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

**(Stock Code: 00323)**

## **2020 ANNUAL RESULTS ANNOUNCEMENT**

### **I. IMPORTANT NOTICE**

- 1.1 This annual report summary is abstracted from the full text of that of current year's annual report. To fully understand the business performance, financial position and future development plans of the Company, investors shall carefully read the full Annual Report published on media designated by China Securities Regulatory Commission such as the website of Shanghai Stock Exchange and website of The Stock Exchange of Hong Kong Limited.
- 1.2 The board of directors (the "Board"), the supervisory committee, the directors, the supervisors and senior management of the Company warrant that there are no false representations or misleading statements contained in, or material omissions from this annual report; and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this annual report.
- 1.3 All directors attended the board meeting.
- 1.4 Ernst & Young Hua Ming LLP issued a standard unqualified audit opinion on the annual financial statements of the Company.
- 1.5 Profit distribution plan or plan for the capitalization of capital reserve during the reporting period proposed by the Board.

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

## II. BASIC INFORMATION OF THE COMPANY

### 1. Company Profile

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

### 2. Introduction of the Company's Major Businesses during the Reporting Period

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

- **Plates:** Major products include thin plates and plates of moderate thickness. The thin plates are divided into hot and cold-rolled thin plates, galvanized plates and coilcoating plates.
- **Long products:** Major products include section steel and wire rod.
- **Wheels and axles:** Major products include train wheels, axles and rings.

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

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

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

*Unit: million RMB*

	<b>2020</b>	2019	Increase/ decrease compared to previous year (%)	2018
Total assets	<b>80,711.14</b>	86,322.04	-6.50	76,872.00
Revenue	<b>81,614.15</b>	78,262.85	4.28	81,951.81
Net profit attributable to owners of the parent	<b>1,982.64</b>	1,128.15	75.74	5,943.29
Net profit excluding non-recurring gains or losses attributable to owners of the parent	<b>1,485.65</b>	1,635.50	-9.16	5,092.36
Net assets attributable to owners of the parent	<b>28,386.12</b>	26,933.16	5.39	28,173.62
Net cash flows from operating activities	<b>2,770.51</b>	7,865.96	-64.78	13,870.43
Basic earnings per share (RMB/share)	<b>0.258</b>	0.147	75.51	0.772
Diluted earnings per share (RMB/share)	<b>0.258</b>	0.147	75.51	0.772
Return on net assets (weighted average)(%)	<b>7.17</b>	4.09	Increased by 3.08 percentage points	22.68

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

*Unit: million RMB*

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

## **4 Share Capital and Shareholders**

### **4.1 Numbers of Shareholders and Shareholding of the Top Ten Shareholders**

*Unit: Share*

Numbers of Shareholder as end of the reporting period ( <i>unit</i> )	193,278
Numbers of Shareholder as end of last month prior to the report date ( <i>unit</i> )	188,521

## Shareholding of the top ten shareholders

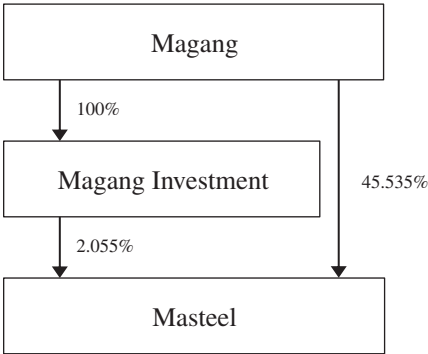
Name of Shareholder (Full Name)	Increase/ Decrease within the Reporting Period	No. of Shares at the End of Period	Percentage (%)	No. of Shares under Restricted Condition for Sales	Pledged or Frozen Situations		
					Share Status	Number	Shareholder Nature
Magang (Group) Holding Co., Limited	–	3,506,467,456	45.535	–	None	–	State-owned shareholder
Hong Kong Securities Clearing Company (Nominees) Limited <i>(Note)</i>	894,738,458	1,717,091,050	22.298	–	Unknown	Unknown	Unknown
Magang Group Investment Ltd.	158,282,159	158,282,159	2.055	–	None	None	State-owned shareholder
Central Huijin Investment Ltd.	–	142,155,000	1.846	–	Unknown	Unknown	State-owned shareholder
Hong Kong Securities Clearing Company Ltd.	-9,376,808	105,849,129	1.375	–	Unknown	Unknown	Unknown
China Merchants Bank Ltd. – SSE Dividend Index ETF	49,641,791	79,163,604	1.028	–	Unknown	Unknown	Unknown
Zhang Wu	Unknown	24,800,000	0.322	–	Unknown	Unknown	Unknown
Li Xiaozhong	Unknown	16,679,455	0.217	–	Unknown	Unknown	Unknown
Chen Xiaomin	Unknown	13,974,135	0.181	–	Unknown	Unknown	Unknown
Shao Jianjun	Unknown	11,366,576	0.148	–	Unknown	Unknown	Unknown

Notes on the above shareholders' affiliated relation or concerted action

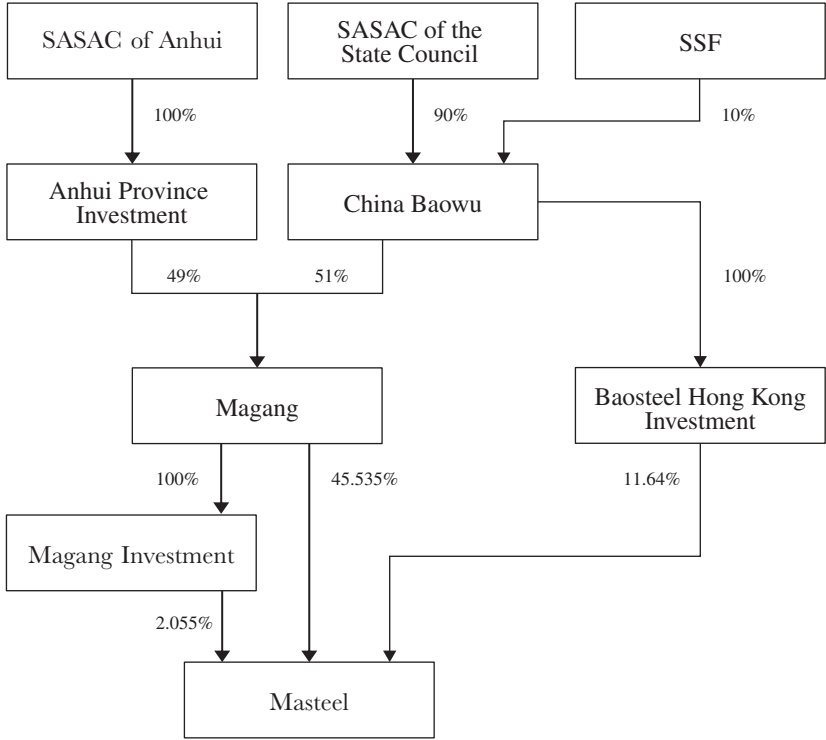
At the end of the reporting period, Magang (Group) Holding Co., Limited (“Magang”), the controlling shareholder of Magang Group Investment Ltd. (“Magang Investment”), are persons acting in concerted action. In addition, Magang has no affiliated relation with any of the other foregoing shareholders, nor is it a person acting in concerted action; however, it is not in the knowledge of the Company whether there is any affiliated relation among other foregoing shareholders and whether they are persons acting in concerted action.

**Note:** At the end of the reporting period, Hong Kong Securities Clearing Company (Nominees) Limited held 1,717,091,050 H Shares of the Company, which were held on behalf of its customers, among which, Baosteel Hong Kong Investment Company Limited (“Baosteel Hong Kong Investment”) held 896,387,958 H Shares of the Company.

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



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



### III. MANAGEMENT DISCUSSION AND ANALYSIS

#### 1. Business Environment

- ***Steel Market***

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

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

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

## 2. Major Business Performance during the Reporting Period

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

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

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



- (2) Comprehensive implementation of overall benchmarking. The Company adhered to the ultimate goal of “simple, efficient, low cost, high quality”, built a hierarchical and classified benchmarking system at the Company level, professional management level and manufacturing unit level, and systematically promoted the benchmarking work through external benchmarking and internal optimization. The benchmarking system has been gradually improved, covering 333 financial management indicators such as scale capacity, profitability and turnover efficiency, as well as technical and economic indicators such as production, equipment, energy and environmental protection. The process evaluation was timely and efficient, forming a process tracking evaluation mechanism of “monthly briefing – quarterly special report – annual summary”. Significant progress has been made in benchmarking, with the main technical and economic indicators continuing to improve. The hot metal cost index stepped into first tier in the industry, with the iron-steel ratio breaking 9 to reach 8, the contract completion rate, new product gross profit and other indicators improved significantly, and the annual cost reduction increased by RMB720 million compared with the previous year.
- (3) Rapid advancement of the integration. In accordance with the requirements of “unified language, unified rules, unified platform and unified culture”, integration work were rapidly promoted. The planning was effectively undertaken, and the Company’s planning was incorporated into the planning system of China Baowu. The Company’s position was defined, and a new round of product production line planning was prepared. Management was fully docked, 59 docking tasks in 14 professional fields were completed, 285 management systems were formulated or revised, and the “system tree” system was basically formed. Culture is deeply integrated. By solidly promoting the series of activities of “Glory of Iron and Steel, Casting Dreams for a Hundred Years”, Company culture and China Baowu culture are deeply integrated and deeply rooted in the hearts of the people.

- (4) Significant improvement of the operation efficiency. Lean procurement is safe and efficient: by actively and effectively responding to the sharp changes in the two markets, the Company has strengthened system linkage, promoted operational inventory, strengthened mass procurement, collaborated procurement and intelligent procurement to ensure timely, safe, high-quality and efficient supply of materials. Lean marketing continued to deepen: the Company optimized the marketing system, set up the marketing center, and realized the professional focus and integration of marketing business. The Company improved the customer service model, promoted the whole process, whole cycle customer service “before sale, during sale and after sale” of leading products, and carried out pre-sale of production capacity and forwarded order business. Lean manufacturing was further promoted: the Company optimized coal blending and ore blending structure, improved blast furnace examination and risk early warning mechanism, optimized production line division, reduced iron-steel ratio, and further released equipment production capacity. It also strengthened the control of equipment status and implemented the periodic (annual) maintenance model of equipment, which thus have significantly reduced the maintenance load and significantly improved the equipment system support capability. The Company also deepened the energy economy operation of the system, strengthened technical energy saving, structural energy saving and management energy saving, and continuously improved the main energy consumption indicators. Compared with the previous year, the total coal consumption decreased by 190,000 tonnes, the comprehensive energy consumption per tonne of steel decreased by 18.4kgce/t, and the carbon dioxide emission per tonne of steel decreased by 15kg.

- (5) In-depth implementation of innovation drives. The Company adhered to the technical guidance, strengthened the research on new technologies, new materials and new products, and continuously improved its core competitiveness of enterprises. It also deeply integrated into the scientific and technological innovation system of China Baowu, the Maanshan Iron & steel technology centre of Baowu Central Research Institute was put into operation, a collaborative planning mechanism for R&D was established, the promotion of on-schedule quality improvement and major special planning were carried out, and the collaborative innovation ability was effectively improved. The R&D investment rate increased by 1.14 percentage points over the previous year, and 770,000 tonnes of new products were developed. The self-developed 635MPa high-strength earthquake-resistant steel bars filled the domestic gap. The key technical achievements of high-efficiency green smelting of large converter clean steel won the special prize of metallurgical science and technology. The atmospheric corrosion-resistant hot-rolled H-beams for railway vehicles and the rolled steel wheels for railway express passenger cars won the physical quality of metallurgical products “Jinbei Excellent Products” in 2020 by CISA. The first domestic heavy-duty H-beam production line was completed and achieved monthly production, and the key projects of the new round of product production line was implemented at a faster pace.
- (6) Accelerated green wisdom empowerment. The Company adhered to the big pattern, big environment and great promotion, from pollution prevention to ecological civilization, from factory renovation to “two better and one integration”, from improving factory appearance to improving mental outlook, completed 97 environmental problems rectification tasks of Yangtze River protection in an all-round way, invested RMB3.07 billion to implement 64 “three treatment” projects, effectively established an intelligent platform for environmental protection dynamic management and control, and significantly improved the ecological “face value” and green development level of the factory. With the concept of whole flow, whole process, all elements and complete integration, the Company also adhered to problem-oriented, system upgrading, leading change, standard demonstration, creating and educating people, and completed seven of the first phase intelligent manufacturing projects, including operation control center and intelligent control center for iron making, steel making, hot rolling and cold rolling, to promote the overall improvement of the “four uniformities” index. As compared with the end of 2019, the concentration index at the end of 2020 increased by 28.3 percentage points to 67.7%; the unmanned index increased by 10.3 percentage points to 47.6%; the remoteness index increased by 12 percentage points to 12%; service online index increased by 65 percentage points to 98.3%.

- (7) In-depth advancement of the reform and management. The Company's management reform is drastic, and the organization reform and process reengineering were forced by informationization. The functions and personnel of the organs were adjusted in place, the grass-roots management reform was promoted smoothly, and the organization was flattened and the personnel are lean. The personnel efficiency has been greatly improved, and the per capita annual steel output has increased by 29% year-on-year through professional integration, policy on consensus termination of labor contract, smart manufacturing, shared employment and other channels. Safety management has been continuously strengthened, and great importance has been attached to safety in production. Taking the three-year action plan for special rectification of safety in production as the starting point, the development concept of "life first, safety first" has been firmly established. By strengthening the management of "two violations", comprehensive rectification, hidden danger investigation and risk management and control, the construction of intrinsically safe enterprises has been promoted, and the situation of safety in production is generally stable.
- (8) In-depth implementation of "people first". The Company adhered to the staff-oriented, highlighted the job value creation, constantly met the employees' yearning for a better life of "three haves", and achieved the common growth of employees and enterprises. It also vigorously carried forward the spirit of model workers, labor and artisans, focused on the typical figures of pandemic prevention and control, resumed work and production, and demonstrated and led the annual figures of "the most beautiful Masteel people, innovation and integration". The innovation and efficiency of employees' posts were carried out in depth, and the activity of "I offer a plan for the enterprise to find the difference against benchmarks and create the first class" was comprehensively promoted. The number of employees' plans contributed reached 21,000. The Company organized and carried out 225 labor competitions such as "finding the difference against benchmarks for the first class, improving the indicators and creating benefits", creating a super good atmosphere of learning and contest.

### 3. Analysis of Principal Operation

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

*Unit: RMB*

<b>Account</b>	<b>Amount of the current year</b>	<b>Amount of the same period of last year</b>	<b>Change (%)</b>
Revenue	<b>81,614,151,183</b>	78,262,846,004	4.28
Cost of sales	<b>73,635,244,275</b>	71,315,481,915	3.25
Selling expenses	<b>1,010,010,332</b>	949,844,233	6.33
General and administrative expenses	<b>1,516,627,132</b>	2,378,932,727	-36.25
R&D expenses	<b>1,813,176,837</b>	846,472,355	114.20
Financial expenses	<b>553,576,584</b>	784,811,228	-29.46
Other income	<b>86,979,866</b>	117,373,339	-25.89
Investment income	<b>533,664,650</b>	815,067,777	-34.53
(Loss)/gain on changes in fair value	<b>-72,693,896</b>	9,598,445	-857.35
Credit impairment losses	<b>-48,276,000</b>	-15,592,865	–
Assets impairment losses	<b>-770,780,451</b>	-424,598,573	–
Gain/(Loss) from disposal of assets	<b>589,074,956</b>	-77,058,351	–
Operating profit	<b>2,866,954,813</b>	1,831,577,615	56.53
Non-operating expenses	<b>188,665,317</b>	3,735,871	4,950.10
Profit before tax	<b>3,080,866,517</b>	2,297,755,710	34.08
Net profit	<b>2,577,979,107</b>	1,713,917,869	50.41
Net profit attributable to owners of the parent	<b>1,982,638,821</b>	1,128,148,980	75.74
Net cash flows from operating activities	<b>2,770,514,645</b>	7,865,957,124	-64.78
Net cash flows used in investing activities	<b>-6,081,913,170</b>	-4,793,209,384	–
Net cash flows used in financing activities	<b>-708,738,972</b>	-2,822,692,873	–

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

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

General and administrative expenses decreased by 36.25% compared with the previous year, mainly due to the decrease of compensation for termination of labor contract through negotiation under the implementation of the human resource optimization policy of the Company compared with the previous year while there were such significant expenses due to the application of HR Optimisation Policy.

R&D expenses increased by 114.20% compared with the previous year, mainly due to the Group's further increased investment in scientific research, expanded product development categories and accelerated product upgrading in order to enhance its overall R&D capability and enhance its competitiveness in the high-end product market this year.

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

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

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

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

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

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

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

### **3.1 Analysis of Revenue and Cost of Sales**

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

*Unit: million RMB*

##### Principal operation by industry

Industry	Revenue	Cost of sales	Gross margin (%)	Increase/ (decrease) of revenue compared with last year (%)	Increase/ (decrease) of cost of sales compared with last year (%)	Increase/ (decrease) of gross margin compared with last year (%)
Iron and Steel	74,871	67,889	9.33	4.34	3.31	Increased by 0.9 percentage point

## Principal operation by product

Product	Revenue	Cost of sales	Gross margin (%)	Increase/ (decrease) of revenue compared with last year (%)	Increase/ (decrease) of cost of sales compared with last year (%)	Increase/ (decrease) of gross margin compared with last year (%)
Long products	34,065	31,135	8.60	4.14	7.82	Decreased by 3.12 percentage points
Steel plates	35,939	32,251	10.26	6.99	1.92	Increased by 4.47 percentage points
Wheels and axles	2,056	1,716	16.54	-28.29	-33.49	Increased by 6.53 percentage points



## Revenue by region

Region	Revenue	Cost of sales	Gross margin (%)	Increase/ (decrease) of revenue compared with last year (%)	Increase/ (decrease) of cost of sales compared with last year (%)	Increase/ (decrease) of gross margin compared with last year (%)
Anhui	37,871	33,998	10.23	41.36	39.17	Increased by 1.42 percentage points
Shanghai	12,453	11,214	9.95	0.71	-3.25	Increased by 3.69 percentage points
Jiangsu	12,330	11,140	9.65	1.28	-0.54	Increased by 1.66 percentage points
Zhejiang	5,060	4,579	9.51	0.40	-2.68	Increased by 2.86 percentage points
Hubei	2,872	2,598	9.54	-12.76	-11.72	Decreased by 1.09 percentage points
Guangdong	2,060	1,867	9.37	-5.33	-7.21	Increased by 1.83 percentage points
Other Mainland regions	5,673	5,168	8.90	-52.03	-50.98	Decreased by 1.95 percentage points
Overseas and Hong Kong	3,295	3,071	6.80	-28.40	-21.09	Decreased by 8.63 percentage points

During the reporting period, the Group's revenue from principal operation was RMB80,184 million, of which the iron & steel revenue was RMB74,871 million, accounting for 93% of the principal operation revenue with no significant change in the proportion.

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

*Unit: ten thousand tonnes*

Products	Production volume	Sales volume	Inventory volume	Year-on-year	Year-on-year	Year-on-year
				increase/ (decrease) of production volume (%)	increase/ (decrease) of sales volume (%)	increase/ (decrease) of inventory volume (%)
Long products	1,032.9	1,034.1	15.6	10.13	10.73	-7.14
Steel plates	931.2	930.6	5.5	1.67	1.60	12.24
Wheels and axles	21.4	20.7	1.7	-6.96	-8.00	70.00

(3). *Analysis of Costs*

*Unit: million RMB*

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

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

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

Among the major customers, Chemical Company is a subsidiary of Magang. Among the major suppliers, Magang is the controlling shareholder of the Company, and Ouye Lianjin Renewable Resources Co., Ltd. (“**Ouye Lianjin**”) is a subsidiary of Magang. Saved as the above, there was no directors or supervisors or their connected persons or any shareholders (to the best knowledge of the board of directors, holding 5% or above of the shares in the Company) having any beneficial interests in the top five suppliers or customers of the Group in 2020.

### **3.2 Expenses**

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

The administrative expenses decreased by 36.25%, the R&D expenses increased by 114.20%. The main reason is described in the above “Analysis of the change in accounts of the income statement and statement of cash flows”.

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

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

R&D expenses details

*Unit: million RMB*

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

## 4. Analysis of Assets and Liabilities

### 4.1 Assets and Liabilities

Unit: RMB

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

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

Financing receivables decreased by 36.28% compared with the previous year, mainly due to the increase in the amount of endorsement of notes transfer, resulting in the decrease of notes held by the Company compared with the end of previous year.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 5. Analysis of Operational Information

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

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

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

*Unit: million RMB*

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

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

*Unit: million RMB*

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



### 5.3 Sales of Steel Material Based on Sales Channels

Unit: 100 million RMB

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

### 5.4 Supply of Iron Ore

Unit: 100 million RMB

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

### 5.5 Supply of scrap steel

Unit: 100 million RMB

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

## 6. Investment Analysis

### 6.1 General Analysis of External Equity Investments

*Unit: million RMB*

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

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

### 6.2 Significant Non-Equity Investment

*Unit: million RMB*

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

## **7. Outlook for Future Development**

### ***7.1 Industry Landscape and Trend***

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

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

## **7.2 Corporate Development Strategy**

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

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

### **7.3 Business Plan**

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

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

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

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

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

(2) *Highlight scale effect and seek for market share*

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

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

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

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

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

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

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

*(4) Deepen reform and overcome difficulties, and strive to stimulate value and create vitality*

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

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

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

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



## **7.4 Potential Risks**

According to the latest situation at home and abroad, the main risks that the Company may face include the risk of international environmental change and prevention and control for COVID-19, the risk of mineral resources security, the risk of safety and environmental protection, and the risk of cost control and operational efficiency improvement. The implementation of the Company's measures responding to the risks depends on many factors such as market and policy, and subject to certain uncertainties, which should be paid special attention on by investors.

## **IV. SIGNIFICANT EVENTS**

### **1. Plan or Proposal of Profit Distribution for Ordinary Shares, Plan or Proposal of Transferring Capital Reserve to Share Capital for the Past Three Years (including the Reporting Period)**

According to the China Accounting Standards, in 2020, the Company achieved a net profit of RMB1,018 million. After accruing 10% of the statutory surplus reserve, the profit available for distribution to shareholders at the end of 2020 was RMB3,655 million. Comprehensively considering the revenue of the Company and future sustainable development as well as improving reward to shareholders, the Board suggests 2020 final dividend of RMB0.13 per share (tax included) shall be distributed and retained earnings will be carried forward to the year of 2021. No capital reserve shall be converted to share capital. The resolution shall be considered and approved by the AGM of the Company.

The interim and final dividend of the Company was RMB0.05 per share (tax included) and RMB0.31 per share (tax included) respectively for the year of 2018 and retained earnings were carried forward to the year of 2019. No capital reserve shall be converted to share capital. The 2019 final dividend of the Company was RMB0.08 per share (tax included). Retained earnings were carried forward to the year of 2020 and no capital reserve shall be converted to share capital.

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

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

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

## **3. Audit Committee**

The Company's Audit Committee held a meeting on 24 March 2021 and reviewed the 2020 annual accounts.

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

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

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

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

## **6. Public Float**

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

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

In 2020, the Company has complied with all the requirements of the Code on Corporate Governance as set out in Appendix 14 of the Hong Kong Listing Rules.

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

## **V. MATTERS RELATED TO FINANCIAL REPORT**

- 1. After Auditing, the Company's Auditor Ernst & Young Hua Ming LLP Issued a Standard Unqualified Audit Opinion on the 2020 Annual Financial Report of the Company**
- 2. During the Reporting Period, There Was No Significant Changes of the Accounting Policy and Accounting Estimate**
- 3. During the Reporting Period, There Was No Correction Due to Material Accounting Errors**
- 4. Compared with the Financial Report of Previous Year, the Company Shall Make Specific Explanation about the Changes Happened to the Scope of the Consolidation of Financial Statements.**

In September 2020, upon the approval of the Board, the Company established Anhui Magang Gas Technology Co., Ltd., a wholly-owned subsidiary with a registered capital of RMB270 million, which was consolidated from the date of its establishment.

During the reporting period, due to the continuous losses of Maanshan Oubang Color-coated Technology Co., Ltd., the overlapping business scope of Maanshan (Wuhan) Iron and Steel Sales Co., Ltd. and Wuhan Processing Center, and the small scale of Maanshan Metallurgical Power Technology Co., Ltd., the Company made corporate reduction to these companies. At the end of the reporting period, these companies were liquidated and no longer consolidated.

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

# CONSOLIDATED AND COMPANY'S STATEMENTS OF FINANCIAL POSITION

As at 31 December 2020

Renminbi Yuan

	Notes	31 December 2020 Group	31 December 2019 Group	31 December 2020 Company	31 December 2019 Company
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and bank balances		5,346,108,774	9,517,313,695	2,296,089,258	3,187,001,428
Financial assets held for trading		2,028,957,057	2,126,112,194	11,640,010	3,573,580
Trade receivables	4	1,043,606,041	1,092,930,122	2,355,816,934	3,154,416,565
Financing receivables	5	7,072,160,166	11,098,699,421	4,959,472,316	9,796,502,361
Prepayments	6	755,340,403	981,443,575	349,980,035	693,109,995
Other receivables		426,386,362	156,291,851	371,032,767	94,415,995
Inventories		10,900,294,231	10,947,850,219	7,272,793,836	6,633,161,943
Financial assets purchased under agreements to resell		1,346,725,440	2,369,966,754	–	–
Loans and advances to customers		4,636,066,439	4,256,415,190	–	–
Other current assets		3,981,226,262	3,975,034,798	359,808,604	354,016,165
<b>Total current assets</b>		<b>37,536,871,175</b>	<b>46,522,057,819</b>	<b>17,976,633,760</b>	<b>23,916,198,032</b>
<b>NON-CURRENT ASSETS</b>					
Long-term equity investments		3,694,172,463	3,546,219,668	11,761,010,351	11,477,691,872
Other equity instruments investments		390,798,231	278,576,509	304,681,987	275,508,859
Investment properties		62,504,615	64,697,688	62,504,615	64,570,817
Property, plant and equipment		29,564,588,450	30,045,743,674	22,530,651,256	22,357,559,485
Construction in progress		6,980,279,959	3,259,704,984	5,554,453,327	2,770,963,397
Right-of-use assets		394,472,380	418,879,903	348,919,252	368,857,495
Intangible assets		1,881,124,406	1,973,126,962	1,123,273,009	1,088,324,048
Deferred tax assets		202,888,795	213,036,331	104,388,391	125,314,560
Other non-current assets		3,441,308	–	–	–
<b>Total non-current assets</b>		<b>43,174,270,607</b>	<b>39,799,985,719</b>	<b>41,789,882,188</b>	<b>38,528,790,533</b>
<b>TOTAL ASSETS</b>		<b>80,711,141,782</b>	<b>86,322,043,538</b>	<b>59,766,515,948</b>	<b>62,444,988,565</b>

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

As at 31 December 2020

Renminbi Yuan

	31 December 2020	31 December 2019	31 December 2020	31 December 2019
<i>Notes</i>	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Deposits and balances from banks and other financial institutions	–	400,031,889	–	–
Customer deposits	<b>6,620,132,197</b>	10,964,896,002	–	–
Repurchase agreements	<b>198,480,944</b>	1,386,580,448	–	–
Short-term loans	<b>12,584,935,187</b>	12,880,053,159	<b>12,518,307,366</b>	10,776,844,475
Financial liabilities held for trading	<b>95,968,940</b>	2,258,750	<b>95,968,940</b>	2,258,750
Notes payable	<b>3,297,446,207</b>	7,313,729,148	<b>692,285,784</b>	5,085,093,096
Trade payables	<b>7,612,476,174</b>	6,130,327,006	<b>7,591,202,079</b>	7,478,411,251
Contract liabilities	<b>4,377,105,559</b>	3,765,254,551	<b>2,953,248,445</b>	2,455,027,803
Payroll and employee benefits payable	<b>549,348,136</b>	691,976,938	<b>325,256,459</b>	540,612,797
Taxes payable	<b>569,759,727</b>	547,209,418	<b>285,290,128</b>	232,319,349
Other payables	<b>4,123,490,248</b>	4,294,496,279	<b>3,726,054,061</b>	3,793,893,919
Non-current liabilities due within one year	<b>2,572,092,845</b>	1,677,068,898	<b>2,849,362,390</b>	3,612,706,920
Accrued liabilities	<b>26,968,253</b>	22,664,675	–	–
Other current liabilities	<b>569,023,723</b>	–	<b>383,922,298</b>	–
<b>Total current liabilities</b>	<b>43,197,228,140</b>	50,076,547,161	<b>31,420,897,950</b>	33,977,168,360
<b>NON-CURRENT LIABILITIES</b>				
Long-term loans	<b>3,536,364,338</b>	3,468,200,000	<b>3,536,364,338</b>	4,098,200,000
Lease liabilities	<b>394,983,673</b>	411,432,835	<b>350,464,514</b>	363,877,690
Long-term employee benefits payable	<b>79,496,046</b>	101,327,703	<b>52,563,465</b>	71,919,779
Deferred revenue	<b>872,949,281</b>	1,402,283,687	<b>720,633,372</b>	736,754,692
Deferred tax liabilities	<b>18,934,339</b>	21,500,325	–	–
<b>Total non-current liabilities</b>	<b>4,902,727,677</b>	5,404,744,550	<b>4,660,025,689</b>	5,270,752,161
<b>Total liabilities</b>	<b>48,099,955,817</b>	55,481,291,711	<b>36,080,923,639</b>	39,247,920,521

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

*As at 31 December 2020*

*Renminbi Yuan*

	31 December 2020 Group	31 December 2019 Group	31 December 2020 Company	31 December 2019 Company
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	7,700,681,186	7,700,681,186	7,700,681,186	7,700,681,186
Capital reserve	8,361,457,903	8,353,499,761	8,365,975,619	8,358,017,477
Other comprehensive income	(23,151,783)	(99,760,804)	98,879,489	22,196,339
Special reserve	37,295,614	35,484,176	15,187,813	13,711,365
Surplus reserve	4,687,127,180	4,651,252,494	3,850,340,593	3,814,465,907
General reserve	248,156,969	325,786,322	-	-
Retained earnings	<u>7,374,557,923</u>	<u>5,966,218,930</u>	<u>3,654,527,609</u>	<u>3,287,995,770</u>
<b>Equity attributable to owners of the parent</b>	<b>28,386,124,992</b>	<b>26,933,162,065</b>		
Non-controlling interests	<u>4,225,060,973</u>	<u>3,907,589,762</u>		
<b>Total shareholders' equity</b>	<b><u>32,611,185,965</u></b>	<b><u>30,840,751,827</u></b>	<b><u>23,685,592,309</u></b>	<b><u>23,197,068,044</u></b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b><u>80,711,141,782</u></b>	<b><u>86,322,043,538</u></b>	<b><u>59,766,515,948</u></b>	<b><u>62,444,988,565</u></b>

## CONSOLIDATED AND COMPANY'S INCOME STATEMENT

For the year ended 31 December 2020

Renminbi Yuan

	Notes	2020 Group	2019 Group	2020 Company	2019 Company
<b>Revenue</b>	10	<b>81,614,151,183</b>	78,262,846,004	<b>67,533,031,667</b>	64,351,035,109
Less: Cost of sales	10	<b>73,635,244,275</b>	71,315,481,915	<b>63,068,269,358</b>	60,672,829,845
Taxes and surcharges		<b>536,530,335</b>	580,515,703	<b>403,060,560</b>	434,407,490
Selling expenses		<b>1,010,010,332</b>	949,844,233	<b>393,481,977</b>	396,816,540
General and administrative expenses		<b>1,516,627,132</b>	2,378,932,727	<b>1,032,409,616</b>	1,921,159,099
R&D expenses		<b>1,813,176,837</b>	846,472,355	<b>1,371,832,597</b>	704,163,255
Financial expenses	11	<b>553,576,584</b>	784,811,228	<b>576,954,674</b>	684,401,816
including: interest expense		<b>643,235,325</b>	788,151,024	<b>650,709,978</b>	713,486,648
interest income		<b>43,291,465</b>	79,269,218	<b>42,626,196</b>	78,303,360
Add: Other income		<b>86,979,866</b>	117,373,339	<b>51,083,735</b>	85,785,078
Investment income		<b>533,664,650</b>	815,067,777	<b>1,139,971,118</b>	1,444,663,878
including: share of profits of associates and joint ventures		<b>414,021,154</b>	575,520,895	<b>408,543,532</b>	560,233,499
gain from derecognition of financial assets measured at amortized cost		<b>-</b>	67,796,079	<b>-</b>	-
(Loss)/gain on the changes in fair value		<b>(72,693,896)</b>	9,598,445	<b>(95,102,260)</b>	6,945,620
Credit impairment losses/ (reversal)		<b>(48,276,000)</b>	(15,592,865)	<b>(15,348,363)</b>	25,141,942
Assets impairment losses		<b>(770,780,451)</b>	(424,598,573)	<b>(912,541,490)</b>	(862,906,925)
Gain/(loss) from disposal of assets	12	<b>589,074,956</b>	(77,058,351)	<b>28,035,749</b>	251,573,164
Operating profit		<b>2,866,954,813</b>	1,831,577,615	<b>883,121,374</b>	488,459,821
Add: Non-operating income	13	<b>402,577,021</b>	469,913,966	<b>255,694,956</b>	370,221,091
Less: Non-operating expenses	14	<b>188,665,317</b>	3,735,871	<b>124,990,190</b>	778,025
Profit before tax		<b>3,080,866,517</b>	2,297,755,710	<b>1,013,826,140</b>	857,902,887
Less: Income tax expenses	15	<b>502,887,410</b>	583,837,841	<b>(4,634,880)</b>	64,390,503
Net profit		<b>2,577,979,107</b>	1,713,917,869	<b>1,018,461,020</b>	793,512,384



**CONSOLIDATED AND COMPANY'S INCOME STATEMENT (CONTINUED)***For the year ended 31 December 2020**Renminbi Yuan*

	2020 Group	2019 Group	2020 Company	2019 Company
<b>Categorized by operation continuity</b>				
Net profit from continuing operations	<u>2,577,979,107</u>	<u>1,713,917,869</u>	<u>1,018,461,020</u>	<u>793,512,384</u>
<b>Categorized by ownership</b>				
Net profit attributable to owners of the parent	<u>1,982,638,821</u>	<u>1,128,148,980</u>		
Net profit attributable to non-controlling interests	<u>595,340,286</u>	<u>585,768,889</u>		
Other comprehensive income, net of tax	76,609,021	12,941,359	76,683,150	9,289,872
Other comprehensive income attributable to owners of the parent, net of tax	76,609,021	12,941,359		
Other comprehensive income that will not be reclassified to profit or loss: Changes in fair value of other equity investments	76,755,689	9,340,609	76,683,150	9,289,872
	76,755,689	9,340,609	76,683,150	9,289,872
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	(146,668)	3,600,750	-	-
	-	-	-	-
Exchange differences on translation of foreign operations	(146,668)	3,600,750	-	-
Other comprehensive income attributable to non-controlling interests, net of tax	-	-		
<b>Total comprehensive income</b>	<u>2,654,588,128</u>	<u>1,726,859,228</u>	<u>1,095,144,170</u>	<u>802,802,256</u>

**CONSOLIDATED AND COMPANY'S INCOME STATEMENT (CONTINUED)***For the year ended 31 December 2020**Renminbi Yuan*

	<i>Notes</i>	<b>2020</b>	2019	<b>2020</b>	2019
		<b>Group</b>	Group	<b>Company</b>	Company
Attributable to:					
Owners of the parent		<u><b>2,059,247,842</b></u>	<u>1,141,090,339</u>		
Non-controlling interests		<u><b>595,340,286</b></u>	<u>585,768,889</u>		
<b>EARNINGS PER SHARE:</b>					
Basic earnings per share					
<i>(cent/share)</i>	<i>16</i>	<u><b>25.75</b></u>	<u>14.65</u>		
Diluted earnings per share					
<i>(cent/share)</i>	<i>16</i>	<u><b>25.75</b></u>	<u>14.65</u>		

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2020*  
Renminbi Yuan

**2020**

	Attributable to owners of the parent							Non-controlling interests	Total shareholders' equity	
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	General reserve	Retained earnings			Sub-total
1. Balance at the beginning of the year	7,700,681,186	8,353,499,761	(99,760,804)	35,484,176	4,651,252,494	325,786,322	5,966,218,930	26,933,162,065	3,907,589,762	30,840,751,827
2. Increase/(decrease) during the year	-	-	76,609,021	-	-	-	1,982,638,821	2,059,247,842	595,340,286	2,654,588,128
1) Total comprehensive income	-	-	-	-	-	-	-	-	-	-
2) Shareholders' contributions and reduction in capital	-	-	-	-	-	-	-	-	10,913,921	10,913,921
(i) Capital contributions by shareholders	-	-	-	-	-	-	-	-	-	-
(ii) Changes in the share of other equity of associates and joint ventures	-	7,958,142	-	-	-	-	-	7,958,142	-	7,958,142
3) Profits appropriation	-	-	-	-	35,874,686	-	(35,874,686)	-	-	-
(i) Transfer to surplus reserve	-	-	-	-	-	(77,629,353)	77,629,353	-	-	-
(ii) Transfer to general reserve	-	-	-	-	-	-	-	-	-	-
(iii) Distribution to shareholders	-	-	-	-	-	-	(616,054,495)	(616,054,495)	(285,625,207)	(901,679,702)
4) Special reserve	-	-	-	-	-	-	-	-	-	-
(i) Additions	-	-	-	101,710,625	-	-	-	101,710,625	14,028,683	115,739,308
(ii) Utilisation	-	-	-	(101,375,635)	-	-	-	(101,375,635)	(17,186,472)	(118,562,107)
(iii) Changes in the share of associates and joint ventures' special reserve, net	-	-	-	1,476,448	-	-	-	1,476,448	-	1,476,448
3. Balance at the end of the year	7,700,681,186	8,361,457,903	(23,151,783)	37,295,614	4,687,127,180	248,156,969	7,374,557,923	28,386,124,992	4,225,060,973	32,611,185,965

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2020

Renminbi Yuan

2019

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

Renminbi Yuan

	2020	2019
<b>1. Cash flows from operating activities</b>		
Cash received from sale of goods and rendering of services	<b>85,001,941,596</b>	85,381,943,471
Tax refunds received	<b>1,986,683</b>	39,778,743
Net decrease in deposits in central bank	–	270,559,928
Net increase in repurchase agreements	–	252,808,071
Net decrease in financial assets purchased under agreements to resell	<b>1,023,246,427</b>	63,112,150
Net increase in customer deposits and balances from banks and other financial institutions	–	5,549,252,469
Cash received for interest charges, fees and commissions	<b>378,850,393</b>	237,844,273
Cash received relating to other operating activities	<b>685,643,457</b>	583,464,714
<b>Sub-total of cash inflows</b>	<b>87,091,668,556</b>	92,378,763,819
Cash paid for purchases of goods and services	<b>(70,120,117,388)</b>	(73,614,093,642)
Net increase in deposits in central bank	<b>(226,335,280)</b>	–
Net decrease in repurchase agreements	<b>(1,188,099,504)</b>	–
Net decrease in deposits and balances from banks and other financial institutions and customer deposits	<b>(4,744,795,694)</b>	–
Net increase in loans and advances to customers	<b>(408,826,479)</b>	(1,445,182,560)
Cash paid to or on behalf of employees	<b>(4,736,858,780)</b>	(5,624,533,684)
Taxes and surcharges paid	<b>(2,270,765,693)</b>	(2,835,616,971)
Cash paid for interest charges, fees and commissions	<b>(144,512,677)</b>	(115,077,983)
Cash paid relating to other operating activities	<b>(480,842,416)</b>	(878,301,855)
<b>Sub-total of cash outflows</b>	<b>(84,321,153,911)</b>	(84,512,806,695)
<b>Net cash flows from operating activities</b>	<b>2,770,514,645</b>	7,865,957,124

## CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2020

Renminbi Yuan

	2020	2019
<b>2. Cash flows from investing activities</b>		
Cash received from disposal of investments	<b>24,473,423,758</b>	45,901,020,088
Cash received from investment income	<b>216,975,852</b>	273,187,446
Proceeds from disposal of items of property, plant and equipment, intangible assets, and other non-current assets	<b>508,461,603</b>	73,150,394
<b>Sub-total of cash inflows</b>	<b>25,198,861,213</b>	46,247,357,928
Purchases of property, plant and equipment, intangible assets and other non-current assets	<b>(7,027,769,955)</b>	(4,851,962,970)
Cash paid for investments	<b>(24,179,299,032)</b>	(46,128,478,911)
Acquisition of non-controlling interests	–	(13,058,200)
Cash paid relating to other investing activities	<b>(73,705,396)</b>	(47,067,231)
<b>Sub-total of cash outflows</b>	<b>(31,280,774,383)</b>	(51,040,567,312)
<b>Net cash flows used in investing activities</b>	<b>(6,081,913,170)</b>	(4,793,209,384)
<b>3. Cash flows from financing activities</b>		
Cash received from borrowings	<b>17,988,437,837</b>	17,391,616,546
Cash received from investors	<b>13,125,000</b>	58,375,000
Including: capital injection from a subsidiary's non-controlling interests	<b>13,125,000</b>	58,375,000
<b>Sub-total of cash inflows</b>	<b>18,001,562,837</b>	17,449,991,546

**CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)***For the year ended 31 December 2020**Renminbi Yuan*

	2020	2019
Repayment of borrowings	(17,085,162,670)	(16,279,489,866)
Cash paid for distribution of dividends or profits and for interest expenses	(1,570,654,370)	(3,771,643,051)
Including: dividends or profits paid to non- controlling interests by subsidiaries	(285,625,207)	(539,063,187)
Cash paid relating to other financing activities	<u>(54,484,769)</u>	<u>(221,551,502)</u>
<b>Sub-total of cash outflows</b>	<b><u>(18,710,301,809)</u></b>	<b><u>(20,272,684,419)</u></b>
<b>Net cash flows used in financing activities</b>	<b><u>(708,738,972)</u></b>	<b><u>(2,822,692,873)</u></b>
<b>4. Effect of foreign exchange rate changes on cash and cash equivalents</b>	<b><u>(95,916,296)</u></b>	<b><u>55,419,991</u></b>
<b>5. Net (decrease)/increase in cash and cash equivalents</b>	<b>(4,116,053,793)</b>	<b>305,474,858</b>
Add: cash and cash equivalents at the beginning of the year	<u>7,239,650,634</u>	<u>6,934,175,776</u>
<b>6. Cash and cash equivalents at the end of the year</b>	<b><u><u>3,123,596,841</u></u></b>	<b><u><u>7,239,650,634</u></u></b>

## **NOTES TO FINANCIAL STATEMENTS**

*As at 31 December 2020*

*Renminbi Yuan*

### **1. SIGNIFICANT ACCOUNTING POLICIES**

#### **1.1 Basis of preparation**

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

The financial statements are prepared on a going concern basis.

As of 31 December 2020, the net current liabilities of the Group amounted to RMB 5,660,356,965. The directors of the Company have considered the availability of funding sources, including but not limited to an unutilized banking facilities of RMB27.0 billion as at 31 December 2020 and the expected cash inflows from the operating activities in the upcoming 12 months. The board of directors of the Company believes that the Group has sufficient working capital to continue as a going concern for not less than 12 months after the end of reporting period. Therefore, the board of directors of the Company continues to prepare the Group’s financial statements for the year ended 31 December 2020 on a going concern basis.

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

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

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



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2020

Renminbi Yuan

### 2. SCOPE OF CONSOLIDATION

#### 2.1 Newly established subsidiary

As of 31 December 2020, the Company established the following subsidiary, and has included it in the scope of consolidation since then.

	Date of establishment	Registered capital	Percentage of equity	Investment form	Capital paid as of the year end
Anhui Masteel Gas Technology Co., Ltd. <i>(Note)</i>	December 2020	RMB270,000,000	100%	Physical assets and Cash	RMB0

*Note:* On 21 September 2020, upon the approval by the 37th meeting of the 9th Board of Directors of the Company, the Company established Anhui Masteel Gas Technology Co., Ltd. (“Masteel Gas”), which is a wholly owned subsidiary. The registered capital of Masteel Gas is RMB270 million. As of 31 December 2020, Masteel Gas has completed its registration, but the Company has not injected capital yet.

#### 2.2 Changes of consolidation scope caused by other reasons

In 2020, the changes of consolidation scope caused by other reasons are as follows:

Names of subsidiaries	Changes of consolidation scope
Maanshan (Wuhan) Iron and Steel Sales Co., Ltd.	Deregistration
Maanshan Oubang Color-coated Technology Co., Ltd.	Deregistration
Maanshan Metallurgical Power Technology Co., Ltd.	Deregistration

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2020

Renminbi Yuan

### 3. OPERATING SEGMENT INFORMATION

#### Operating segments

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

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

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

#### Other information

##### *Product and service information*

External principal operating income

	2020	2019
Sale of steel products	<b>72,060,209,513</b>	69,168,676,112
Sale of steel billets and pig iron	<b>2,810,678,955</b>	2,590,852,101
Sale of coke by-products	<b>60,960,162</b>	43,710,671
Others	<b><u>5,252,536,267</u></b>	<u>5,355,010,744</u>
	<b><u>80,184,384,897</u></b>	<u>77,158,249,628</u>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2020

Renminbi Yuan

### *Geographical information*

External principal operating income

	2020	2019
Mainland China	<b>76,889,123,103</b>	72,555,885,543
Overseas and Hong Kong	<b><u>3,295,261,794</u></b>	<u>4,602,364,085</u>
	<b><u>80,184,384,897</u></b>	<u>77,158,249,628</u>

Non-current assets

	31 December 2020	31 December 2019
Mainland China	<b>42,348,121,435</b>	39,090,556,947
Overseas and Hong Kong	<b><u>232,462,146</u></b>	<u>217,815,932</u>
	<b><u>42,580,583,581</u></b>	<u>39,308,372,879</u>

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

### *Major customer information*

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2020

Renminbi Yuan

### 4. TRADE RECEIVABLES

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

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

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

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

As of 31 December 2020 and 2019, the Group had no assets or liabilities deriving from transferring trade receivables in which the Group is continuingly involved.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2020

Renminbi Yuan

### 5. FINANCING RECEIVABLES

	<b>31 December 2020</b>	31 December 2019
Bank acceptance notes	<b>7,072,160,166</b>	11,097,821,345
Commercial acceptance notes	<u>–</u>	<u>878,076</u>
	<b><u>7,072,160,166</u></b>	<b><u>11,098,699,421</u></b>

As of 31 December 2020, the Group pledged the bank acceptance notes of RMB108,365,962 (31 December 2019: RMB127,316,634) for the short-term loan and there were no bank acceptance notes pledged (31 December 2019: RMB4,470,011,632) to issue notes payable.

The undue notes discounted or endorsed were as follows :

	31 December 2020		31 December 2019	
	Derecognized	Not derecognized	Derecognized	Not derecognized
Bank acceptance notes	<u>8,889,821,875</u>	<u>157,975,562</u>	<u>2,076,771,934</u>	<u>127,789,539</u>

As of 31 December 2020 and 2019, there were no trade receivable transferred from notes receivable because of the drawers' inability to pay.

The Group derecognized notes receivable discounted to financial institutions amounting to RMB1,589,777,784 (2019: RMB4,189,003,767), and recognised discount expense amounting to RMB20,100,719 (2019: RMB49,959,470).

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2020

Renminbi Yuan

### 6. PREPAYMENTS

An aging analysis of the prepayments is as follows:

	31 December 2020		31 December 2019	
	Book value	Ratio (%)	Book value	Ratio (%)
Within one year	737,480,610	98	946,842,275	96
One to two years	17,859,793	2	27,222,230	3
Two to three years	-	-	88,508	-
Over three years	-	-	7,290,562	1
	<u>755,340,403</u>	<u>100</u>	<u>981,443,575</u>	<u>100</u>

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

### 7. NOTES PAYABLE

	31 December 2020	31 December 2019
Bank acceptance notes	<u>3,297,446,207</u>	<u>7,313,729,148</u>

As of 31 December 2020 and 2019, the aging of the Group's notes payable was all within six months, and there were no overdue notes.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2020

Renminbi Yuan

### 8. TRADE PAYABLES

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

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

	<b>31 December 2020</b>	31 December 2019
Within one year	<b>7,561,813,731</b>	5,994,021,801
One to two years	<b>29,631,818</b>	114,525,131
Two to three years	<b>10,103,644</b>	10,584,079
Over three years	<b>10,926,981</b>	11,195,995
	<b><u>7,612,476,174</u></b>	<b><u>6,130,327,006</u></b>

### 9. DIVIDENDS

According to the “2019 Annual Profit Distribution Plan” approved by the Company’s 2019 Annual General Meeting on 29 June 2020, the Company distributed dividends to all shareholders at RMB0.08 per share (tax included) (2019: RMB0.31 per share), for 7,700,681,186 shares amounting to RMB616,054,495 (2019: RMB2,387,211,168). As at 31 December 2020, the dividends have been paid and have been included in the financial statements.

On 25 March 2021, the 42nd meeting of the 9th board of the Company approved the 2020 final cash dividend of RMB0.13 (tax included) per share to shareholders, for 7,700,681,186 shares amounting to RMB1,001,088,554. The profit distribution plan will be submitted for approval in the annual shareholders’ meeting of the Company. Before the approval of the 2020 final dividend, the dividend will not be the liabilities of the Company and therefore was not included in the current year’s financial statements.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2020

Renminbi Yuan

### 10. REVENUE AND COST OF SALES

	2020		2019	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal operating income	<b>80,184,384,897</b>	<b>72,337,967,928</b>	77,158,249,628	70,327,320,806
Other operating income	<b>1,429,766,286</b>	<b>1,297,276,347</b>	1,104,596,376	988,161,109
	<b><u>81,614,151,183</u></b>	<b><u>73,635,244,275</u></b>	<b><u>78,262,846,004</u></b>	<b><u>71,315,481,915</u></b>

Revenue is presented as follows:

	2020	2019
Revenue from contracts with customers	<b>81,208,129,331</b>	78,021,403,864
Rental income	<b>27,171,458</b>	3,847,825
Interest income	<b>378,850,394</b>	237,594,315
	<b><u>81,614,151,183</u></b>	<b><u>78,262,846,004</u></b>

Timing of revenue recognition from contracts with customers :

	2020	2019
At a point in time		
Sale of steel products	<b>74,870,888,468</b>	71,759,528,213
Sale of other products	<b>6,085,120,923</b>	5,995,406,150
Over time		
Processing	<b>169,274,142</b>	160,134,559
Agency commission	–	22,590,195
Packaging services	<b>55,980,132</b>	53,978,920
Others	<b>26,865,666</b>	29,765,827
	<b><u>81,208,129,331</u></b>	<b><u>78,021,403,864</u></b>



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2020

Renminbi Yuan

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

	2020	2019
Revenue	<u><b>3,300,265,491</b></u>	<u><b>3,543,085,084</b></u>

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

	2020	2019
Within one year	<u><b>4,377,105,559</b></u>	<u><b>3,765,254,551</b></u>

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

## 11. FINANCIAL EXPENSES

	2020	2019
Interest expenses ( <i>Note</i> )	<b>643,235,325</b>	788,151,024
Less: interest income	<b>43,291,465</b>	79,269,218
Less: capitalised interest	–	–
Exchange (gain)/loss	<b>(64,724,018)</b>	42,953,057
Others	<u><b>18,356,742</b></u>	<u><b>32,976,365</b></u>
	<u><b>553,576,584</b></u>	<u><b>784,811,228</b></u>

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2020

Renminbi Yuan

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

	2020	2019
Gain/(loss) on disposal of fixed assets	66,506,223	(77,442,073)
Gain on disposal of intangible assets	522,568,733	383,722
	<u>589,074,956</u>	<u>(77,058,351)</u>

### 13. NON-OPERATING INCOME

	2020	2019	Included in 2020 non-recurring gains and losses
Government grants not related to the ordinary course of business	381,601,233	462,733,716	381,601,233
Others	20,975,788	7,180,250	20,975,788
	<u>402,577,021</u>	<u>469,913,966</u>	<u>402,577,021</u>

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

	2020	2019
Employees stabilization allowance	–	179,977,500
Compensation for settlement of employees	236,486,123	175,955,283
Grants for reduction of overcapacity	–	95,885,000
Compensation for “Three Supplies and Property Management” (“三供一業”)	13,689,408	10,705,600
Compensation for Masteel (Hefei) Iron & Steel Co., Ltd’s shut down	130,867,400	–
Others	558,302	210,333
	<u>381,601,233</u>	<u>462,733,716</u>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2020

Renminbi Yuan

### 14. NON-OPERATING EXPENSES

	2020	2019	Included in 2020 non-recurring gains and losses
Charity donation	2,362,220	609,449	2,362,220
Penalty expenditure	4,227,080	864,215	4,227,080
Compensation for sales	–	1,103,530	–
Loss from scrap of fixed assets	177,364,028	–	177,364,028
Others	4,711,989	1,158,677	4,711,989
	<u>188,665,317</u>	<u>3,735,871</u>	<u>188,665,317</u>

### 15. INCOME TAX EXPENSES

	2020	2019
Mainland China current income tax expense	493,938,520	504,353,061
Hong Kong current income tax expense	12,217,437	8,519,080
Overseas current income tax expense	14,735,133	14,054,819
Deferred tax expense	(18,003,680)	56,910,881
	<u>502,887,410</u>	<u>583,837,841</u>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2020

Renminbi Yuan

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

	2020	2019
Profit before tax	<b>3,080,866,517</b>	2,297,755,710
Tax at the applicable tax rate of 25% (Note)	<b>770,216,629</b>	574,438,928
Effect of different tax rates of subsidiaries	<b>(9,220,416)</b>	(6,325,547)
Non-deductible expenses	<b>18,696,718</b>	24,823,810
Adjustment of income tax of prior period	<b>(12,046,686)</b>	–
Other tax preference	<b>(154,660,118)</b>	(132,030,610)
Income not subject to tax	<b>(13,647,332)</b>	(9,677,236)
Unrecognised deductible temporary difference and tax losses	<b>222,652,274</b>	300,068,716
Utilised previous years' tax losses	<b>(215,578,288)</b>	(25,572,453)
Share of profit or loss of joint ventures and associates	<b>(103,525,371)</b>	(141,887,767)
Tax charge at the Group's effective rate	<b><u>502,887,410</u></b>	<b><u>583,837,841</u></b>
The Group's effective rate	<b>16%</b>	25%

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2020

Renminbi Yuan

### 16. EARNINGS PER SHARE

	<b>2020</b>	2019
	<i>cent/share</i>	<i>cent/share</i>
Basic earnings per share		
Continuing operations	<u><b>25.75</b></u>	<u>14.65</u>
Diluted earnings per share		
Continuing operations	<u><b>25.75</b></u>	<u>14.65</u>

Basic earnings per share shall be calculated by dividing profit attributable to owners of the parent (the numerator) by the weighted average number of ordinary shares in issue (the denominator). During the year of 2020 and 2019, the Company did not have any dilutive items that should adjust the basic earnings per share.

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

	<b>2020</b>	2019
Earnings		
Profit attributable to owners of the parent		
Continuing operations	<u><b>1,982,638,821</b></u>	<u>1,128,148,980</u>
Number of shares		
Weighted average number of ordinary shares		
in issue during the year	<u><b>7,700,681,186</b></u>	<u>7,700,681,186</u>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

*As at 31 December 2020*

*Renminbi Yuan*

### 17. CONTINGENT EVENTS

#### **Difference of corporate income tax**

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

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

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

#### **Pending litigation**

As of 31 December 2020, the Group and the Company did not have significant pending litigation.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

*As at 31 December 2020*

*Renminbi Yuan*

### 18. EVENTS AFTER THE BALANCE SHEET DATE

On 25 March 2021, the 42nd meeting of the 9th board of the Company approved the 2020 final cash dividend of RMB0.13 (tax included) per share to shareholders. The profit distribution plan will be submitted for approval in the annual shareholders' meeting of the Company.

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

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

25 March 2021

Maanshan City, Anhui Province, the PRC

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