992
Maanshan Xinchuangbaineng Energy Technology Co., Ltd.	(iii)	46,769,197	1,698,826
Ma Steel Gongchang United Roller Co., Ltd.	(iii)	20,124,569	23,515,724
Baoshan Iron & Steel Co., Ltd.	(iii)	19,176,789	19,028,919
Ma Steel International Trade and Economic Co., Ltd.	(iii)	17,187,009	–
Anhui Maanshan Iron & Steel Surface Technology Co., Ltd.	(iii)	5,963,028	593,014
The Holding	(iii)	4,600,432	6,028,741
Others	(iii)	1,388,370	1,574,457
		139,795,896	85,495,016
		3,142,624,668	1,937,035,880

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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 (Continued)**

- (iii) The terms for the provision of certain services, including on-the-job training, catering 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.

(3) Agency fees paid to related parties

	Note	For the six months ended 30 June	
		2021 Unaudited	2020 Unaudited
Ma Steel International Trade and Economic Co., Ltd.	(iv)	11,359,314	9,773,930
Ouyeel Blockchain Finance	(iv)	–	7,605,438
		11,359,314	17,379,368

- (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	For the six months ended 30 June	
		2021 Unaudited	2020 Unaudited
The Holding	(v)	15,965,774	19,052,965

- (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 six months ended 30 June 2021

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	For the six months ended 30 June	
		2021	2020
		Unaudited	Unaudited
Baowu Heavy Industry Co., Ltd.	(iv)	174,623,933	852,259,954
Anhui Masteel Surface Technology Co., Ltd.	(iv)	119,420,432	101,167,668
Xinchuang Energy Saving	(iv)	96,461,857	52,031,050
Masteel Group Design and Research Institute Co., Ltd.	(iv)	82,201,590	7,212,665
Phima Intelligence	(iv)	53,237,742	2,161,388
Maanshan Iron Construction Group Co., Ltd.	(iv)	40,015,420	25,377,126
Shanghai Baosteel Engineering & Technology Co., Ltd.	(iv)	26,693,906	35,160,061
Maanshan Jiahua Commodity Concrete Co., Ltd.	(iv)	23,354,185	20,666,786
Anhui Masteel Equipment Maintenance Co., Ltd.	(iv)	5,478,963	24,364,204
Masteel Automobile Transportation Service Co., Ltd.	(iv)	94,796	15,584,280
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iv)	–	25,754,280
Baoshan Iron & Steel Co., Ltd.	(iv)	–	12,922,164
Others	(iv)	29,994,306	16,357,601
		651,577,130	1,191,019,227

(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.

(6) Purchases of products from related parties

	Note	For the six months ended 30 June	
		2021	2020
		Unaudited	Unaudited
Ouyeel Blockchain Finance	(vi)	6,598,404,947	1,783,222,151
Magang Chemicals & Energy	(vi)	633,820,537	639,900,383
OBEI	(vi)	61,399,912	–
		7,293,625,396	2,423,122,534

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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 (Continued)

- (vi) The transactions with the abovementioned related parties included: purchase of scrap steel, waster 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.

(7) Supply of utilities, services and other goods

	Note	For the six months ended 30 June	
		2021 Unaudited	2020 Unaudited
Ma Steel Powder Metallurgy Co., Ltd.	(iv)	116,272,911	52,354,881
Xinchuang Energy Saving	(iv)	54,786,181	33,590,525
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iv)	27,013,324	8,045,957
Shanghai Baosteel Magnetic Industry Co., Ltd.	(iv)	19,401,445	–
Anhui Maanshan Iron & Steel Metallurgical Industry Technical Service Co., Ltd.	(iv)	15,883,529	–
Maanshan Xinchuangbaineng Energy Technology Co., Ltd.	(iv)	7,857,053	–
The Holding	(iv)	7,636,765	56,857
Ruitai Masteel New Material Technology Co., Ltd.	(iv)	6,204,548	490,311
Anhui Masteel Surface Technology Co., Ltd.	(iv)	2,843,490	2,260,456
Phima Intelligence	(iv)	2,616,213	2,800,444
Baowu Heavy Industry Co., Ltd.	(iv)	2,311,574	1,800,493
Maanshan Jia Hua Commodity Concrete Co., Ltd.	(iv)	1,443,439	5,349,868
Masteel Transportation Equipment Manufacturing Co., Ltd.	(iv)	1,033,747	1,645,367
Anhui Masteel Equipment Maintenance Co., Ltd.	(iv)	882,707	2,083,723
Others	(iv)	25,682,484	30,391,837
		291,869,410	140,870,719

- (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 six months ended 30 June 2021

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) Sales of steel products

	Note	For the six months ended 30 June	
		2021 Unaudited	2020 Unaudited
Baowu Heavy Industry Co., Ltd.	(iv)	206,842,739	55,037,610
Shanghai Baosteel Trading Co., Ltd.	(iv)	91,214,254	7,410,816
Anhui BRC & Masteel Weldmesh Co., Ltd.	(iv)	20,144,081	29,526,644
Maanshan Iron Construction Group Co., Ltd.	(iv)	16,910,551	–
Shenyang Baosteel Northeast Trading Co., Ltd.	(iv)	7,759,638	3,697,952
Guangzhou Baosteel South Trade Co., Ltd.	(iv)	–	26,465,614
Maanshan Xinchuangbaineng Energy Technology Co., Ltd.	(iv)	–	9,067,543
Others	(iv)	35,203,854	3,095,864
		378,075,117	134,302,043

(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 six months ended 30 June 2021

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) Sales of goods to related parties**

	Note	For the six months ended 30 June	
		2021 Unaudited	2020 Unaudited
Magang Chemicals & Energy	(vii)	826,403,674	763,389,438
Masteel K. Wah	(vii)	419,142,798	374,904,213
Ouyeel Blockchain Finance	(vii)	6,434,690	3,444,629
Ma-Steel OCI Chemical	(vii)	–	10,759,449
OBEI	(vii)	57,792	–
		1,252,038,954	1,152,497,729

(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 based on market prices.

(10) Provision of leasing services to related parties

	Note	For the six months ended 30 June	
		2021 Unaudited	2020 Unaudited
Anhui Masteel Surface Technology Co., Ltd.	(iv)	305,922	305,922
Magang Chemicals & Energy	(iv)	–	203,965
Phima Intelligence	(iv)	82,500	82,500
		388,422	592,387

(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 price.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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	For the six months ended 30 June	
		2021 Unaudited	2020 Unaudited
The Holding	(viii)	24,315,220	35,767,546
Baowu Heavy Industry Co., Ltd.	(viii)	3,081,790	4,170,520
Anhui Masteel Zhang Zhuang Mining Co., Ltd.	(viii)	2,942,079	590,912
Magang Chemicals & Energy	(viii)	3,729,569	3,454,626
Anhui Masteel Luo He Mining Co., Ltd.	(viii)	2,495,178	780,658
Anhui Masteel Mining Resources Group Co., Ltd.	(viii)	2,361,347	2,064,742
Ouyeel Blockchain Finance	(viii)	2,099,105	1,784,830
Masteel K. Wah	(viii)	1,421,233	1,156,521
Masteel Heavy Machinery Manufacturing Co., Ltd.	(viii)	974,443	–
Xinchuang Energy Saving	(viii)	950,627	1,025,319
Masteel Group Kang Tai Land Development Co., Ltd.	(viii)	886,018	243,356
Ma Steel International Trade and Economic Co., Ltd.	(viii)	850,746	411,356
Magang (Group) Logistics Co., Ltd.	(viii)	749,771	–
Phima Intelligence	(viii)	487,541	327,967
Ruitai Masteel New Material Technology Co., Ltd.	(viii)	166,990	316,710
Magang Group Biding and Consulting Co., Ltd.	(viii)	157,334	745,962
Anhui Masteel Surface Technology Co., Ltd.	(viii)	119,465	252,506
Ma-Steel OCI Chemical	(viii)	3,538	3,780
Magang (Group) Holding Company Limited Assets Management Company	(viii)	–	682,832
Ouyeel Factoring	(viii)	–	65,906
Others	(viii)	5,956,443	6,646,181
		53,748,437	60,492,230

(viii) Masteel Finance absorbed deposits from the related parties mentioned above, and paid interest to them with the interest rates ranging from 0.42% to 2.18% for the six months ended 30 June 2021 (for the six months ended 30 June 2020: 0.42% to 2.18%).

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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	For the six months ended 30 June	
		2021 Unaudited	2020 Unaudited
Ouyeel Blockchain Finance	(ix)	33,043,999	24,916,308
The Holding	(ix)	29,697,656	38,177,825
Anhui Masteel Mining Resources Group Co., Ltd.	(ix)	10,733,930	32,715,520
Masteel Chengxing Metal Resources Co., Ltd.	(ix)	4,691,829	3,099,805
Anhui Masteel Luo He Mining Co., Ltd.	(ix)	1,399,796	1,280,431
Anhui BRC & Masteel Weldmesh Co., Ltd.	(ix)	409,847	848,039
Ma Steel Powder Metallurgy Co., Ltd.	(ix)	309,298	999,605
Baowu Heavy Industry Co., Ltd.	(ix)	44,210	2,033,494
Masteel K. Wah	(ix)	14,824	11,631
Ruitai Masteel New Material Technology Co., Ltd.	(ix)	–	1,101,509
Others	(ix)	3,774,899	6,263,969
		84,120,288	111,448,136

(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 loan. 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.

(13) Purchases of land from related parties

	Note	For the six months ended 30 June	
		2021 Unaudited	2020 Unaudited
Magang Chemicals & Energy		–	21,684,011

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

X. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Significant transactions carried out between the Group and its related parties (Continued)

(14) Equity transactions with related parties

Ouyeel Factoring and Ma-Steel Commercial Factoring, as the holding company of China Baowu Iron and Steel Group, signed an absorption merger agreement on 28 April, 2021. The agreement stipulates that Ouyeel Factoring will absorb and merge Ma-Steel Commercial Factoring, and agreed to use 30 June, 2020 as the audit and valuation base date to determine the equity structure after the merger of the two parties based on the registered valuation figures. After the merger, the Group's shareholding ratio has decreased from 25% in Ma-Steel Commercial Factoring to 16.14% in Ouyeel Factoring.

(15) Purchases of products and services from joint ventures and associates of the Company and the Subsidiaries of China Baowu

	Note	For the six months ended 30 June	
		2021 Unaudited	2020 Unaudited
Henan JinMa Energy	(x)	474,274,100	449,611,231
BOC-Ma Steel	(x)	317,496,146	338,743,776
Shenglong Chemical	(x)	31,822,013	–
MCC South Engineering Technology Co., Ltd.	(x)	80,000	–
		823,672,259	788,355,007

- (x) 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.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

X. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)**5. Significant transactions carried out between the Group and its related parties (Continued)****(16) Sales of products and provision of services to joint ventures and associates of the Company and Subsidiaries of China Baowu**

	Note	For the six months ended 30 June	
		2021 Unaudited	2020 Unaudited
BOC-Ma Steel	(xi)	129,869,183	137,256,549
Maanshan Gangchen Industrial Co., Ltd.	(xi)	520,420	–
		130,389,603	137,256,549

(xi) 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.

(17) Interest paid for financial services to the joint venture and associates of the Company and subsidiaries of China Baowu

	Note	For the six months ended 30 June	
		2021 Unaudited	2020 Unaudited
BOC-Ma Steel	(xii)	2,237,659	2,145,588
Maanshan Gangchen Industrial Co., Ltd.	(xii)	93,662	–
		2,331,321	2,145,588

(xii) 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% for the six months ended 30 June 2021 (for the six months ended 30 June 2020:0.42% to 2.18%).

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

X. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Significant transactions carried out between the Group and its related parties (Continued)

(18) *Financial service income received from joint ventures and associates of the Company and subsidiaries of China Baowu*

	Note	For the six months ended 30 June	
		2021 Unaudited	2020 Unaudited
Maanshan Gangchen Industrial Co., Ltd.	(xiii)	456,127	–

(xiii) 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.

(19) *Guarantee provided by a related party*

30 June 2021 (Unaudited)

	Note	Guarantee's name	Guarantee amount	Start date	End date	Has guarantee expired or not
The Holding	(xiv)	The Company	RMB13.2 million	2015.10	2025.10	Not yet as of the approval date of the report

31 December 2020 (Audited)

	Note	Guarantee's name	Guarantee amount	Start date	End date	Has guarantee expired or not
The Holding	(xiv)	The Company	RMB44 million	2015.10	2025.10	Not yet as of the approval date of the report

(xiv) As of 30 June 2021, the Holding has guaranteed no additional certain bank loans of the Group (2020: none) without attached conditions. The Holding has guaranteed part of bank loans without attached conditions amounting to approximately RMB13.2 million as of 30 June 2021 (31 December 2020: approximately RMB44 million).

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

X. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)**5. Significant transactions carried out between the Group and its related parties (Continued)**

(20) 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 charge should be no more than RMB0.2 billion.

As of 30 June 2021, the highest daily deposit balance was RMB9.381 billion (2020: RMB11.296 billion); the highest average daily deposit balance on a monthly basis was RMB8.730 billion (2020: RMB10.864 billion); the highest daily loan balance was RMB2.875 billion (2020: RMB2.921 billion); and the highest average daily loan balance on a monthly basis was RMB2.873 billion (2020: RMB2.895 billion).

6. Receivables due from/payables due to related parties

	30 June 2021 (Unaudited)		31 December 2020 (Audited)	
	Carrying amount	Provision	Carrying amount	Provision
Trade receivables				
The Holding and its subsidiaries				
Xinchuang Energy Saving	61,168,870	611,689	11,318,310	113,183
Anhui Maanshan Iron & Steel				
Metallurgical Industry Technical				
Service Co., Ltd.	48,312,244	483,122	-	-
Masteel Heavy Machinery				
Manufacturing Co., Ltd.	18,622,085	186,221	2,011,196	102,501
Ma Steel Powder Metallurgy Co.,				
Ltd.	11,129,811	111,298	12,203,388	122,034
Anhui Masteel Equipment				
Maintenance Co., Ltd.	595,623	5,956	755,641	7,556
Baowu Heavy Industry Co., Ltd.	-	-	367,185	3,672
Masteel Automobile Transportation				
Service Co., Ltd.	-	-	82,250	822
The Holding	33,000	330	42,772	9,538
Others entities controlled by the				
Holding	11,240,076	112,401	2,298,542	59,812
	151,101,709	1,511,017	29,079,284	419,118

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

X. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)**6. Receivables due from/payables due to related parties (Continued)**

	30 June 2021 (Unaudited)		31 December 2020 (Audited)	
	Carrying amount	Provision	Carrying amount	Provision
The ultimate controlling party and its subsidiaries				
Baosteel Construction Co., Ltd.	7,850,426	78,504	–	–
Shanghai Baosteel Trading Co., Ltd.	4,967,418	49,674	–	–
Shenyang Baosteel Northeast Trading Co., Ltd.	1,459,973	14,600	–	–
Beijing Baosteel North Trade Co., Ltd.	1,019,132	10,191	–	–
Baowu Huanke Nanjing Resources Utilization Co., Ltd.	930,617	9,306	–	–
Baowu Water Technology Co., Ltd.	–	–	1,881,062	18,811
Nanjing Meibao New Building Material Co., Ltd.	–	–	1,430,832	14,308
Baosteel Special Steel Long Products Co., Ltd.	179,020	1,790	282,848	2,828
Wuhan Iron and Steel Co., Ltd.	–	–	186,043	1,860
OBEI	65,305	653	–	–
	16,471,891	164,718	3,780,785	37,807

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

X. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)**6. Receivables due from/payables due to related parties (Continued)**

	30 June 2021 (Unaudited)		31 December 2020 (Audited)	
	Carrying amount	Provision	Carrying amount	Provision
Associates and joint ventures of the Group				
BOC-Ma Steel	–	–	22,342,488	223,425
Masteel K. Wah	–	–	8,366,504	83,665
Magang Chemicals & Energy	41,024,879	410,249	1,596,624	92,395
Ouyeel Blockchain Finance	1,900,757	19,008	1,347,676	13,477
	42,925,636	429,257	33,653,292	412,962
Other receivables				
The parent company of the Group				
Xinhuang Energy Saving	336,413	3,364	–	–
The Holding	120,000	57,600	120,000	57,600
	456,413	60,964	120,000	57,600
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)

For the six months ended 30 June 2021

Renminbi Yuan

X. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. Receivables due from/payables due to related parties (Continued)

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Dividends receivable		
Associates of the Group		
Ouyeel Blockchain Finance	29,935,553	29,935,553
Ouyeel Factoring	1,300,284	–
	31,235,837	29,935,553
Associate of the Holding and its subsidiaries		
Ma-Steel OCI Chemical	3,312,407	3,312,407
Prepayments		
The Holding and its subsidiaries		
Ma Steel International Trade and Economic Co., Ltd.	147,491,980	249,895,323
Masteel Group Design and Research Institute Co., Ltd.	21,412,371	–
Baowu Heavy Industry Co., Ltd.	9,672,216	20,142,995
Phima Intelligence	8,004,073	–
Xinchuang Energy Saving	4,730,000	–
Others entities controlled by the Holding	1,216,876	593,356
	192,527,516	270,631,674
The ultimate controlling party and its subsidiaries		
Shanxi Taigang Stainless Steel Co., Ltd.	259,517,165	–
Shanghai Baosight Software Co., Ltd.	38,348,896	–
Shanghai Baosteel Engineering & Technology Co., Ltd.	21,800,000	–
Shanghai Baosteel Trading Co., Ltd.	1,563,680	5,468,067
Baowu Raw Material Supply Co., Ltd.	–	28,746,332
Others companies controlled by the ultimate controlling party	6,194,765	1,599,643
	327,424,506	35,814,042

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

X. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. Receivables due from/payables due to related parties (Continued)

	30 June 2021 (Unaudited)		31 December 2020 (Audited)	
	Carrying amount	Provision	Carrying amount	Provision
Loans and advances to customers				
The Holding and its subsidiaries				
The Holding	1,847,148,633	48,490,320	1,699,617,104	44,452,805
Anhui Masteel Mining Resources Group Co., Ltd.	478,000,000	12,548,191	728,000,000	19,040,548
Masteel Chengxing Metal Resources Co., Ltd.	188,983,777	4,961,097	251,540,567	6,578,943
Baowu Heavy Industry Co., Ltd.	–	–	143,261,479	3,746,947
Masteel Fuyuan Metal Resources Co., Ltd.	167,714,820	4,402,756	118,105,125	3,088,992
Masteel Zhixin Resources Technology Co., Ltd.	113,200,093	2,971,666	25,512,174	667,261
Anhui Zhonglian Shipping Co., Ltd.	54,838,368	1,439,586	28,851,282	754,594
Masteel Lihua Metal Resources Co., Ltd.	38,386,002	1,007,688	38,386,002	1,003,971
Anhui Masteel Luo He Mining Co., Ltd.	20,000,000	525,029	80,000,000	2,092,368
Anhui BRC & Masteel Weldmesh Co., Ltd.	12,205,947	320,424	20,000,000	523,092
Guizhou Xinchuan Environmental Protections Co., Ltd.	8,819,400	231,522	1,967,000	51,446
Ruitai Masteel New Material Technology Co., Ltd.	–	–	104,186,658	2,724,960
Masteel Heavy Machinery Manufacturing Co., Ltd.	–	–	31,775,333	831,071
Other entities controlled by the Holding	128,465,778	3,372,413	57,894,056	1,514,195
	3,057,762,818	80,270,692	3,329,096,780	87,071,193
Associate of the Group Ouyeel Blockchain Finance	1,883,457,496	49,443,480	1,394,706,375	36,477,987
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)

For the six months ended 30 June 2021

Renminbi Yuan

X. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. Receivables due from/payables due to related parties (Continued)

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Trade payables		
The Holding and its subsidiaries		
Masteel Chengxing Metal Resources Co., Ltd.	482,556,476	299,065,260
Anhui Masteel Mining Resources Group Co., Ltd.	491,809,661	85,169,971
Anhui Masteel Surface Technology Co., Ltd.	160,835,954	21,863,011
Ruitai Masteel New Material Technology Co., Ltd.	126,577,662	163,713,382
Masteel Heavy Machinery Manufacturing Co., Ltd.	120,851,773	138,535,472
Magang (Group) Logistics Co., Ltd.	79,634,890	26,051
Phima Intelligence	77,776,005	107,205,172
Xinchuang Energy Saving	68,508,062	87,806,022
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	53,553,715	–
Masteel Lihua Metal Resources Co., Ltd.	47,599,930	21,157,322
Masteel Transportation Equipment Manufacturing Co., Ltd.	46,931,696	37,249,074
Anhui Masteel Equipment Maintenance Co., Ltd.	43,486,232	54,371,473
Masteel Automobile Transportation Service Co., Ltd.	30,462,658	25,302,935
Anhui Zhonglian Shipping Co., Ltd.	26,902,822	25,772,270
Masteel Group Design and Research Institute Co., Ltd.	6,685,355	60,618,245
Ma Steel International Trade and Economic Co., Ltd.	5,294,610	11,411,277
Baowu Heavy Industry Co., Ltd.	970,908	319,830,299
The Holding	259,663	512,848,193
Other entities controlled by the Holding	101,587,053	74,797,886
	1,972,285,125	2,046,743,315

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

X. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)**6. Receivables due from/payables due to related parties (Continued)**

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
The ultimate controlling party and its subsidiaries		
Baowu Raw Material Supply Co., Ltd.	39,020,726	–
Baosteel Resources Holdings (Shanghai) Co., Ltd.	124,785,707	91,121,540
Shanghai Baosight Software Co., Ltd.	43,192,614	28,132,244
Baowu Equipment Intelligent Technology Co., Ltd.	14,981,122	37,797,420
Baoshan Iron & Steel Co., Ltd.	13,633,745	13,633,745
Other entities controlled by the ultimate controlling party	67,330,650	38,338,008
	302,944,564	209,022,957
Joint ventures and associates of the Group		
Ouyeel Blockchain Finance	881,829,242	544,386,683
BOC-Ma Steel	56,943,094	59,343,489
Henan JinMa Energy	23,592,030	11,770,392
Shenglong Chemical	22,231,694	–
Magang Chemicals & Energy	5,825,261	22,442,070
OBEI	68,826,883	18,913,121
	1,059,248,204	656,855,755
Joint ventures and associates of the ultimate controlling party of the Group		
MCC South Engineering Technology Co., Ltd.	3,368,831	7,784,622
Taicang Wugang Wharf Co., Ltd.	1,702,166	2,075,368
Maanshan Gangchen Industrial Co., Ltd.	187,800	3,095,651
General Electric (Wuhan) Automation Co., Ltd.	–	2,728,950
Shanxi Ax Taigang Roll Co., Ltd.	–	844,928
	5,258,797	16,529,519

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

X. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)**6. Receivables due from/payables due to related parties (Continued)**

	30 June 2021	31 December 2020
	(Unaudited)	(Audited)
Other payables		
The Holding and its subsidiaries		
Masteel Automobile Transportation Service Co., Ltd.	585,000	585,000
Baowu Heavy Industry Co., Ltd.	310,000	310,000
Xinchuang Energy Saving	102,850	329,363
Anhui Masteel Equipment Maintenance Co., Ltd.	78,865	78,865
Other entities controlled by the Holding	2,030,937	2,490,321
	3,107,652	3,793,549
The ultimate controlling party and its subsidiaries		
Ouyeel Factoring	–	48,303,444
Baoshan Iron and Steel Co., Ltd.	–	8,268,000
Shanghai Baosteel Engineering & Technology Co., Ltd.	150,000	170,000
Others	51,300	50,378
	201,300	56,791,822
Joint venture of the Group		
BOC-Ma Steel	70,000	70,000

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

X. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)**6. Receivables due from/payables due to related parties (Continued)**

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Contract liabilities		
The Holding and its subsidiaries		
Ma Steel Powder Metallurgy Co., Ltd.	9,569,235	–
Baowu Heavy Industry Co., Ltd.	–	41,541,552
An Hui Masteeel Zhang Zhuang Mining Co., Ltd.	2,185,715	2,185,715
Other entities controlled by the Holding	5,071,433	6,614,738
	16,826,383	50,342,005
The ultimate controlling party and its subsidiaries		
Ouyeel Cloud Commerce Corporation Limited	146,869,768	23,811,881
Shanghai Ouyeel Material Technology Co., Ltd.	55,922,123	6,131,166
Shanghai Baosteel Magnetic Industry Co., Ltd.	5,225,188	3,148,821
Baosteel Metal Co., Ltd.	202,717	–
Baowu Equipment Intelligent Technology Co., Ltd.	428,449	–
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	344,441
Wuhu Weissco Material Technology Co., Ltd.	–	36,289
Shanghai Iron & Steel Exchange Co., Ltd.	3	5
Shanghai Baosteel Trading Co., Ltd.	–	4,391,725
	208,992,689	41,495,089

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

X. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)**6. Receivables due from/payables due to related parties (Continued)**

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Joint ventures and associates of the Group		
Shenglong Chemical	–	6,048,869
Magang Chemicals & Energy	25,274,883	–
Masteel K. Wah	17,271,568	1,408,603
CRM East China	2,775,381	–
Maanshan Iron Construction Group Co., Ltd.	891,200	3,541,164
Anhui BRC & Masteel Weldmesh Co., Ltd.	–	3,491,741
Ouyeel Blockchain Finance	–	38,504
BOC-Ma Steel	–	11
	46,213,032	14,528,892
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)

For the six months ended 30 June 2021

Renminbi Yuan

X. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)**6. Receivables due from/payables due to related parties (Continued)**

	30 June 2021	31 December 2020
	(Unaudited)	(Audited)
Customer deposits		
The Holding and its subsidiaries		
The Holding	2,540,233,506	1,716,949,668
Anhui Masteel Zhang Zhuang Mining Co., Ltd.	920,012,512	297,184,557
Anhui Masteel Luo He Mining Co., Ltd.	469,461,336	468,767,683
Baowu Heavy Industry Co., Ltd.	445,498,742	539,083,050
Magang (Group) Logistics Co., Ltd.	290,217,775	87,963,322
Ma Steel International Trade and Economic Co., Ltd.	245,176,045	182,022,772
Masteel Fuyuan Metal Resources Co., Ltd.	207,528,651	107,368,170
Xinchuang Energy Saving	167,304,583	158,289,072
Masteel Heavy Machinery Manufacturing Co., Ltd.	142,704,741	138,019,204
Anhui Masteel Mining Resources Group Co., Ltd.	849,513,261	184,250,712
Masteel Group Kang Tai Land Development Co., Ltd.	113,972,642	170,431,800
Phima Intelligence	111,060,144	71,814,476
Masteel Chengxing Metal Resources Co., Ltd.	101,088,041	177,519,082
Masteel Automobile Transportation Service Co., Ltd.	87,487,506	73,847,515
Anhui Masteel Equipment Maintenance Co., Ltd.	61,679,502	25,740,490
Anhui Maanshan Iron & Steel Metallurgical Industry Technical Service Co., Ltd.	51,530,556	138,781,859
Magang Group Biding and Consulting Co., Ltd.	–	56,666,678
Other entities controlled by the Holding	537,604,594	569,687,409
	7,342,074,137	5,164,387,519

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

X. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)**6. Receivables due from/payables due to related parties (Continued)**

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Joint ventures and associates of the Group		
Ouyeel Blockchain Finance	658,225,600	163,633,248
Magang Chemicals & Energy	559,505,329	476,343,141
BOC-Ma Steel	249,683,729	8,642
Masteel K. Wah	168,503,841	264,179,089
	1,635,918,499	904,164,120
Associate of the Holding and its subsidiaries		
Ma-Steel OCI Chemical	566,917	566,566
Joint venture of the ultimate controlling party of the Group		
Maanshan Gangchen Industrial Co., Ltd.	32,704,201	22,117,230

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 30 June 2021, in current assets and current liabilities, except for the interests charged 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

As of 30 June 2021, the Group had no investment commitment with related parties.

Notes to the Financial Statements (Continued)

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Renminbi Yuan

XI. COMMITMENTS AND CONTINGENCIES

1. Significant commitments

Capital commitments

	30 June 2021	31 December 2020
	Unaudited	Audited
Contracted, but not provided for		
Capital commitments	3,412,644,558	4,340,098,936
Investment commitments	13,969,500	261,624,096
	3,426,614,058	4,601,723,032

Loan commitments

	30 June 2021	31 December 2020
	Unaudited	Audited
Acceptance bill	568,060,641	874,657,721

Credit commitments of the Group are the payment commitments made by MaSteel Finance for its customers' acceptance bill.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

XI. COMMITMENTS AND CONTINGENCIES (CONTINUED)

2. Contingencies

Difference of corporate income tax

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

The Company was one of the nine companies mentioned above and used a 15% preferential tax rate in the previous years. 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 30 June 2021, the Group and the Company did not have significant pending litigations.

XII. EVENTS AFTER THE BALANCE SHEET DATE

Until the approval date of 2021 interim report, there is no significant event after the reporting period need to be disclosed by the Group or the Company.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

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. As of 30 June 2021, the rental income recognised by the Group was RMB2,731,558 (For 31 December 2020: RMB27,171,458). According to lease contracts, the future minimum lease receivables under non-cancellable leases are as follows:

	30 June 2021 Unaudited	31 December 2020 Audited
Remaining lease period		
Within 1 year, inclusive	2,273,050	2,813,050
1 to 2 years, inclusive	1,620,562	2,088,028
2 to 3 years, inclusive	838,028	995,562
Over 3 years	3,212,441	3,631,455
	7,944,081	9,528,095

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 and leases of low-value assets recognised for the period is as follows:

	For the six months ended 30 June	
	2021 Unaudited	2020 Unaudited
Interest expense on lease liabilities	9,398,645	10,491,230
Expenses relating to short-term leases expense accounting for applying the simplified approach	7,654,120	2,047,217
Expenses relating to leases of low-value assets accounting for applying the simplified approach (other than short-term leases)	–	819,041
Total cash flow for leases	24,588,739	21,803,620

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

2. Operating segment information

Operating segments

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

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

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

Other information

Product and service information

External principal operating income

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
Sale of steel products	51,747,958,799	34,133,876,189
Sale of steel billets and pig iron	2,177,617,139	1,217,189,948
Sale of coke by-products	80,768,722	36,036,055
Others	1,818,519,536	1,393,302,202
	55,824,864,196	36,780,404,394

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

2. Operating segment information (Continued)

Geographical information

External principal operating income

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
Mainland China	53,242,811,253	34,924,802,538
Overseas and Hong Kong	2,582,052,943	1,855,601,856
	55,824,864,196	36,780,404,394

Non-current assets

	30 June	31 December
	2021	2020
	Unaudited	Audited
Mainland China	44,222,305,937	42,348,121,435
Overseas and Hong Kong	145,638,629	232,462,146
	44,367,944,566	42,580,583,581

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

Major customer information

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

3. Other financial information*

	Group		Company	
	30 June	31 December	30 June	31 December
	2021	2020	2021	2020
	Unaudited	Audited	Unaudited	Audited
Current assets	47,801,712,878	37,536,871,175	23,565,845,994	17,976,633,760
Less: Current liabilities	51,706,131,015	43,197,228,140	35,117,893,295	31,420,897,950
Net current liabilities	(3,904,418,137)	(5,660,356,965)	(11,552,047,301)	(13,444,264,190)

	Group		Company	
	30 June	31 December	30 June	31 December
	2021	2020	2021	2020
	Unaudited	Audited	Unaudited	Audited
Total assets	92,935,115,395	80,711,141,782	67,086,931,878	59,766,515,948
Less: Current liabilities	51,706,131,015	43,197,228,140	35,117,893,295	31,420,897,950
Total assets less current liabilities	41,228,984,380	37,513,913,642	31,969,038,583	28,345,617,998

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS

1. Trade receivables

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

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

	30 June 2021 Unaudited	31 December 2020 Audited
Within one year	2,390,044,747	2,138,930,202
One to two years	382,183,900	217,441,131
Two to three years	11,368,776	10,151,630
Over three years	31,160,375	35,930,324
	2,814,757,798	2,402,453,287
Less: Provisions for bad debts	42,475,436	46,636,353
	2,772,282,362	2,355,816,934

The trade receivable balances were analysed as follows :

	30 June 2021 (Unaudited)				31 December 2020 (Audited)					
	Carrying amount		Provision for bad debts		Book value	Carrying amount		Provision for bad debts		Book value
	Amount	Ratio (%)	Amount	Ratio (%)		Amount	Ratio (%)	Amount	Ratio (%)	
Assessed for bad debt provision individually	2,355,880,329	84	-	-	2,355,880,329	1,946,530,044	81	-	-	1,946,530,044
Assessed for bad debt provision in portfolios based on credit risk characteristics	458,877,469	16	(42,475,436)	9	416,402,033	455,923,243	19	(46,636,353)	10	409,286,890
	2,814,757,798	100	(42,475,436)	2,772,282,362	2,402,453,287	100	(46,636,353)	2,355,816,934		

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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
2021	46,636,353	–	(4,160,917)	–	–	–	42,475,436
2020	39,323,552	7,312,801	–	–	–	–	46,636,353

The provision for bad debts applying other method by the Company was as follows:

	30 June 2021 (Unaudited)			31 December 2020 (Audited)		
	Carrying amount expected to default	Expected credit loss percentage (%)	Expected credit loss during lifetime	Carrying amount expected to default	Expected credit loss percentage (%)	Expected credit loss during lifetime
Trade receivables to subsidiaries	2,355,880,329	–	–	1,946,530,044	–	–

The Company's provision for bad debts of trade receivables analysed by ageing was as follows:

	30 June 2021 (unaudited)			31 December 2020 (audited)		
	Carrying amount expected to default	Expected credit loss ratio (%)	Expected credit loss	Carrying amount expected to default	Expected credit loss ratio (%)	Expected credit loss
Within one year	404,045,898	1	(4,040,459)	397,270,418	1	(3,972,704)
One to two years	12,481,940	16	(1,997,110)	12,750,391	16	(2,040,063)
Two to three years	11,368,776	48	(5,457,012)	10,151,630	48	(4,872,782)
Over three years	30,980,855	100	(30,980,855)	35,750,804	100	(35,750,804)
Total	458,877,469		(42,475,436)	455,923,243		(46,636,353)

As of 30 June 2021 and 31 December 2020, there were no trade receivables that were derecognised due to the transfer of financial assets.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS
(CONTINUED)

1. Trade receivables (Continued)

The top five trade receivables classified by debtor were as follows:

30 June 2021 (Unaudited)

	Relationship with the Company	Ending balance	Ageing	Percentage of trade receivables	Ending balance of provision
Company 1	Subsidiary	1,024,446,398	Within one year	36%	–
Company 2	Subsidiary	566,749,789	Within two years	20%	–
Company 3	Subsidiary	205,270,280	Within one year	7%	–
Company 4	Subsidiary	166,616,724	Within one year	6%	–
Company 5	Subsidiary	129,297,484	Within one year	5%	–
		2,092,380,675		74%	–

31 December 2020 (Audited)

	Relationship with the Company	Ending balance	Ageing	Percentage of trade receivables	Ending balance of provision
Company 1	Subsidiary	1,057,017,137	Within two years	44%	–
Company 2	Subsidiary	475,556,879	Within two years	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%	–

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS
(CONTINUED)

2. Other receivables

	30 June 2021 Unaudited	31 December 2020 Audited
Dividends receivable	34,548,244	33,247,960
Other receivables	216,147,208	337,784,807
	250,695,452	371,032,767

Dividends receivable

	30 June 2021 Unaudited	31 December 2020 Audited
Associate- Ouyeel Blockchain Finance	29,935,553	29,935,553
Associate- Ouyeel Factoring	1,300,284	–
Associate- Ma-Steel OCI Chemical	3,312,407	3,312,407
	34,548,244	33,247,960

Other receivables

An ageing analysis of the other receivables is as follows:

	30 June 2021 Unaudited	31 December 2020 Audited
Within one year	219,642,341	341,071,355
One to two years	3,760,849	4,584,117
Two to three years	540,000	540,000
Over three years	410,737,877	410,799,576
	634,681,067	756,995,048
Less: Provision for bad debts	418,533,859	419,210,241
	216,147,208	337,784,807

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS
(CONTINUED)

2. Other receivables (Continued)

Other receivables (Continued)

Other receivables classified by nature:

	30 June 2021	31 December 2020
	Unaudited	Audited
Due from trading companies	403,317,627	488,317,627
Guarantee for steel futures	167,295,965	120,846,925
Prepayments of custom duties and VAT	36,459,646	105,140,963
Others	27,607,829	42,689,533
	634,681,067	756,995,048
Less: Provision for bad debts	418,533,859	419,210,241
	216,147,208	337,784,807

The movements of bad debt provision based on the 12-month expected credit losses and lifetime credit losses were as follows:

30 June 2021 (Unaudited)

	Phase I	Phase II	Phase III	Total
	12-month expected credit losses	Lifetime expected credit losses	Credit-impaired financial assets (Lifetime expected credit losses)	
Opening balance	941,199	8,349,590	409,919,452	419,210,241
Changes during the period	-	-	-	-
– Shift to Phase II	-	-	-	-
– Shift to Phase III	-	-	-	-
– Back to Phase II	-	-	-	-
– Back to Phase I	-	-	-	-
Accrual	-	-	-	-
Reversal	(676,382)	-	-	(676,382)
Other changes	-	-	-	-
Closing balance	264,817	8,349,590	409,919,452	418,533,859

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

2. Other receivables (Continued)

Other receivables (Continued)

31 December 2020 (Audited)

	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 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	-	-	-	-
Other changes	-	-	-	-
Closing balance	941,199	8,349,590	409,919,452	419,210,241

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

	Balance at the beginning of the period/year	Provided	Reversal	Write-back	Write-off	Balance at the end of the period/ year
2021	419,210,241	-	(676,382)	-	-	418,533,859
2020	411,174,680	8,035,561	-	-	-	419,210,241

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS
(CONTINUED)

2. Other receivables (Continued)

Other receivables (Continued)

As of 30 June 2021, 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	21	Due from trading companies	Over 3 years	(132,058,434)
Company 2	127,685,368	20	Due from trading companies	Over 3 years	(127,685,368)
Company 3	97,381,725	15	Guarantee for steel futures	Within 1 year	-
Company 4	69,912,240	11	Guarantee for steel futures	Within 1 year	-
Company 5	60,939,960	10	Due from trading companies	Over 3 years	(60,939,960)
	487,977,727	77			(320,683,762)

As of 31 December 2020, the top five other receivables were as follows:

	Balance	Ratio to total other receivables (%)	Nature	Ageing	Balance of bad debts
Company 1	132,058,434	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 six months ended 30 June 2021

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

3. Long-term equity investments

	30 June 2021 Unaudited	31 December 2020 Audited
Long-term investments under the equity method		
Joint ventures (i)	307,751,021	298,485,434
Associates (i)	3,698,098,823	3,187,478,456
Long-term investments under the cost method		
Subsidiaries (ii)	9,306,379,687	9,036,379,687
Subtotal	13,312,229,531	12,522,343,577
Less: Provision for impairment	761,333,226	761,333,226
Total	12,550,896,305	11,761,010,351

In the opinion of the directors, there was no material restriction on the realisation of investments as of 30 June 2021.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS
(CONTINUED)

3. Long-term equity investments (Continued)

(i) Investments in joint ventures and associates

30 June 2021 (Unaudited)

	Opening balance	Changes during the period							Ending balance	Impairment at the end of the period
		Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend declared	Provision for impairment		
Joint ventures										
BOC-Ma Steel	298,485,434	-	-	51,462,792	-	302,795	(42,500,000)	-	307,751,021	-
Associates										
Henan JinMa Energy	772,463,295	-	-	106,923,909	520,764	32,939	(28,800,000)	-	851,140,907	-
Shenglong Chemical	910,994,190	-	-	104,742,321	-	1,674,949	(38,388,000)	-	979,023,460	-
Xinchuang Energy Saving	76,617,756	-	-	6,572,226	-	131,321	-	-	83,321,303	-
Ouyeel Factoring (Note)	158,306,896	-	-	(502,285)	-	1,147,250	(1,300,284)	-	157,651,577	-
Magang Chemicals & Energy	665,492,582	-	-	56,919,624	-	2,736,000	-	-	725,148,206	-
Masteel K.Wah.	101,993,153	-	-	11,797,772	-	-	(7,504,007)	-	106,286,918	-
OBEI	192,364,456	247,654,596	-	463,765	-	-	-	-	440,482,817	-
Ouyeel Blockchain Finance	309,246,128	-	-	45,797,507	-	-	-	-	355,043,635	-
	3,485,963,890	247,654,596	-	384,177,631	520,764	6,025,254	(118,492,291)	-	4,005,849,844	-

Note: Please refer to Note V.12 for details.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

3. Long-term equity investments (Continued)

(i) Investments in joint ventures and associates (Continued)

31 December 2020 (Audited)

	Opening balance	Changes during the year							Ending balance	Impairment at the end of the year
		Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash 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 Energy Saving	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	-

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS
(CONTINUED)

3. Long-term equity investments (Continued)

(ii) Investments in subsidiaries

30 June 2021 (Unaudited)

	Opening balance	Changes during the period			Ending balance	Impairment at the end of the period	Cash dividends declared
		Increase	Disposal/cancellation	Other equity movement			
Ma Steel (Wuhu)	8,225,885	-	-	-	8,225,885	-	1,400,000
Ma Steel (Cihu)	48,465,709	-	-	-	48,465,709	-	15,640,000
Ma Steel (Guangzhou)	93,058,200	-	-	-	93,058,200	-	2,108,277
Ma Steel (HK)	52,586,550	-	-	-	52,586,550	-	38,652,330
MG Trading	1,573,766	-	-	-	1,573,766	-	-
Holly Industrial	21,478,316	-	-	-	21,478,316	-	13,268,303
Ma Steel (Jinhua)	90,000,000	-	-	-	90,000,000	-	-
Ma Steel (Australia)	126,312,415	-	-	-	126,312,415	-	59,074,860
Ma Steel (Hefei)	1,775,000,000	-	-	-	1,775,000,000	-	-
Ma Steel (Hefei) Processing	85,596,489	-	-	-	85,596,489	-	10,050,000
Ma Steel (Yangzhou) Processing	116,462,300	-	-	-	116,462,300	-	-
Wuhu Technique	106,500,000	-	-	-	106,500,000	-	781,000
Chongqing Material	175,000,000	-	-	-	175,000,000	-	4,900,000
Anhui Chang Jiang Iron and Steel	1,234,444,444	-	-	-	1,234,444,444	-	250,800,000
Masteel Finance	1,843,172,609	-	-	-	1,843,172,609	-	213,185,167
Hefei Materials	140,000,000	-	-	-	140,000,000	-	7,000,000
MG-VALDUNES	435,273,759	-	-	-	435,273,759	(761,333,226)	-
Ma Steel Hangzhou Sales	10,000,000	-	-	-	10,000,000	-	6,000,000
Ma Steel Wuxi Sales	10,000,000	-	-	-	10,000,000	-	3,000,000
Ma Steel Nanjing Sales	10,000,000	-	-	-	10,000,000	-	7,000,000
Ma Steel Shanghai Sales	10,000,000	-	-	-	10,000,000	-	14,000,000
Ma Steel Rail Transportation	1,522,317,563	-	-	-	1,522,317,563	-	72,948,800
Masteel America	3,298,375	-	-	-	3,298,375	-	-
Ma Steel Antirust	3,060,000	-	-	-	3,060,000	-	-
Mascomental	127,368,631	-	-	-	127,368,631	-	-
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	-	2,194,486
Wuhan Material	159,375,000	-	-	-	159,375,000	-	-
Ma'anshan Boc-Masteel Gases Co., Ltd. (Note 1)	-	270,000,000	-	-	270,000,000	-	-
Total	8,275,046,461	270,000,000	-	-	8,545,046,461	(761,333,226)	722,003,223

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

3. Long-term equity investments (Continued)

(ii) Investments in subsidiaries (Continued)

Note 1: On 21 September, 2020, The Company approved the establishment of a wholly-owned subsidiary Ma'anshan Boc-Masteel Gases Co.,Ltd. ("Gas Company"). The Company has a registered capital of RMB270 million. As of 30 June, 2021, the Gas Company has completed the registration.

31 December 2020 (Audited)

	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	
Hefei Materials	140,000,000	-	-	-	140,000,000	-	7,000,000	
MG-VALDUNES	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	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	10,050,000	-	(10,050,000)	-	-	-	-	
Masteel America	3,298,375	-	-	-	3,298,375	-	-	
Ma Steel Antitrust	3,060,000	-	-	-	3,060,000	-	-	
Mascomental	127,368,631	-	-	-	127,368,631	-	-	
Meite Metallurgical Power	500,000	-	(500,000)	-	-	-	-	
Masteel Middle East	5,476,450	-	-	-	5,476,450	-	-	
Changchun Sales	10,000,000	-	-	-	10,000,000	-	-	
Ma Steel Hongfei	51,000,000	-	-	-	51,000,000	-	-	
Wuhan Material	85,000,000	74,375,000	-	-	159,375,000	-	-	
Total	8,225,863,474	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 six months ended 30 June 2021

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS
(CONTINUED)

4. Revenue and cost of sales

	For the six months ended 30 June 2021		For the six months ended 30 June 2020	
	Unaudited		Unaudited	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal operating income	47,754,246,972	40,651,149,104	30,441,123,264	28,659,506,544
Other operating income	980,742,280	851,086,754	573,429,695	590,017,755
	48,734,989,252	41,502,235,858	31,014,552,959	29,249,524,299

Revenue is presented as follows:

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
Revenue from contracts with customers	48,732,257,694	31,010,035,805
Rental income	2,731,558	4,517,154
	48,734,989,252	31,014,552,959

Timing of revenue recognition from contracts with customers:

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
At a point in time		
Sales of steel products	46,218,335,506	29,179,601,056
Sales of other products	2,471,415,831	1,820,021,795
Over time		
Service income	38,038,491	8,995,246
Other	4,467,866	1,417,708
	48,732,257,694	31,010,035,805

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2021

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 period:

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
Sales of products	2,928,436,894	2,413,738,426

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

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
Within one year	3,530,949,409	2,776,777,128

5. Investment income

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
Investment income from long-term investments under the equity method	384,177,631	161,374,556
Investment income from long-term investments under the cost method	722,003,223	517,391,945
Gain from dividend income from other equity instrument investments in duration	8,099,164	8,280,000
Gain from disposal of financial assets held for trading	37,584,196	1,903,660
Loss from disposal of financial liabilities held for trading	(96,586,737)	–
	1,055,277,477	688,950,161

As at the balance sheet date, there was no significant restriction imposed upon the remittance of the Company's investment income.

Supplementary Information

For the six months ended 30 June 2021

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.

	For the six months ended 30 June 2021 (Unaudited)
Items of non-recurring gains or losses	
Gain from disposal of non-current assets	31,840,228
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)	59,429,780
Employee termination compensation	(274,860,191)
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	66,969,377
Net non-operating income or expenses other than the above items	35,620
	(116,585,186)
Income tax effect	(10,189,534)
Non-controlling interests effect (net of tax)	1,725,670
Net effect of non-recurring gains or losses	(108,121,322)
Net profit attributable to owners of the parent deducting non-recurring gains or losses	
Net profit attributable to owners of the parent	4,643,787,117
Less: Net effect of non-recurring gains or losses	(108,121,322)
Net profit attributable to owners of the parent excluding non-recurring gains or losses	4,751,908,439

Supplementary Information (Continued)

For the six months ended 30 June 2021

Renminbi Yuan

2. RETURN ON NET ASSETS AND EARNINGS PER SHARE*For the six months ended 30 June 2021 (Unaudited)*

	Return on weighted average net assets (%)	Earnings per share (cents/share)	
		Basic	Diluted
Net profit attributable to owners of the parent	15.36	60.30	60.30
Net profit attributable to owners of the parent deducting non-recurring gains or losses	15.72	61.71	61.71

For the six months ended 30 June 2020 (Unaudited)

	Return on weighted average net assets (%)	Earnings per share (cents/share)	
		Basic	Diluted
Net profit attributable to owners of the parent	2.97	10.55	10.55
Net profit attributable to owners of the parent deducting non-recurring gains or losses	2.07	7.35	7.35

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.

Documents Available for Inspection

Documents Available for Inspection

The interim report statements signed and sealed by the Chairman.

Financial statements signed and sealed by the Company's legal representative, chief accountant and head of accounting department.

The original copies of all of the documents and announcements of the Company disclosed in the designated newspaper as approved by China Securities Regulatory Commission during the reporting period.

Interim report announced on the website of the Hong Kong Stock Exchange.

The Articles of Association of the Company.

Other Related Information.

Chairman: **Ding Yi**

25 August 2021



馬鞍山鋼鐵股份有限公司
Maanshan Iron & Steel Company Limited