鞍鋼新軋鋼股份有限公司

Angang New Steel Company Limited

(Stock code : 0347)

Interim Report 2006

Important: The Board confirms that there are no false representation or misleading statements contained in, or material omissions from, this report. The Directors severally and jointly accept responsibility for the truthfulness, accuracy and completeness of the contents of this announcement.

The board of directors (the "Board") of Angang New Steel Company Limited (the "Company") is pleased to announce the unaudited results of the Company and its jointly controlled entities (collectively referred to as the "Group") for the six months ended 30 June 2006 together with the comparative figures as stated herein.

In this interim report, the following companies shall be referred to as follows:

Anshan Iron and Steel Group Complex: "Angang Holding";

ANSC-TKS Galvanizing Co., Ltd. : "ANSC-TKS";

Angang New Steel and Iron Company Limited: "ANSI".

I. COMPANY PROFILE

1.	Legal Name of the Company	
	(in Chinese):	鞍鋼新軋鋼股份有限公司
	(in English):	Angang New Steel Company Limited
2.	Registered Address of the Company:	396 Nan Zhong Hua Lu, Tiedong District, Anshan City, Liaoning Province, the People's Republic of China (the "PRC")
	Business Address of the Company:	Tiexi District, Anshan City, Liaoning Province, the PRC
	Postal Code:	114021
	Company's Internet Website:	http://www.ansc.com.cn
	E-mail:	fujihui@ansc.com.cn
3.	Legal Representative:	Mr. Liu Jie

4.	Secretary to the Board:	Mr. Fu Jihui
	Correspondence Address:	1 Qian Shan Xi Lu, Qianshan District, Anshan City, Liaoning Province, the PRC
	Telephone:	(86) 412-8419192 (86) 412-8417273
	Fax:	(86) 412-6727772
	E-mail:	fujihui@ansc.com.cn
5.	Company's Designated PRC Newspapers for Disclosure of Information:	China Securities Journal, Securities Times
	Company's Designated Hong Kong Newspapers for Disclosure of Information:	Hong Kong Economic Times, The Standard
	Website for Disclosure of Information designated by China Securities Regulatory Commission ("CSRC"):	http://www.cninfo.com.cn
	Company's Interim Report Available at:	Office of the Secretary to the Board of the Company 1 Qian Shan Xi Lu, Qianshan District, Anshan City, Liaoning Province, the PRC
6.	Stock Exchange Listings:	A Shares: Shenzhen Stock Exchange H Shares: The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange")
7.	Abbreviation of the Company's Shares and Stock Code:	A Shares: G Angang 000898 H Shares: Angang New Steel 0347

II. MAJOR FINANCIAL DATA AND INDICES (UNAUDITED)

1. Major financial data

Prepared in accordance with International Financial Reporting Standards ("IFRSs")

Unit: Rmb'000

	For the six months ended 30 June	
	2006	**2005**
Items		
Profit attributable to equity shareholders of the Company	3,109,429	1,223,621
Earnings per share — Basic	Rmb0.572	Rmb0.413
Return on equity attributable to equity shareholders of the Company (weighted average)	13.28%	11.67%

Items	**As at 30 June 2006**	**As at 31 December 2005**
Total assets	52,274,326	14,223,931
Equity attributable to equity shareholders of the Company	26,016,846	11,250,702
Gearing ratio	50.23%	20.90%
Net assets per share	Rmb4.39	Rmb3.80

Prepared in accordance with the PRC Accounting Rules and Regulations

Unit: Rmb'000

Items	For the six months ended 30 June 2006	2005
Net profit	3,043,053	1,222,200
Net profit excluding non-operating items	3,080,977	1,222,120
Earnings per share (weighted average)	Rmb0.560	Rmb0.412
Earnings per share (diluted)	Rmb0.513	Rmb0.412
Return on net assets (weighted average)	12.97%	11.53%
Return on net assets (diluted)	11.69%	11.68%

Items	As at 30 June 2006	As at 31 December 2005
Total assets	52,285,172	14,289,823
Shareholders' funds	26,029,064	11,329,257
Gearing ratio	50.22%	20.72%
Net assets per share	Rmb4.39	Rmb3.82
Adjusted net assets per share	Rmb4.39	Rmb3.82

2. Differences between financial statements prepared in accordance with IFRSs and the PRC Accounting Rules and Regulations

Unit: Rmb'000

Items	Profit attributable to equity shareholders of the Company For the six months ended 30 June 2006	Equity attributable to equity shareholders of the Company As at 30 June 2006
Prepared in accordance with IFRSs	3,109,429	26,016,846
Adjusted items		
Pre-operating expenses of jointly controlled entities	2,290	2,719
Revaluation of land use rights	(2,268)	188,244
Capitalisation of general borrowing cost	(99,028)	(166,172)
Write off of long outstanding accounts payable	(39)	—
Amortisation of lease prepayments	(5)	738
Convertible debentures	—	(7,293)
Deferred taxation	32,674	(6,018)
Prepared in accordance with the PRC Accounting Rules and Regulations	3,043,053	26,029,064

3. Return on net assets and earnings per share for the interim period of 2006 as calculated in accordance with the "Regulations for Preparation and Reporting of Information Disclosed by Listed Companies (No. 9)" issued by the China Securities Regulatory Commission:

Profit for the reporting period	Return on net assets (%) Diluted	Return on net assets (%) Weighted average	Earnings per share (Rmb / share) Diluted	Earnings per share (Rmb / share) Weighted average
Profit from principal operations	22.41	24.86	0.983	1.073
Operating profit	16.54	18.36	0.726	0.792
Net profit	11.69	12.97	0.513	0.560
Net profit excluding non-operating items	11.84	13.13	0.519	0.567

III. CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF MAJOR SHAREHOLDERS

(1) Share capital structure

During the six months ended 30 June 2006, changes in the share capital structure of the Company were as follows:

Unit: Share

	Beginning of the period		Increase / decrease during the period (+) / (-)					End of the period	
	Number	Percentage (%)	Issue of additional shares	Bonus issue	Shares converted from capital reserve	Others	Sub-total	Number	Percentage (%)
I. Shares subject to trading moratorium	1,130,539,826	38.15	+2,970,000,000	–	–	–	+2,970,000,000	4,100,539,826	69.11
1. State-owned shares	1,130,503,576	38.15	+2,970,000,000	–	–	–	+2,970,000,000	4,100,503,576	69.11
2. State-owned legal person shares	–	–	–	–	–	–	–	–	–
3. Other domestic shares	36,250	0.00	–	–	–	–	–	36,250	0.00
Including: shares held by domestic corporations	–	–	–	–	–	–	–	–	–
shares held by domestic individuals	36,250	0.00	–	–	–	–	–	36,250	0.00
4. Foreign investment shares	–	–	–	–	–	–	–	–	–
Including: shares held by overseas corporations	–	–	–	–	–	–	–	–	–
shares held by overseas individuals	–	–	–	–	–	–	–	–	–
II. Shares not subject to trading moratorium	1,832,445,871	61.85	–	–	–	–	–	1,832,445,871	30.89
1. Ordinary domestic shares	942,445,871	31.81	–	–	–	–	–	942,445,871	15.89
2. Domestically listed foreign investment shares	–	–	–	–	–	–	–	–	–
3. H shares	890,000,000	30.04	–	–	–	–	–	890,000,000	15.00
4. Others	–	–	–	–	–	–	–	–	–
III. Total shares	2,962,985,697	100.00	+2,970,000,000	–	–	–	+2,970,000,000	5,932,985,697	100.00

Note: *Reasons for the changes in number of shares and share structure: each of the number of shares subject to trading moratorium, the number of state-owned shares and the total number of shares was increased by 2.97 billion, because the Company issued 2.97 billion new shares to Angang Holding during the reporting period as part of consideration for acquisition of its 100% equity interest in ANSI.*

(2) Details of Shareholders

1. As at 30 June 2006, the Company had a total of 86,192 shareholders, of which 323 were holders of H shares.

2. Shareholdings of major shareholders

As at 30 June 2006, the 10 largest shareholders and 10 largest holders of shares not subject to any trading moratorium and their respective shareholdings were as follows:

Details of shareholdings of 10 largest shareholders:

Name of shareholders Note	Capacity	Percentage of shareholding (%)	Number of shares held at the end of the period	Number of shares subject to trading moratorium	Number of shares pledged or frozen
Angang Holding	State-owned shares	69.11	4,100,503,576	4,100,503,576	—
HKSCC Nominees Limited	H shares	14.85	881,094,059	—	Unknown
Guotai Junan — Citigroup — DEUTSCHE BANK AKTIENGESELLSCHAFT	Other	0.77	45,711,922	—	Unknown
China Construction Bank — China International Double Dividend Balanced Securities Investment Fund	Other	0.71	42,109,164	—	Unknown
CICC — HSBC — Morgan Stanley International Limited	Other	0.54	31,904,114	—	Unknown
Galaxy — Standard Chartered — Citigroup Global Markets Limited	Other	0.51	30,218,595	—	Unknown
China life — Dividend — Individual Dividend 005L — FH002 Shen	Other	0.50	29,463,919	—	Unknown
Hongta Securities Co., Ltd.	Other	0.49	29,262,370	—	Unknown
Shenyin Wanguo — Bank of Agriculture BNP PARIBAS	Other	0.43	25,387,760	—	Unknown
Bank of Merchants — Citic Classic Categoinzed Secucities Investment Fund	Other	0.36	21,401,792	—	Unknown

Note: English names of the Shareholders other than HKSCC Nominees Limited are for identification purposes only.

Details of shareholdings of the 10 largest holders of shares not subject to any trading moratorium:

Name of shareholders Note	Number of shares not subject moratorium held at the end of the reporting period	Class of shares
HKSCC Nominees Limited	881,094,059	H shares
Guotai Junan — Citigroup — DEUTSCHE BANK AKTIENGESELLSCHAFT	45,711,922	Ordinary domestic shares
China Construction Bank — China International Double Dividend Balanced Securities Investment Fund	42,109,164	Ordinary domestic shares
CICC — HSBC — MORGAN STANLEY INTERNATIONAL LIMITED	31,904,114	Ordinary domestic shares
Galaxy — Standard Chartered — Citigroup Global Markets Limited	30,218,595	Ordinary domestic shares
China life — Dividend — Individual Dividend 005L — FH002 Shen	29,463,919	Ordinary domestic shares
Hongta Securities Co., Ltd.	29,262,370	Ordinary domestic shares
Shenyin Wanguo — Bank of Agriculture — BNP PARIBAS	25,387,760	Ordinary domestic shares
Bank of Merchants — Citic Classic Categoinzed Secucities Investment Fund	21,401,792	Ordinary domestic shares
Shenyin Wanguo — Citigroup — UBS Limited	18,335,748	Ordinary domestic shares

Note: English names of the Shareholders other than HKSCC Nominees Limited are for identification purposes only.

Explanations of the connected relationship or concerted action among the shareholders mentioned above:

Angang Holding, the largest shareholder of the Company, has no relationship with any of the other 10 largest shareholders of the Company or any of the other 10 largest holders of shares not subject to trading moratorium. Nor is Angang Holding a party to any concerted action as described in the Procedures for the Administration of Information Disclosure for Movement in Shareholdings of the Shareholders of Listed Companies. The Company is not aware of any connected relationship among other shareholders or any parties acting in concert as described in Procedures for the Administration of Information Disclosure for Movement in Shareholdings of the Shareholders of Listed Companies.

3. Details of the controlling shareholder of the Company

The controlling shareholder of the Company is Angang Holding.

Legal representative:	Liu Jie
Year of incorporation:	1948
Scope of business:	Production of steel products, metal products (non-franchise), cast iron tubes, metal structures, metal wire and products, sintering and coking products , cement, power generation, metallurgical machinery and parts, electrical machinery, electricity transmission and supply and control facilities and meters, mining of iron and manganese ores, refractory earth and stone extraction.
Principal products:	Steel pressing products and metal products
Registered capital:	Rmb10,794,160,000
Shareholding structure:	Wholly-owned by the State

4. Interests and short positions of major shareholders in the shares and underlying shares of the Company

Save as disclosed below, as at 30 June 2006, there was no other person (other than the directors, supervisors or senior management of the Company) who was recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance (the "SFO") as having an interest or short position in the shares or underlying shares of the Company:

Interests in ordinary shares of the Company

Name of shareholders	Number and class of shares	Percentage in total share capital *(%)*	Percentage in issued H shares *(%)*	Percentage in issued domestic shares *(%)*	Capacity
Angang Holding	4,100,503,576 State-owned Shares	69.11	—	81.31	Beneficial owner
HKSCC Nominees Limited	881,094,059 H Shares	14.85	99.00	—	Nominee

5. Shareholding of the 10 largest shareholders subject to trading moratorium

Unit: Share

Name of shareholder	Number of shares subject to moratorium	Expiry day of moratorium	Number of shares released from moratorium	Trading moratorium
Angang Holding	4,100,503,576	2 December 2008	427,614,303(Note)	1. The shares held by Angang Holding following the completion of the state-owned share reform plan will be subject to a trading moratorium of 36 months from the date of the listing of such shares except for the state-owned shares to be transferred to the holders of tradable A shares upon his/her exercise of the warrants;
		1 January 2011	3,559,791,418(Note)	2. On 25 January 2006, CSRC issued an approval to the Company to issue a total of 2.97 billion tradable shares to Angang Holding as part of the consideration for the acquisition of the entire equity interest in ANSI. Such shares are subject to a trading moratorium of 36 months from the issuance of such shares to Angang Holding;
				3. Angang Holding shall maintain a minimum of 60% shareholding in the Company following the completion of the acquisition mentioned above till 31 December 2010.

Note: Assuming the warrants granted by Angang Holding to the holders of tradable A shares under the state-owned share reform plan (the "Warrants") have been fully exercised on the expiry day of such Warrants.

IV. DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(1) Changes in the shareholdings of Directors, Supervisors and senior management

As at 30 June 2006, interests in the Company's issued share capital held by directors (the "Directors"), supervisors (the "Supervisors ") and senior management of the Company were as follows:

Name	Position	Number of shares held as at 1 January 2006	Number of shares held as at 30 June 2006	Increase / Decrease in number of shares for the period
LIU Jie	Chairman of the Board	6,250	6,250	—
TANG Fuping	Vice Chairman, General Manager	—	—	—
YANG Hua	Vice Chairman	—	—	—
HUANG Haodong	Director, Deputy General Manager	—	—	—
WANG Chunming	Director	—	—	—
LIN Daqing	Director, Deputy General Manager	—	—	—
FU Wei	Director, Deputy General Manager	11,250	11,250	—
FU Jihui	Director, Secretary to the board	6,250	6,250	—
YU Wanyuan	Non-executive Director	—	—	—
WU Xichun	Independent non-executive Director	—	—	—
WANG Linsen	Independent non-executive Director	—	—	—
LIU Yongze	Independent non-executive Director	—	—	—
LI Chak Yan, Francis	Independent non-executive Director	—	—	—
WANG Xiaobin	Independent non-executive Director	—	—	—
QI Cong	Chairman of the Supervisory Committee	—	—	—
SHAN Mingyi	Supervisor	3,750	3,750	—
ZHANG Lifen	Supervisor	—	—	—
LI Ji	Supervisor	—	—	—
XING Guibin	Supervisor	—	—	—
MA Lianyong	Chief Accountant	—	—	—

Name	Number of Warrants held as at 1 January 2006	Number of Warrants held as at 30 June 2006	Increase / Decrease in number of Warrants for the period
LIU Jie	750	750	—
FU Wei	1,350	1,350	—
FU Jihui	750	750	—
SHAN Mingyi	450	450	—

Shares and Warrants held by the persons mentioned above were domestic shares and warrants for the domestic shares of the Company, respectively. Such Shares and Warrants were held by the persons mentioned above in the capacity of the beneficial owners, except for Mr. Shan Mingyi who was interested in the Warrants held through family interest (his spouse).

(2) Interests and short positions in shares, underlying shares and debentures of the Company held by Directors, Supervisors and senior management

Save as disclosed above, as at 30 June 2006, none of the Directors, Supervisors or senior management of the Company had any interest or short position in the shares, underlying shares and debentures of the Company (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept under Section 352 of the SFO, or which were notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") set out in Appendix 10 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules").

(3) Changes of Directors, Supervisors and senior management during the reporting period

The twenty-fifth meeting of the third Board was held on 20 March 2006 at which the following resolutions were discussed and approved:

Appointment of Mr. Huang Haodong and Mr. Lin Daqing as Deputy General Manager of the Company;

Termination of the appointment of each of Mr. Li Zhongwu, Mr. Fu Jihui and Ms. Zhang Lifen as a deputy general manager of the Company.

The Company's annual general meeting for 2005 was held on 20 June 2006 at which Mr. Liu Jie, Mr. Tang Fuping, Mr. Yang Hua, Mr. Wang Chunming, Mr. Huang Haodong, Mr. Lin Daqing, Mr. Fu Wei, Mr. Fu Jihui, Mr. Yu Wanyuan, Mr. Wu Xichun, Mr. Wang Linsen, Mr. Liu Yongze, Mr. Francis Li Chak Yan and Ms. Wang Xiaobin were elected as the directors of the fourth Board of the Company.

The Company's annual general meeting for 2005 was held on 20 June 2006 at which Mr. Qi Cong, Mr. Shan Mingyi and Ms Zhang Lifen were elected as the shareholders' representative Supervisors for the fourth Supervisory Committee of the Company; Mr. Li Ji, Mr. Xing Guibin were elected as the employees' representative Supervisors for the fourth Supervisory Committee by the employees of the Company.

The first meeting of the Company's fourth Board was held on 26 June 2006 at which Mr. Liu Jie was elected as the chairman of the Board of the Company, Mr. Tang Fuping and Mr. Yang Hua were elected as the vice chairmen of the Board of the Company.

The first meeting of the Company's fourth Supervisory Committee was held on 26 June 2006 at which Mr. Qi Cong was elected as chairman of the Supervisory Committee of the Company.

V. MANAGEMENT DISCUSSION AND ANALYSIS

(1) Business review:

In accordance with IFRSs, the Group recorded a profit attributable to equity shareholders of the Company of Rmb3,109,429,000 for the six months ended 30 June 2006, representing an increase of 154.12% over the same period last year. Basic earnings per share was Rmb0.572.

In accordance with the PRC Accounting Rules and Regulations, the Group recorded a net profit of Rmb3,043,053,000 for the six months ended 30 June 2006, representing an increase of 148.98% as compared with the corresponding period last year. Earnings per share (weighted average) was Rmb0.560.

(1) Expanded production scale as a result of integrated operations

In the first half of 2006, the Group produced 7,234,900 tonnes of iron, 7,261,900 tonnes of steel (which represented an increase of 307.47% as compared with the same period in 2005) and 6,752,900 tonnes of steel products (which represented an increase of 130.33% as compared with the same period in 2005), out of which, the Company produced 1,015,000 tonnes of cold rolled sheets, 493,400 tonnes of galvanized sheets and colour coating sheets, 543,100 tonnes of heavy plates, 346,700 tonnes of heavy sections, 435,500 tonnes of wire rods, 2,675,600 tonnes of hot rolled strips, 376,900 tonnes of cold rolled silicon steel, 470,300 tonnes of medium plates, 84,800 tonnes of medium sections, 38,200 tonnes of small sections and 273,400 tonnes of seamless steel pipes.

(2) Technology upgrade and improved creativity enhancement

Based on the new principle of "serving the market and guiding consumption", the Company continued to focus on technology and product innovation. During the reporting period, various new products have been developed including X80 and X100 pipeline steel, intense shipbuilding plates, volute steel, hot rolled two-facet enamel steel ART310, fingerprint-proof galvanized steel sheets and all-steel cord. Progress was also seen in the development of the technology of U77MnCr heavy rails, cold rolled DP and TRIP steel. The steel products developed by the Company for strong and ultra-strong ship structures and ocean engineered structures successfully passed the authoritative certification by the shipping societies of nine countries, including UK and Norway, which has increased the grades of the shipbuilding plates produced by the Company from 6 grades to 11 grades and the brands of such shipbuilding plates from 10 to 128. Thus, the Company's shipbuilding plates have achieved the leading position in the domestic market and the advanced level in the international market.

(3) Further improvement in marketing management

The Company sets its product mix adjustment objectives based on the "high quality product" strategy and in line with the market demand and trend. It further enhanced its product mix by increasing the sales percentage of high quality and specialised steel products. It also carried out a consistent branding strategy. It seized the market opportunities to increase product export and substantially enhanced its influence and reputation. In the first half of 2006, the Company exported a total of 1,430,500 tonnes of steel products, accounting for 21.51% of the total sales volume.

(4) Strengthened cost control through various measures

The Company continued to improve its cost control by actively reducing its procurement cost in line with the market trend. It effectively reduced the procurement cost through a centralised and bidding procurement process and by avoiding peak-season procurement, using more effective and quality materials and increasing the utilisation rate of the low-cost materials. The Company also actively carried out energy saving activities. During the first six months of 2006, the comprehensive energy consumption rate and comparable energy consumption rate in the production of steel products were reduced by 5.6% per ton and 3.9% per ton, respectively and the comparable energy consumption rate in the production of steel was reduced by 20%, as compared with the same period in 2005, which was the best results the Company has ever recorded.

(5) Commencement of full operation of the 5,000,000-ton high-quality project in the western district of Anshan City

The 5 million tonne high-quality production facilities in the western of Anshan City has proved a successful practice of the Company in the technology renovation based on the guidelines of "high starting-point, less investments, quicker output and higher efficiency" and adopting advanced, large-scale, efficient, effective and environmental friendly equipment and production process. The commencement of operation of such facilities was a major step-forward of the Company and will provide a new platform for the Company's future development.

(6) Continuing improvement in corporate governance

The Company has expedited its internal system integration. It has put in place a corporate management manual and a series of manuals on quality, environment and industrial safety management. It has also set up a "rational, efficient, simple and applicable" system and implementation mechanism to achieve systematic, standardized and effective management. Phase one of the Enterprise-wide Resource Planning System ("ERP") was implemented in June 2006.

(7) Strengthened capital operation and rapid development

Following the completion of the acquisition of 100% equity interest in ANSI from Angang Holding, the Company, as a listed company, is able to operate an integrated iron and steel operation. It further cooperated with Thyssen Krupp Stahl AG to establish ANSC-TKS (Changchun) Steel Logistics Company Limited. The Company also intended to further inject capital in ANSC-TKS for its expansion, which would establish a foundation for the Company's long term development.

(2) Products representing more than 10% of the income or profits from principal operations of the Group are as follows (prepared in accordance with the PRC Accounting Rules and Regulations):

Principal activities by industry

	Income from principal operations	Cost of principal operations	Business tax and surcharges of principal operations	Profit from principal operations	Profit margin from principal operations	Percentage change of income from principal operations compared with the same period of the previous year Increase / (decrease) (%)	Percentage change of cost of principal operations compared with the same period of the previous year Increase / (decrease) (%)	Percentage change of profit from principal operations compared with the same period of the previous year Increase / (decrease) (%)	Percentage change of profit margin from principal operations compared with the same period of the previous year Increase / (decrease) (percentage points)
Steel pressing and processing	24,040,962	18,202,089	197,608	5,641,265	23.47	69.26	51.00	165.72	8.52
Including: connected transactions	3,541,978	3,005,480	29,392	507,106	14.32	114.97	108.77	147.27	1.87

Principal activities by products

	Income from principal operations	Cost of principal operations	Business tax and surcharges of principal operations	Profit from principal operations	Profit margin from principal operations	Percentage change of income from principal operations compared with the same period of the previous year Increase / (decrease) (%)	Percentage change of cost of principal operations compared with the same period of the previous year Increase / (decrease) (%)	Percentage change of profit from principal operations compared with the same period of the previous year Increase / (decrease) (%)	Percentage change of profit margin from principal operations compared with the same period of the previous year Increase / (decrease) (percentage points)
Cold rolled sheets	3,970,126	2,728,695	35,742	1,205,689	30.37	(17.87)	(36.64)	132.00	19.62
Heavy Plates	2,440,413	1,692,928	20,251	727,234	29.80	(5.27)	(5.77)	(6.19)	(0.29)
Hot rolled strips	8,071,433	6,115,961	66,979	1,888,493	23.40	–	–	–	–
Including: connected transactions	2,639,738	2,205,259	21,905	412,574	15.63	3,949.05	3,939.45	3,836.02	(0.45)

Notes:

1. *Connected transactions*

   (1) *The pricing policy for connected transactions*

   The price of the connected transactions as set out in the above chart was determined by reference to the average selling prices between the Company and independent third parties in the previous month.

   (2) *Rationale for and continuity of connected transactions*

   The production process of steel has of a relatively strong continuity. The Company relies on Angang Holding and its subsidiaries for the supply of most of its raw materials.The Company also sells some of its products to Angang Holding and its subsidiaries. Therefore, it is expected that such connected transactions will continue in the future operation of the Company.

2. *Reasons for the changes as compared with the same period of the previous year*

   (1) *The decrease in the income from principal operations for cold rolled sheets as compared with the same period of the previous year was mainly due to the decrease in the product prices.*

   (2) *The costs of principal operations of cold rolled sheets and heavy plate decreased because the Company was able to operate an integrated operation following the completion of the acquisition of 100% equity interest in ANSI, and the Company has strengthened its cost control to reduce the production cost.*

   (3) *For heavy plate, the decrease in the income and profit from principal operations was mainly due to by the decrease in product prices.*

   (4) *Hot rolled strip is a new product of the Company following the completion of the acquisition of 100% equity interest in ANSI.*

(3) Analysis of income from principal operations by geographical locations (prepared in accordance with the PRC Accounting Rules and Regulations):

Unit: Rmb'000

	Income from principal operations in the reporting period	Profit from principal operations in the reporting period	Income from principal operations in the same period of the previous year	Profit from principal operations in the same period of the previous year	Increase/ (decrease) of income from principal operations in the same period of the previous year (%)	Increase/ (decrease) of profit from principal operations in the same period of the previous year (%)
Northeast China	7,862,116	1,839,579	7,267,130	1,118,411	8.19	64.48
North China	2,234,167	509,766	842,774	108,782	165.10	368.61
East China	5,568,963	1,244,271	1,847,310	216,440	201.46	474.88
South China	2,811,921	589,737	753,527	73,814	273.17	698.95
Central south China	490,215	116,040	228,965	45,057	114.10	157.54
Northwest China	296,350	68,555	59,555	8,456	397.61	710.73
Southwest China	56,785	13,958	40,648	9,282	39.70	50.38
Export sales	5,679,135	1,450,399	3,163,729	542,766	79.51	167.22
Total	24,999,652	5,832,305	14,203,638	2,123,008	76.01	174.72

(4) Problem and difficulty in operation

The increases in price of iron ore, interest rates and electricity price have resulted in the intensified competition in the domestic market and greater pressure on the domestic steel manufacturing enterprises. The Company endeavoured to reduce such negative impacts by continuing its efforts in cost control and product mix adjustment.

(5) Investment of the Company

1. In March 2000, the Company issued convertible debentures of ordinary domestic shares in the amount of Rmb1,500,000,000 in the PRC, raising a total of Rmb1,480,000,000. The details are as follows:

Unit: Rmb'000

Projects undertaken	Proposed investment	Changes in use of proceeds	Actual amount of investment	Actual (estimated) benefits	Whether progressing as scheduled and estimated return
Renovation of cold rolling line	1,950,000	No	1,585,710	517,593	Yes
Cold Rolling Plant's renovation of No. 2 and 3 cross cutting lines	100,000	No	32,960	60,528	Yes
Distribution centre for the Cold Rolling Plant	180,000	No	0	15.66% (estimated)	No
Total	2,230,000		1,618,670	578,121	

2. Progress on uncompleted projects financed by the proceeds mentioned above

   The main reason for the delay in the completion of the cutting and distribution center in the Cold Rolled Plant was because the project's operation plans required further analysis.

3. Progress on investment by significant non-publicly raised funds

   The estimated total investment for the 5 million tonne high quality production facilities in western district of Anshan City was Rmb14,630,200,000. As at 30 June 2006, the capital invested was Rmb12,061,108,000.

(6) Changes in the principal operations and their structure as compared with the previous year were as follows:

The completion of the acquisition of 100% equity interest in ANSI from Angang Holding has enabled the Company to operate an integrated steel production process from coking, sintering, iron manufacture, steel manufacture to rolling operations and have necessary ancillary facilities and power supply systems. New products of the Company include hot rolled strips, medium plates, seamless steel pipes, cold rolled silicon steel and coking products.

(7) Changes in profitability (profit margin) of the principal operations as compared with the previous year were as follows (prepared in accordance with the PRC Accounting Rules and Regulations):

The profit margin for the period was 24.15%, representing an increase of 9.63 percentage points as compared with 14.52% for the previous year, which was mainly attributable to the completion of the acquisition of 100% equity interest in ANSI, which enabled the Company to operate an integrated opeation and an increase in overall profitability.

(8) Changes in the composition of profit (percentage of profit from principal operations, other profit from operations, expenses for the period, returns of investment, subsidy income and net income and expense of non-operating businesses in the total profit) as compared with the previous year were as follows (prepared in accordance with the PRC Accounting Rules and Regulations):

The percentage of profit from principal operations in the total profit increased by 11.35 percentage points as compared with the previous year, mainly attributable to the acquisition of 100% equity interest in ANSI, which has resulted in an expanded products range and integrated production process and an increase in overall profitability of the Company.

The percentage of expenses in the total profit for the reporting period was 6.65 percentage points higher as compared with the previous year which was attributable to the completion of the acquisition of 100% equity interest in ANSI. With an expanded operation scale, the Company incurred more expenses, out of which financial expenses accounted for a larger proportion because (i) the financial expenses increased as the Company's assumption of the loans of ANSI after the completion of such acquisition which resulted in an increased interest expense; and (ii) Secondly, the Company incurred additional interest on the deferred consideration payment for the acquisition of ANSI payable to Angang Holding.

(9) Analysis of the Group's financial position

Prepared in accordance with IFRSs (unaudited)

1. Items of income statements and cash flow statements

Unit: Rmb'000

Items	For the six months ended 30 June 2006	For the six months ended 30 June 2005	Change (+) / (-) (%)
Turnover	24,999,652	14,203,638	76.01
Cost of sales	18,950,708	12,052,957	57.23
Gross profit	5,843,380	2,124,808	175.01
Profit attributable to equity shareholders of the Company	3,109,429	1,223,621	154.12
Net increase / (decrease) in cash and cash equivalents	1,001,135	(1,201,301)	183.34

Notes:

a. *Increases in turnover and cost of sales were due to expansion of production and sale scale after the Company integrated its core business by acquiring the entire equity interest in ANSI.*

b. *Increase in gross profit was due to expansion of production and sale scale and enhancement in profitability as well as profit by integration of the production process after the Company integrated its core business by acquiring the entire equity interest in ANSI.*

c. *Increase in profit attributable to shareholders of the Company was due to expansion of production and sale scale and enhancement in profitability as well as profit by integration of the production process after the Company integrated its core business by acquiring the entire equity interest in ANSI. In addition, the Company obtained more tax exemption during this period.*

d. *Increase / (decrease) in cash and cash equivalents was due to the following reasons:*

   1. *the cash flow generated from operating activities increased net cash inflow by RMB4,400,223,000 as compared with the same period of the previous year;*

   2. *the cash flow generated from investing activities increased net cash outflow by RMB1,361,110,000 as compared with the same period of the previous year;*

   3. *the cash flow generated from financing activities increased net cash outflow by RMB836,677,000, contributing to a total net cash inflow of RMB2,202,436,000.*

2. Items of balance sheets

Unit: Rmb'000

Items	As at 30 June 2006	As at 31 December 2005	Change (+) / (-) *(%)*
Total assets	52,274,326	14,223,931	267.51
Equity attributable to equity shareholders of the Company	26,016,846	11,250,702	131.25
Cash and cash equivalents	1,539,014	562,339	173.68
Bills receivable	2,024,766	594,774	240.43
Inventories	5,943,620	2,608,291	127.87
Construction in progress	3,109,939	2,886,086	7.76
Bills payable	1,817,417	194,392	834.92
Bank loans (current)	2,090,065	758,035	175.72
Current portion of long-term payable to ultimate holding company	2,323,680	—	—
Bank loans (non-current)	9,094,994	604,013	1,405.76
Long-term payable to ultimate holding company	4,647,360	—	—

Notes:

a. *Increase in total assets was due to expansion of production and sale scale after the Company integrated its core business by acquiring the entire equity interest in ANSI; and the increase of net profit generated by operations during the period.*

b. *Increase in equity attributable to shareholders of the Company was due to (i) an additional 2,970,000,000 shares which was issued to Angang Holding by the Company as part of consideration for acquisition of 100% equity interest in ANSI, resulting in an increase in share capital and capital reserve, and (ii) expansion of production and sale scale and enhancement in profitability as well as profit as a result of the integration of the production process after the Company integrated its core business by acquiring the entire equity interest in ANSI.*

c. *Increases in cash and cash equivalents and bills receivable were due to expansion of production and sale scale after the Company integrated its core business by acquiring the entire equity interest in ANSI which resulted in the increased capital and acceptance of bills receivable.*

d. *Increase in inventories was due to expansion of production and sale scale after the Company integrated its core business by acquiring the entire equity interest in ANSI.*

e. *Increase in construction in progress was due to the increase of the Company's renovation construction projects increased as compared with the preceding period.*

f. *Increase in bills payable was due to expansion of production and sale scale after the Company integrated its core business by acquiring the entire equity interest in ANSI.*

g. *Increase in bank loans (current) was due to the bearing of the short-term loan of ANSI after the acquisition of the entire equity interest in ANSI.*

h. *Increase in long-term payable to ultimate holding company was due to the consideration payable to Angang Holding for the acquisition of the entire equity interest in ANSI of which RMB2.324 billion will be paid within one year and RMB4.647 billion will be paid at the end of the second year and the third year after completion of the acquisition.*

i. *Increase in bank loans (non-current) was due to the bearing of the long-term bank loan of ANSI after the acquisition of 100% equity interest in ANSI.*

(10) Business plan for the second half of the year

(1) To reform and enhance the innovation mechanism to improve the creativity and core competitiveness of the Company;

(2) To improve the marketing management system and further market expansion;

(3) To enhance the production and management of the production facilities in the western district of Anshan City to enable such facilities to commence commercial operation and generate profit as early as possible;

(4) To strengthen production and management with optimised product mix in line with market developments;

(5) To strengthen the corporate reform for the further dynamic development of the Company; and

(6) To reinforce the corporate management and overall strength of the Company.

(11) Significant changes in the estimated accumulated profit for the period from 1 January 2006 to 30 September 2006 as compared to the corresponding period in the previous year and reasons for such changes

It is estimated that the net profit of the Company will be increased by at least 150% to 200% from 1 January 2006 to 30 September 2006 as compared to the corresponding period in the previous year, which primarily due to the increased profitability of the Company as a result of the increased production and sales following the completion of the acquisition of 100% of equity interest in ANSI in January 2006.

(12) Liquidity, financial resources and capital structure of the Group (prepared in accordance with IFRSs)

1. As at 30 June 2006, the Group had non-current bank loans of Rmb9,095,000,000, primarily used for technical renovation construction. The terms of the loans ranged from 2 to 25 years with annual interest rates mainly between 4.698% - 6.12%.

2. As at 30 June 2006, the Group had cash and cash equivalents of Rmb1,539,000,000 and at the end of 2005, the amount was Rmb562,000,000.

3. As at 30 June 2006, the total assets less current liabilities of the Group amounted to Rmb39,759,000,000 as compared to Rmb11,855,000,000 at the end of 2005. The equity attributable to equity shareholders of the Group amounted to Rmb26,017,000,000 as at 30 June 2006 compared with Rmb11,251,000,000 at the end of 2005.

(13) Charges of assets

The Company's jointly controlled entity has charged its accounts receivable, certain land use rights, construction in progress, property, plant and equipment to the Bank of China as security for bank loans. Meanwhile, the Company had pledged of its 50% equity interest in the jointly controlled entity to the Bank of China.

(14) Commitments and contingent liabilities

As at 30 June 2006, the Group had capital commitment of Rmb9,146,000,000, which was primarily the expenses relating to construction and external investment.

As at 30 June 2006, the Group did not have any contingent liabilities.

(15) Equity to liability ratio

In accordance with IFRSs, the equity attributable to equity shareholders of the Group to liabilities ratio of the Group as at 30 June 2006 was 0.99 times, compared with 3.78 times as at 31 December 2005 (calculated by dividing total equity attributable to equity shareholders of the Group by total liabilities).

(16) Foreign exchange risk

The PRC implemented a managed float exchange rate based on the demand and supply of the market with reference to a basket of currencies with effect from 21 July 2005.

The Company exported some of its products and imports of the equipment, spare parts and materials from time to time. Such import and export significantly offset the exposure to foreign exchange risk.

(17) Employees

As at 30 June 2006, the Company had 31,396 employees, of which 25,510 were in production, 75 were sales personnel, 2,523 were technicians, 298 were in finance and 2,990 were in administration and management. Among the employees of the Company, 4,204 had obtained a bachelor degree or above, representing 13.4% of the number of employees; 3,956 had obtained a diploma, representing 15.9% of the number of employees and 1,098 had received secondary education, representing 3.5% of the number of employees.

The Company adopted position-linked and liability-linked annual remuneration packages for the senior management; position-linked remuneration and new product incentive packages for scientific research personnel; sales profit-linked remuneration packages for sales personnel; and position-linked remuneration packages for other personnel.

During the first half of the year, the Company focused on training for production operators and scientific research and technical personnel, and 3,339 production operators have attended training for computer, foreign languages and skill grading; 2,637 employees in charge of special operations have attended training for safety operation and 105 professional technical personnel have attended the new technology courses at University of Science and Technology Beijing and Northeast University. The overall staff calibre was highly improved through training, which assured the Company's production and operation.

VI. REVIEW OF SIGNIFICANT EVENTS

(1) Corporate governance practice

Pursuant to the applicable requirements of the PRC Company Law, the PRC Securities Law, the relevant requirement of the China Securities Regulatory Commission, the Listing Rules of the Hong Kong Stock Exchange and the Rules Governing the Listing of Shares on the Shenzhen Stock Exchange, the Company has regulated its operations and established a sound corporate governance system.

With shares listed on both the Hong Kong Stock Exchange and the Shenzhen Stock Exchange, the Company is committed to improving its corporate governance in accordance with international corporate governance standards. The Board and the management understand that they are responsible for sound corporate governance practice and procedures with strict implementation, so as to ensure the interests of shareholders and maximise the investment return for the shareholders in the long term.

Following the implementation of the Code on Corporate Governance Practices ("the Code") issued by Hong Kong Stock Exchange, the Company has further improved its corporate governance pursuant to the Code. During the reporting period, the Company has complied with all code provisions and most of the recommended best practices set out in the Code.

(2) Proposed interim profit appropriation and transfer from common reserve to share capital

The Company does not declare any interim dividends or transfer any surplus reserves to the share capital of the Company for the six months ended 30 June 2006.

(3) Implementation of profit appropriation plan and issuance of new shares

On 20 June 2006, the Company convened its 2005 general meeting in Anshan, at which the 2005 profit appropriation plan was considered and approved. It was resolved to distribute a cash dividend of Rmb3.6 per 10 shares based on the total share capital of 2,962,985,697 shares as at 31 December 2005, with the dividend for domestic-listed Renminbi ordinary shares inclusive of tax. The new 2.97 billion shares issued to Angang Holding by the Company in 2006 were not included in this profit appropriation plan. On 18 July 2006, the Company distributed cash dividends to holders of H shares. The applicable exchange rate was based on the average of the basic exchange rate of Renminbi and Hong Kong dollar announced by the Bank of China one calendar week prior to the holding of the general meeting, being HK$100 to Rmb103.0810. The cash dividends actually paid to holders of H shares was HK$310,823,600. On 28 June 2006, the Company distributed cash dividends to holders of ordinary domestic shares and state-owned legal person shares; the Company distributed Rmb746,274,851 in aggregate to the shareholders of ordinary domestic shares and state-owned legal person shares. The cash dividends for 2005 distributed by the Company was Rmb1,066,674,851 in total.

On 28 December 2005, the Company convened the second Extraordinary General Meeting, the second Domestic Share Class Meeting and the second H Shares Class Meeting, at which an additional issuance of 2,970,000,000 Circulating ordinary domestic Shares to Angang Holding and the acquisition of the entire equity interest of ANSI from Angang Holding were approved.

The Company deposited the additional 2,970,000,000 shares issued by Angang Holding with the China Securities Depository & Clearing Corporation Limited, Shenzhen Branch on 23 February 2006.

(4) Material litigation and arbitration

The Company was not involved in any material litigation or arbitration during the reporting period.

(5) Major acquisition or disposal of assets

Parties and Assets acquired	Date of acquisition	Consideration	Net profit contributed to the Company since date of acquisition to the end of this reporting period	Whether a connected transaction (if so, state the basis of pricing)	Whether ownership of assets transferred	Whether debts transferred
The entire equity interest in ANSI held by Angang Holding	1 January 2006	Rmb19,712,340,000	Note	A connected transaction Pricing principle: Based on the net asset value of ANSI as assessed in the domestic valuation report which is filed with SASAC, as adjusted by consideration.	Yes	Yes

Note : During the reporting period, the Company completed the acquisition of 100% equity interest in ANSI. All assets and liabilities of ANSI were transferred to the Company upon completion of the acquisition in January 2006 and ANSI applied for deregistation thereafter. As a result, the operating profit of ANSI for the six months ended 30 June 2006 was captured in the Company's financial statements.

(6) Material connected transactions in the reporting period

I. Continuing connected transactions

During the reporting period, the Company purchased most of its raw materials, energy and utilities necessary for production from Angang Holding and its subsidiaries, and sold to Angang Holding and its subsidiaries some of its products. The transactions and prices were implemented and calculated in accordance with the Materials and Services Supply Agreement entered into between the parties.

(1) Purchase of products and receipt of supporting services from connected parties

Items	Pricing principle	Price	Amount *(Rmb'000)*	As a percentage of similar transaction *(%)*
Iron concentrate	Not higher than the average import price reported to the PRC customs in the preceding half-year reporting period and the railway transportation cost from Baiyuquan Port to the Company as well as adjustment subject to the grade of the iron concentrate which was based on the average weighted grade of the iron concentrate imported by the Company in the the second half of 2005. For every 1 percentage point increase or decrease in the grade of iron concentrate, the price will be increased or decreased by Rmb10 / tonne.	Rmb480 / tonne	2,699,924	100
Pellet	Based on the average price of pellets purchased by the Company from independent third parties in the preceding half-year reported period. For every 1 percentage point increase or decrease in the grade of iron concentrate, the price will be increased or decreased by Rmb10 / tonne.	Rmb640 / tonne	1,247,212	100
Sinter ore	The price of iron concentrate plus processing cost of the supplier in the preceding half-year reported period plus 10% gross profit (of which, the processing cost is not higher than that of similar products produced by the Company)	Rmb506 / tonne	731,019	100
Scrap steel	Market price	—	98,696	99.51
Billets		—	113,692	98.53
Electricity	State price	Rmb0.45 / tonne	524,819	31.90
Lime stone	Not higher than the average of the sales prices for the preceding month offered by the relevant member of Angang Holding to the independent third parties	Rmb55 / tonne	28,259	39.11
Lime powder		Rmb322 / tonne	340,902	80.84
Refractory materials		—	68,948	16.36
Spare parts and tools		—	174,529	9.67
Total		—	6,028,000	—

Items	Pricing principle	Amount (Rmb'000)	As a percentage of similar transaction (%)
Railway transportation	State price	235,421	41.55
Road transportation	Market price	79,020	38.90
Agency services: Import of raw material, equipment, components and auxiliary material Product export	1.5% as commission (not more than the main commission levied by China State Import and Export Company)	76,702	100
Repair and maintenance of equipment	Market price	255,642	44.94
Design and engineering services		191,684	5.12
Education facilities, vocational education, on-the-job training, translation service		70	45.05
Company vehicle service		7,542	50.97
Charge for arrangement of business and meeting		218	9.04
Afforesting service		3,059	50.07

Items	Pricing principle	Amount (Rmb'000)	As a percentage of similar transaction (%)
Newspaper and other publications	State price	340	46.94
Telecommunication business and service		5,666	47.92
Environmental monitoring service		596	86.03
Supply of heat		267	80.60
Production coordination and maintenance	Cost of service and material based on market price	308,269	85.42
Production coordination and maintenance		45,897	97.20
Total	—	1,210,393	—
Interest on capital for settlement	State price	1,873	25.88
Loans and discounted interest	State price	57,363	20.09

(2) Sales of products and provision of services to connected parties

Items	Pricing principle	Price	Amount (Rmb'000)	As a percentage of similar transaction (%)
Cold rolled sheets	The average sales price of preceding month between the Group and the independent third parties; For provision of new products developed for the other party, the price is based on the market price if the market price exists; if the market price does not exist, the price is based on the principle of the cost plus a reasonable profit, while the reasonable profit rate is not higher than the average profit margin of related products provided by relevant member of companies.	RMB3,712 / tonne	323,489	8.15
Heavy plates		RMB3,312 / tonne	96,805	3.97
Wire rods		RMB2,518 / tonne	137,287	10.83
Large section steel products		RMB3,608 / tonne	1,925	0.16
Hot rolled plates		RMB2,884 / tonne	2,219,444	27.50
Medium plates		RMB2,774 / tonne	213,720	14.82
Galvanized steel sheets		RMB4,215 / tonne	158,464	9.46
Colour coating sheet		RMB5,017 / tonne	2,884	2.35
Medium section steel products		RMB2,434 / tonne	49,829	22.30
Small section steel products		RMB2,391 / tonne	51,314	51.27
Seamless steel pipe		RMB3,871 / tonne	194,628	15.20
Molten iron		RMB1,924 / tonne	12,759	100
Coke		RMB557 / tonne	24,585	85.59
Chemical byproduct		—	17,854	4.17
Scrap steel material	Market price	—	56,402	79.28
Abandoned material		—	23,028	29.96
Total			3,584,417	—

Items	Pricing principle	Price	Amount (Rmb'000)	As a percentage of similar transaction (%)
New water	State price	Rmb2.51 / tonne	21,271	99.66
Clean recycled water	Production cost plus a profit margin of 5%	Rmb1.69 / tonne	43,363	100.00
Soft water		Rmb2.40 / tonne	204	100.00
Gas		Rmb41.15 / GJ	94,742	77.21
Blast furnace gas		Rmb13.50 / GJ	12,226	99.93
Steam		Rmb39.50 / GJ	18,283	97.30
Nitrogen		Rmb0.07 / M^3	49	2.84
Oxygen		Rmb0.53 / M^3	1,691	16.24
Argon		Rmb0.60 / M^3	163	4.11
Compressed air		Rmb0.09 / M^3	871	100.00
Unused hot water		Rmb7.17 / GJ	7,962	89.97
Product testing service	Market price	—	2,214	4.80
Transportation service		—	768	86.65
Total	—	—	203,807	—

(3) Sales of products to jointly controlled entities

Item	Amount (Rmb'000)	As a percentage of similar transaction (%)
Cold hard coils	673,993	15.65

The above connected transactions of the Company were all settled in cash.

2. Connected transactions arising from transfer of assets and equity interest

During the reporting period, the Company completed the acquisition of 100% equity interest in ANSI from Angang Holding and all assets and liabilities of ANSI were transferred to the Company in January 2006. The consideration was determined on the basis of net asset value of ANSI as set out in the domestic asset valuation report which has been filed with SASAC subject to a final adjustment amount. The final consideration was Rmb19,712,340,000.

Following the completion of the acquisition, the Company is able to operate a modernised and integrated core business in steel and iron production, including an integrated steel and iron production process from coking, sintering, iron manufacture, steel manufacture to rolling operations, and necessary ancillary facilities and power supply systems. As such, the Company's comprehensive strength and competitiveness in the market have been significantly enhanced.

(7) Creditors' rights and debts between the Company and connected parties

Apart from the creditors' rights and debts incurred from normal production and operating activities, there was no other creditor and debtor relationship between the Company and connected parties.

As at 30 June 2006, bank loans in the amount of Rmb5,013,000,000 of the Company were guaranteed by Angang Holding.

(8) Material contracts and their performance

1. The Company did not enter into any trust, contractual or lease arrangement in respect of the assets of other companies nor did other companies enter into any trust, contractual or lease arrangement in respect of the assets of the Company during the reporting period.

2. Material guarantee

Guarantee provided by the Company to controlling subsidiaries

Amount of guarantee provided to controlling subsidiaries during the reporting period	—
Amount of guarantee provided to controlling subsidiaries at the end of the reporting period	Rmb462,000,000

Total guarantees provided by the Company (including guarantee provided to controlling subsidiaries)

Total guarantee amount	Rmb462,000,000
The percentage of the total guarantee amount over the net assets of the Group	1.77%
Representing:	
Guarantee provided to shareholders, beneficial owners and connected parties	—
Guarantee directly or indirectly provided to parties with gearing ratio over 70%	Rmb462,000,000 [Note 1]
Amount of guarantee in total over 50% of the net assets	—
Total amount of the above guarantees	Rmb462,000,000 [Note 1]

Note 1: The guarantee was a pledged guarantee jointly provided by the Company and Thyssen Krupp Steel on 22 October 2002 to Bank of China for a loan of Rmb1,080,000,000 granted to ANSC - TKS of which a total of Rmb540,000,000 was borne by the Company. On 30 June 2006, the guarantee entered into by the Company amounted to Rmb462,000,000.

Specific statement opinions of independent Directors in relation to the cumulative and existing external guarantees and the Company's compliance the "Notice in relation to certain issues concerning the regulation of funds transfer between listed companies and connected parties, and external guarantees granted by listed companies" (Zheng Jian Hui Fa [2003] No.56) (the "Notice"):

In accordance with the Notice, we have faithfully and carefully reviewed the Company's external guarantee, and hereby make the following statements and give the following opinions:

(1) The Company has complied with the relevant requirements of the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange since its listing, and has not provided any guarantee to its controlling shareholders, any other connected party which has a less than 50% shareholding in the Company, any non-legal person unit or any individual.

(2) The Company has not provided any guarantee for any other companies in the first half of 2006.

(3) As at 30 June 2006, external guarantees granted by the Company amounted to Rmb462,000,000, accounting for 1.77% of the net assets of the Group as at 30 June 2006 (in accordance with the PRC Accounting Rules and Regulations).

(4) As at 30 June 2006, there was no overdue payment guaranteed by the Company.

(5) To date, the Company has not been subjected to any penalty, criticism nor condemnation by the securities regulatory authorities in respect of the Company's external guarantees.

(6) The Company has amended its articles of association pursuant to the requirements of the Notice.

3. The Company did not entrust any party with the management of any of its assets during the reporting period;

4. The Company did not enter into any other material contracts during the reporting period;

5. The Company did not entrust any party with the management of any of its funds during the reporting period.

(9) Undertakings of Controlling Shareholder

1. Angang Holding, the controlling shareholder of the Company, in addition to the undertakings required under the relevant laws and regulations, has made the following undertakings in relation to the State-owned Share Reform Plan:

   (1) The shares held by Angang Holding following the completion of the state-owned share reform plan will be subject to a trading moratorium of 36 months from the listing date of such shares on the Shenzhen Stock Exchange except for the shares to be transferred to any holder of tradable ordinary domestic shares upon his / her / its exercise of the warrants.

   (2) For the tradable ordinary domestic shares of the Company issued to Angang Holding for the acquisition of the entire equity interest in ANSI, such shares will also be subject to a trading moratorium of 36 months from the day on which the shares are issued to Angang Holding.

   (3) Angang Holding will maintain a minimum of 60% shareholding in the Company following the completion of the acquisition of the entire equity interest in ANSI till 31 December 2010.

   (4) Angang Holding will compensate other shareholders for any loss arising from its failure to fulfil the whole or part of its undertakings.

   (5) Angang Holding will arrange for the deposit of the relevant shares as compensation under the State-owned Share Reform Plan with China Securities Depository and Clearing Corporation Limited, Shenzhen Branch to ensure fulfillment of its obligations under the State-owned Share Reform Plan.

   (6) Angang Holding will be responsible for all the costs and expenses arising from the implementation of the State-owned Share Reform Plan.

   Angang Holding further undertakes that:

   "Angang Holding will perform its undertakings on a good faith basis and accepts the liabilities thereunder. Unless the transferee agrees and is eligible to make the undertakings, Angang Holding will not transfer any shares held by it."

   During the reporting period, the Company was not aware of any breach of such undertakings by Angang Holding.

2. Angang Holding made an undertaking to the Company on 25 May 2005 that, following the completion of the acquisition of the entire equity interest in ANSI, will provide a discount equal to 10% of the average import price on the highest amount as determined under the pricing formula set out in the Supply of Materials and Services Agreement, being 10% of the average import price of iron concentrate reported to the PRC customs in the preceding half-year reporting period.

   During the reporting period, no breach of Angang Holding's undertakings was found.

(10) Purchase, sale or redemption of the Company's listed securities

During the six months ended 30 June 2006, there was no purchase, sale or redemption of the Company's listed securities.

(11) Securities Transactions of Directors

The Board has adopted the relevant code for securities transactions by Directors in compliance with the Listing Rules. Having made enquiries of each of Directors, they have confirmed that they have complied with the standards set out in Appendix 10 to the Listing Rules.

(12) Independent Non-executive Director

Throughout the reporting period, the Board has been in compliance with Rule 3.10(1) of the Listing Rules, which requires a company to maintain at least three independent non-executive directors, and with Rule 3.10(2) of the Listing Rules, which requires one of those independent non-executive directors to possess professional qualifications or to be specialised in accounting or relevant financial management.

(13) Audit Committee

The Company has established an audit committee (the "Audit Committee") in compliance with Rule 3.21 of the Listing Rules.

The Audit Committee, along with the management, have reviewed the accounting standards, principles and methods adopted by the Group, and considered matters regarding auditing, internal control and financial reporting, including the unaudited interim report for the six months ended 30 June 2006.

(14) Other important events

1. Change of Company name

   On 20 June 2006, the resolution in relation to change of the company name was considered and approved at the 2005 Annual General Meeting of the Company. The results of 2005 Annual General Meeting were published in China Securities Journal, Securities Times, Hong Kong Economic Times, the Standard and the website of http://www.cninfo.com on 21 June 2006.

2. Adjustment to the exercise price of the Angang JTC1 warrant

   The Announcement of Adjustment to the Exercise price of the Angang JTC1 Warrant was published in China Securities Journal, Securities Times, Hong Kong Economic Times, the Standard and the website of http://www.cninfo.com on 28 June 2006.

VII. INTERIM FINANCIAL REPORT (UNAUDITED)

A. Interim Financial Report prepared in accordance with IAS 34 Interim Financial Reporting.

Consolidated income statement (unaudited)

For the six months ended 30 June 2006

(Expressed in Renminbi)

		Six months ended 30 June	
		2006	**2005**
	Note	*Rmb'000*	*Rmb'000*
Turnover	2,3	24,999,652	14,203,638
Cost of sales		(18,950,708)	(12,052,957)
Sales related taxes		(205,564)	(25,873)
Gross profit		5,843,380	2,124,808
Other operating (loss) / income		(53,203)	49,210
Distribution and other operating expenses		(404,227)	(227,992)
Administrative expenses		(635,490)	(159,669)
Profit from operations		4,750,460	1,786,357
Net financing costs		(401,939)	(30,098)
Share of profits less losses of associates		(409)	(1,954)
Profit before taxation	4	4,348,112	1,754,305
Income tax expense	5	(1,238,683)	(530,684)
Profit for the period and attributable to equity shareholders of the Company		3,109,429	1,223,621
Earnings per share	7		
Basic		Rmb0.572	Rmb0.413

The notes on pages 50 to 62 form part of this interim financial report.

Consolidated balance sheet (unaudited)

At 30 June 2006

(Expressed in Renminbi)

	Note	At 30 June 2006 Rmb'000	At 31 December 2005 Rmb'000
Non-current assets			
Property, plant and equipment		32,347,279	6,364,573
Intangible assets		51,631	23,760
Construction in progress	8	3,109,939	2,886,086
Lease prepayments		5,543,063	315,959
Interest in associates		30,518	30,927
Other investment		10,500	10,500
Deferred tax assets		6,018	38,692
		41,098,948	9,670,497
Current assets			
Inventories		5,943,620	2,608,291
Amount due from ultimate holding company		1,601	—
Amounts due from fellow subsidiaries		1,267,326	281,590
Trade receivables	9	2,187,114	933,165
Prepayments, deposits and other receivables		236,703	127,326
Income tax recoverable		—	40,723
Cash and cash equivalents	10	1,539,014	562,339
		11,175,378	4,553,434
Current liabilities			
Trade payables	11	2,866,884	419,201
Income tax payable		40,571	—
Amount due to ultimate holding company		202,634	4,688
Amounts due to fellow subsidiaries		590,178	43,727
Other payables		4,080,701	1,143,565
Dividends payable		320,413	—
Bank loans		2,090,065	758,035
Current portion of long-term payable to ultimate holding company	12	2,323,680	—
		12,515,126	2,369,216
Net current (liabilities) / assets		(1,339,748)	2,184,218
Total assets less current liabilities carried forward		39,759,200	11,854,715

Consolidated balance sheet (unaudited) (continued)

At 30 June 2006

(Expressed in Renminbi)

	Note	At 30 June 2006 *Rmb'000*	At 31 December 2005 *Rmb'000*
Total assets less current liabilities brought forward		39,759,200	11,854,715
Non-current liabilities			
Bank loans		9,094,994	604,013
Long-term payable to ultimate holding company	12	4,647,360	—
		13,742,354	604,013
Net assets		26,016,846	11,250,702
Capital and reserves			
Share capital		5,932,986	2,962,986
Share premium		12,811,029	3,057,639
Reserves		1,392,158	1,392,158
Retained profits		5,880,673	3,837,919
Total equity attributable to equity shareholders of the company		26,016,846	11,250,702

Approved and authorised for issue by the board of directors on 14 August 2006.

Liu Jie	**Fu Jihui**
Chairman	*Director*

The notes on pages 50 to 62 form part of this interim financial report.

Consolidated statement of changes in equity (unaudited)

For the six months ended 30 June 2006

(Expressed in Renminbi)

	Note	Share capital Rmb'000	Share premium Rmb'000	Reserves Rmb'000	Retained profits Rmb'000	Total Rmb'000
At 1 January 2005		2,962,942	3,057,296	974,167	3,027,871	10,022,276
Net profit for the period		—	—	—	1,223,621	1,223,621
Shares issued upon conversion of convertible debentures		44	342	(263)	—	123
Final dividends – 2004	6	—	—	—	(889,095)	(889,095)
At 30 June 2005		2,962,986	3,057,638	973,904	3,362,397	10,356,925
At 1 January 2006		2,962,986	3,057,639	1,392,158	3,837,919	11,250,702
Net profit for the period		—	—	—	3,109,429	3,109,429
Shares issued on acquisition of Angang New Steel and Iron Company Limited ("ANSI")	12	2,970,000	9,753,390	—	—	12,723,390
Final dividends – 2005	6	—	—	—	(1,066,675)	(1,066,675)
At 30 June 2006		5,932,986	12,811,029	1,392,158	5,880,673	26,016,846

The notes on pages 50 to 62 form part of this interim financial report.

Condensed consolidated cash flow statement (unaudited)

For the six months ended 30 June 2006

(Expressed in Renminbi)

		Six months ended 30 June	
		2006	**2005**
	Note	*Rmb'000*	*Rmb'000*
Cash flows from operating activities		5,029,840	629,617
Cash flows from investing activities		(1,954,235)	(593,125)
Cash flows from financing activities	6	(2,074,470)	(1,237,793)
Net increase / (decrease) in cash and cash equivalents		1,001,135	(1,201,301)
Cash and cash equivalents at 1 January	10	562,339	1,813,683
Effect of exchange rate fluctuations on cash held		(24,460)	—
Cash and cash equivalents at 30 June	10	1,539,014	612,382

The notes on pages 50 to 62 form part of this interim financial report.

Notes on the interim financial report (unaudited)
For the six months ended 30 June 2006

1 Basis of preparation

This interim financial report is unaudited but has been reviewed by the Audit Committee of the Angang New Steel Company Limited (the "Company").

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" adopted by the International Accounting Standards Board ("IASB").

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Company and its jointly controlled entities (the "Group") since 31 December 2005. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the IASB. IFRSs include all applicable IFRS, IAS and related interpretations.

The interim financial report has been prepared in accordance with substantially the same accounting policies adopted in the 2005 annual financial statements.

IASB has issued a number of new and revised IFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2006. The Board of Directors has determined the accounting policies expected to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2006, on the basis of IFRSs currently in issue.

The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies applied in these financial statements for the periods presented.

1 Basis of preparation *(continued)*

The IFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2006 may be affected by the issue of additional interpretation(s) or other changes announced by the IASB subsequent to the date of issuance of this interim financial report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

The financial information relating to the financial year ended 31 December 2005 that is included in the interim financial report as being previously reported information does not constitute annual financial statements of the Company prepared under IFRSs for that financial year but is derived from those financial statements. The annual financial statements for the year ended 31 December 2005 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 10 April 2006.

2 Segment reporting

The Group operates principally in a business segment for the production and sales of steel products. Segment revenue based on the geographical location of customers is as follows:

	Six months ended 30 June	
	2006	**2005**
	Rmb'000	*Rmb'000*
People's Republic of China ("PRC")	19,320,517	11,293,606
Other countries	5,679,135	2,910,032
	24,999,652	14,203,638

All of the Group's assets are in the PRC.

3 Turnover

Turnover represents the aggregate of the invoiced value of goods sold, after allowances for goods returned, trade discounts and value added tax.

4 Profit before taxation

Profit before taxation is arrived at after charging / (crediting):

	Six months ended 30 June 2006 Rmb'000	2005 Rmb'000
Interest and other borrowing costs	485,712	66,449
Less: Amount capitalised as construction in progress	(102,954)	(12,412)
Net interest expenses	382,758	54,037
Interest income	(7,463)	(11,513)
Amortisation of lease prepayments and intangible assets	61,218	5,132
Depreciation	1,817,847	417,539
Loss on disposals of property, plant and equipment	58,045	230
Write down / (back) of inventories	7,000	(1,796)

5 Income tax expense

Income tax expense in the consolidated income statement represents:

	Six months ended 30 June 2006 Rmb'000	2005 Rmb'000
Current tax expense – PRC income tax	1,206,009	529,987
Deferred taxation	32,674	697
	1,238,683	530,684

The provision for PRC income tax is calculated at 33% (six months ended 30 June 2005: 33%) of the estimated assessable profits for the period determined in accordance with relevant income tax rules and regulations in the PRC.

6 Dividends

Dividends attributable to the previous financial year, approved and paid during the interim period:

	Six months ended 30 June	
	2006	**2005**
	Rmb'000	*Rmb'000*
Final dividends in respect of the financial year ended 31 December 2005, approved during the following interim period, of Rmb36 cents per share (year ended 31 December 2004 approved and paid: Rmb30 cents per share)	1,066,675	889,095

The final dividends attributable to A share shareholders amounting to Rmb746,275,000 were paid on 28 June 2006 (six months ended 30 June 2005: Rmb622,095,000). The final dividends attributable to H share shareholders amounting to Rmb320,400,000 were paid on 18 July 2006 (six months ended 30 June 2005: Rmb267,000,000).

During the period, the Company settled part of dividend payable to its ultimate holding company amounting to Rmb399,907,000 by endorsed bills, which did not involve any movements of cash or cash equivalents.

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: Nil).

7 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of Rmb3,109,429,000 (six months ended 30 June 2005: Rmb1,223,621,000) and the weighted average number of shares in issue during the six months ended 30 June 2006 of 5,437,986,000 shares (six months ended 30 June 2005: 2,962,964,000 shares).

(b) Diluted earnings per share

There were no dilutive potential equity shares in existence as at 30 June 2005 and 2006.

8 Construction in progress

The acquisitions and transfer of items of construction in progress during the six months ended 30 June 2005 and 2006 are as follows:

	Six months ended 30 June	
	2006	**2005**
	Rmb'000	*Rmb'000*
Additions	2,297,442	1,234,508
Through acquisition of ANSI	2,477,115	—
Transfer to property, plant and equipment	(4,550,704)	(179,787)

9 Trade receivables

	At 30 June 2006	At 31 December 2005
	Rmb'000	*Rmb'000*
Accounts receivable	162,348	338,391
Bills receivable	2,024,766	594,774
	2,187,114	933,165

The ageing analysis of trade receivables is as follows:

	At 30 June 2006	At 31 December 2005
	Rmb'000	*Rmb'000*
Less than 3 months	2,023,570	405,247
More than 3 months but less than 12 months	161,724	527,918
More than 1 year but less than 2 years	1,059	—
More than 2 years but less than 3 years	761	—
	2,187,114	933,165

The Group requests customers to pay cash or settle by bills in full prior to delivery of goods. Subject to negotiation, credit term of three months is only available for certain major customers with well-established trading records.

10 Cash and cash equivalents

Cash and cash equivalents represented cash at bank and in hand.

As at 30 June 2006, a deposit of Rmb1,173,713,000 (31 December 2005: Rmb421,402,000) was placed in Angang Group Financial Company Limited ("Angang Finance"), a fellow subsidiary of the Company.

11 Trade payables

	At 30 June 2006 *Rmb'000*	At 31 December 2005 *Rmb'000*
Accounts payable	1,049,467	224,809
Bills payable	1,817,417	194,392
	2,866,884	419,201

The ageing analysis of trade payables is as follows:

	At 30 June 2006 *Rmb'000*	At 31 December 2005 *Rmb'000*
Due on demand	326,153	190,118
Due within 3 months	1,841,110	121,621
Due after 3 months but within 6 months	699,621	107,462
	2,866,884	419,201

12 Acquisition of ANSI

According to the acquisition agreement dated 20 October 2005 ("Acquisition Agreement"), the Company acquired the entire equity interest of ANSI ("Acquisition") from Anshan Iron & Steel Group Complex ("Angang Holding"), the ultimate holding company of the Company, for Rmb19.69 billion plus final adjustments as stated in the Acquisition Agreement. The Acquisition was completed in January 2006 and the total final consideration amounted to Rmb19.712 billion.

12 Acquisition of ANSI *(continued)*

The Company issued 2.97 billion A shares of Rmb1 each at Rmb4.29 per share (equivalent to Rmb12.74 billion) to Angang Holding as a partial payment for the consideration of the Acquisition. As a result, the share capital and share premium of the Company increased by Rmb2,970,000,000 and Rmb9,753,390,000 respectively after deducting the expenses related to the shares issuance.

The remaining purchase consideration will be paid in three instalments within three years and bears interest at rates quoted by the People's Bank of China for the same period.

The Acquisition had the following effect on the Group's assets and liabilities:

	Recognised value on acquisition *Rmb'000*
Property, plant and equipment	23,309,032
Intangible assets	31,741
Construction in progress	2,477,115
Lease prepayments	5,284,452
Inventories	3,472,603
Amount due from ultimate holding company	240,046
Amounts due from fellow subsidiaries	548,156
Trade receivables	499,915
Prepayments, deposits and other receivables	99,307
Income tax recoverable	668,139
Cash and cash equivalents	592,988
Trade payables	(2,668,852)
Amount due to ultimate holding company	(776,001)
Amounts due to fellow subsidiaries	(924,372)
Other payables	(1,591,075)
Bank loans and long-term payable	(11,550,854)
Net identifiable assets and liabilities	19,712,340
Less: Consideration paid, satisfied in shares issued	(12,741,300)
Long-term payable to ultimate holding company	(6,971,040)
Cash and cash equivalents acquired	(592,988)
Net cash inflow	(592,988)

All assets and liabilities of ANSI were transferred to the Company upon completion of the Acquisition in January 2006 and ANSI applied for deregistration thereafter. As a result, the operating profit of ANSI for the six months ended 30 June 2006 was captured in the Company's financial statements.

No pre-acquisition carrying amount was available as ANSI did not prepare any financial statements under IFRSs for the year ended 31 December 2005.

13 Commitments

(a) The Group had capital commitments outstanding as at 30 June 2006 not provided for in the consolidated financial statements as follows:

	At 30 June 2006 *Rmb'000*	At 31 December 2005 *Rmb'000*
Authorised and contracted for:		
— Construction projects of production lines	4,390,811	847,352
— Investments	524,000	188,000
— Acquisition of ANSI (see note 12)	—	19,691,566
Authorised but not contracted for:		
— Improvement projects of production lines	4,231,029	729,964
	9,145,840	21,456,882

Included in the Group's capital commitments were the Group's proportionate share of the jointly controlled entities' capital commitments amounting to Rmb801,226,000 as at 30 June 2006 (31 December 2005: Rmb345,102,000).

(b) In October 2002, ANSC-TKS Galvanizing Co., Ltd, the jointly controlled entity of the Company, ("ANSC-TKS"), entered into a loan facility of Rmb1,080,000,000 (the "Syndicated Loan") for the construction of production line. The Syndicated Loan is secured by the land use rights; construction in progress; property, plant and equipment and trade receivables of ANSC-TKS at carrying amount of Rmb1,051,585,000 at 30 June 2006 (31 December 2005: Rmb1,122,004,000).

The Company pledged its equity interest in ANSC-TKS to secure the performance of the obligations of ANSC-TKS under the loan agreement.

Pursuant to the funding supporting agreement dated 22 October 2002, the Company committed to finance ANSC-TKS if it does not have sufficient funds to complete the construction of the galvanising plant, repay the Syndicated Loan or finance the operations. The commitment is limited to US$8,000,000 and will be reduced to US$4,000,000 after the tenth repayment date.

14 Related party transactions

The following is a summary of significant transactions carried out between the Group, Angang Shenyang Steel Product Processing And Distribution Company Limited ("Angang Shenyang", its associate and a subsidiary of Angang Holding) and Angang Holding and its business undertakings ("Angang Group", including ANSI for the six months ended 30 June 2005) during the period.

(a) Significant transactions and balances with Angang Group

(i) Significant transactions which the Company conducts with Angang Group (including ANSI for the six months ended 30 June 2005) in the normal course of business are as follows:

	Six months ended 30 June	
	2006	**2005**
	Rmb'000	*Rmb'000*
Sales of finished goods (before deducting sales related taxes)	3,504,987	1,246,348
Sales of scrap materials (before deducting sales related taxes)	79,430	401,349
Fee received for utilities and services provided	203,807	—
Purchase of raw materials	4,890,543	10,399,046
Purchase of ancillary materials and spare parts	612,638	82,758
Utility supplies	524,819	183,917
Fees paid for welfare and other support services	1,210,393	241,062
Interest received	1,873	2,709
Interest paid	57,363	—

(ii) Bank loans

As at 30 June 2006, certain bank loans amounted to Rmb5,013,279,000 (31 December 2005: Rmb900,000,000) were guaranteed by Angang Holding.

14 Related party transactions *(continued)*

(a) Significant transactions and balances with Angang Group *(continued)*

(iii) Amount due to ultimate holding company

The amount mainly represents interest accrual for long-term payable to ultimate holding company.

(iv) Amounts due from / to fellow subsidiaries

Amounts due from / to fellow subsidiaries mainly represent prepayments and amounts payable for the purchase of raw materials and other services. Advances are received by the Company in respect of sales of finished goods.

The amounts due from / to fellow subsidiaries are unsecured, interest free and have no fixed terms of repayment.

(v) Long-term payable to ultimate holding company

The amount represents deferred cash payment for the acquisition of 100% equity interest in ANSI. For details, please refer to Note 12.

(vi) Acquisition of ANSI and the Supply of Materials and Services Agreement

The Acquisition was completed in January 2006.

In connection with the Acquisition, the Company entered into a new Supply of Materials and Services Agreement ("New Supply Agreement") with Angang Holding on 29 December 2004, which became effective upon the completion of the acquisition. The New Supply Agreement superseded the prevailing Supply of Materials and Services Agreement and there were no significant changes in the pricing policies under the New Supply Agreement.

14 Related party transactions *(continued)*

(b) Significant transactions with ANSC-TKS

(i) The Company sold finished products amounting to Rmb673,993,000 (six months ended 30 June 2005: Rmb934,345,000) to ANSC-TKS for further processing.

(ii) The Company pledged its equity interest in ANSC-TKS to secure the performance of the obligation of ANSC-TKS under the agreement of the Syndicated Loan.

The Company also committed to finance ANSC-TKS if it does not have sufficient funds to complete the construction of the galvanising plant, repay the Syndicated Loan or finance the operations. The commitment is limited to US$8,000,000 and will be reduced to US$4,000,000 after the tenth repayment date.

(c) Significant transactions with other related parties

ANSC-TKS purchased raw materials from and sold finished products to ThyssenKrupp Stahl AG ("TKSAG") (joint venturer of ANSC-TKS). The sales and purchases during the period amounted to Rmb32,600,000 (six months ended 30 June 2005: Rmb287,812,000) and Rmb28,427,000 (six months ended 30 June 2005: Rmb35,699,000) respectively, of which Rmb16,300,000 and Rmb14,214,000 (six months ended 30 June 2005: Rmb143,906,000 and Rmb17,850,000) have been included in the sales and cost of sales of the Group's consolidated financial statements respectively.

14 Related party transactions *(continued)*

(d) Transactions with state-controlled entities

The Group operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government ("state-controlled entities") through its government authorities, agencies, affiliations and other organisations.

Transactions with other state-controlled entities include but are not limited to the following:

- Sales and purchases of goods, property and other assets;
- Provision and receipt of services; and
- Depositing and borrowing money.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state controlled. The Group has established its buying, pricing strategy and approval process for purchases and sales of products and services. Such buying, pricing strategy and approval processes do not depend on whether the counterparties are state-controlled entities or not.

Having considered the potential for transactions to be impacted by related party relationships, the entity's pricing strategy, buying and approval processes, and what information would be necessary for an understanding of the potential effect of the relationship on the financial statements, the directors are of opinion that the following transactions require disclosure as related party transactions:

	Six months ended 30 June	
	2006	**2005**
	Rmb'000	*Rmb'000*
Defined contribution scheme contribution	100,635	24,943

In addition to the deposit placed with Angang Finance as discussed in Note 10, as at 30 June 2006, the Group also placed deposits to and borrowed loans from state-controlled entities amounting to Rmb364,859,000 (31 December 2005: Rmb140,937,000) and Rmb10,574,680,000 (31 December 2005: Rmb1,362,048,000) respectively.

14 Related party transactions *(continued)*

(e) Transactions with key management personnel

Remuneration for key management personnel, including amounts paid to the Company's directors and supervisors is as follows:

	Six months ended 30 June	
	2006	**2005**
	Rmb'000	*Rmb'000*
Directors' and supervisors' fees	—	—
Salaries, allowance and other benefits in kind	1,511	1,066
Retirement scheme contributions	262	211
	1,773	1,277

15 Non-adjusting post balance sheet events

By a written resolution passed on 10 August 2006, the board of directors of the Company approved the proposal in relation to the construction of production facility in the Bayuquan port. The estimated total investment of this project will be approximately RMB22.6 billion which will be financed by the Company's internal resources, bank loans and other appropriate financing activities. The proposal is subject to the shareholders' approval at an extraordinary general meeting to be held on 29 September 2006.

B. Interim Financial Statements prepared in accordance with the PRC Accounting Rules and Regulations

Consolidated Balance Sheet (unaudited)

At 30 June 2006

(Expressed in Renminbi)

Assets	Note	30 June 2006 *Rmb'000*	31 December 2005 *Rmb'000* *(audited)*
Current Assets			
Cash at bank and in hand	4	1,539,014	562,339
Bills receivable	5	2,024,766	594,774
Trade receivables	6	922,469	594,563
Other receivables	7	74,553	6,493
Prepayments	8	668,213	173,728
Inventories	9	5,943,620	2,608,291
Deferred expenses		1,371	583
Total current assets		11,174,006	4,540,771
Long-term equity investments	10	41,018	41,427
Fixed assets			
Fixed assets, at cost	11	39,145,716	11,438,201
Less: Accumulated depreciation		(6,720,013)	(4,905,493)
Net book value of fixed assets		32,425,703	6,532,708
Construction in progress	12	3,053,272	2,840,603
Total fixed assets		35,478,975	9,373,311
Intangible assets and other assets			
Intangible assets	13	5,588,454	333,885
Long-term deferred expenses		2,719	429
Total intangible assets and other assets		5,591,173	334,314
Total assets		52,285,172	14,289,823

The accompanying notes on pages 81 to 131 form an integral part of these financial statements.

Consolidated Balance Sheet (unaudited) *(continued)*

At 30 June 2006

(Expressed in Renminbi)

Liabilities and shareholders' funds	Note	30 June 2006 Rmb'000	31 December 2005 Rmb'000 (audited)
Current liabilities			
Short-term loans	14	1,707,500	117,500
Bills payable	15	1,817,417	194,392
Trade payables	16	1,193,095	243,687
Receipts in advance	17	2,960,330	962,875
Accrued payroll		197,330	67,110
Staff welfare payable		70,098	25,734
Accrued expenses		201,295	6,592
Taxes payable	3(d)	188,567	(110,531)
Other payables	18	1,151,464	208,659
Current portion of long-term liabilities	19	2,706,245	640,535
Dividends payable		320,413	—
Total current liabilities		12,513,754	2,356,553
Long-term liabilities			
Long-term loans	20	9,094,994	604,013
Long-term payables	21	4,647,360	—
Total long-term liabilities		13,742,354	604,013
Total liabilities		26,256,108	2,960,566

The accompanying notes on pages 81 to 131 form an integral part of these financial statements.

Consolidated Balance Sheet (unaudited) *(continued)*

At 30 June 2006
(Expressed in Renminbi)

	Note	30 June 2006 *Rmb'000*	31 December 2005 *Rmb'000* *(audited)*
Shareholders' funds			
Share capital	22	5,932,986	2,962,986
Capital reserve	23	12,843,225	3,089,796
Surplus reserve (including statutory public welfare fund of RmbNil (2005: Rmb772,057,000))	24	1,544,114	1,544,114
Undistributed profits (including dividend proposed after the balance sheet date of Rmb1,066,675,000 in 2005)	25	5,708,739	3,732,361
Total shareholders' funds		26,029,064	11,329,257
Total liabilities and shareholders' funds		52,285,172	14,289,823

These financial statements have been approved by the board of directors on 14 August 2006.

Liu Jie
Chairman

Ma Lianyong
Chief Accountant

The accompanying notes on pages 81 to 131 form an integral part of these financial statements.

Balance Sheet (unaudited)

At 30 June 2006

(Expressed in Renminbi)

Assets	Note	At 30 June 2006 *Rmb'000*	At 31 December 2005 *Rmb'000* *(audited)*
Current assets			
Cash at bank and in hand	4	1,437,863	515,061
Bills receivable	5	2,024,766	594,774
Trade receivables	6	900,453	649,462
Other receivables	7	68,760	289
Prepayments	8	653,832	166,047
Inventories	9	5,808,670	2,439,971
Deferred expense		158	—
Total current assets		10,894,502	4,365,604
Long-term equity investments	10	277,723	212,012
Fixed assets			
Fixed assets, at cost	11	38,594,066	10,894,901
Less: Accumulated depreciation		(6,617,730)	(4,826,597)
Net book value of fixed assets		31,976,336	6,068,304
Construction in progress	12	3,029,430	2,836,255
Total fixed assets		35,005,766	8,904,559
Intangible assets and other assets			
Intangible assets	13	5,554,662	297,855
Total intangible assets and other assets		5,554,662	297,855
Total assets		51,732,653	13,780,030

The accompanying notes on pages 81 to 131 form an integral part of these financial statements.

Balance Sheet (unaudited) (continued)

At 30 June 2006

(Expressed in Renminbi)

Liabilities and shareholders' fund	Note	At 30 June 2006 Rmb'000	At 31 December 2005 Rmb'000 (audited)
Current liabilities			
Short-term loans	14	1,520,000	—
Bills payable	15	1,817,417	194,392
Trade payables	16	1,179,778	231,413
Receipts in advance	17	2,940,082	932,255
Accrued payroll		197,329	67,110
Staff welfare payable		70,068	25,726
Taxes payable	3(d)	189,938	(100,288)
Other payables	18	1,132,416	188,382
Current portion of long-term liabilities	19	2,665,710	600,000
Accrued expenses		192,221	—
Dividends payable		320,413	—
Total current liabilities		12,225,372	2,138,990
Long-term liabilities			
Long-term loans	20	8,811,249	300,000
Long-term payable	21	4,647,360	—
Total current liabilities		13,458,609	300,000
Total liabilities		25,683,981	2,438,990

The accompanying notes on pages 81 to 131 form an integral part of these financial statements.

Balance Sheet (unaudited) (continued)

At 30 June 2006

(Expressed in Renminbi)

	Note	At 30 June 2006 *Rmb'000*	At 31 December 2005 *Rmb'000* *(audited)*
Shareholders' funds			
Share capital	22	5,932,986	2,962,986
Capital reserve	23	12,843,225	3,089,796
Surplus reserves (including statutory public welfare fund of RmbNil (2005: Rmb772,057,000))	24	1,544,114	1,544,114
Undistributed profits (including dividend proposed after the balance sheet date of Rmb1,066,675,000 in 2005)	25	5,728,347	3,744,144
Total shareholders' funds		26,048,672	11,341,040
Total liabilities and shareholders' funds		51,732,653	13,780,030

These financial statements have been approved by the board of directors on 14 August 2006.

Liu Jie
Chairman

Ma Lianyong
Chief Accountant

The accompanying notes on pages 81 to 131 form an integral part of these financial statements.

Consolidated Income Statement and Profit Appropriation Statement (unaudited)

For the six months ended 30 June 2006

(Expressed in Renminbi)

	Note	Six months ended 30 June 2006 *Rmb'000*	2005 *Rmb'000*
Income from principal operations	26	24,999,652	14,203,638
Less: Cost of sales	27	18,961,783	12,054,757
Business tax and surcharges	28	205,564	25,873
Profit from principal operations		5,832,305	2,123,008
Add: Other operating profit	29	3,361	47,686
Less: Operating expenses		404,227	227,992
Administrative expenses		624,398	159,982
Financial expenses	30	500,967	30,098
Operating profit		4,306,074	1,752,622
Add: Non-operating income		6,531	761
Less: Investment loss	31	409	554
Non-operating expenses		63,134	642
Total profit		4,249,062	1,752,187
Less: Income tax expense	3(b)	1,206,009	529,987
Net profit		3,043,053	1,222,200

The accompanying notes on pages 81 to 131 form an integral part of these financial statements.

Consolidated Income Statement and Profit Appropriation Statement (unaudited) *(continued)*

For the six months ended 30 June 2006
(Expressed in Renminbi)

	Six months ended 30 June	
	2006	**2005**
	Rmb'000	*Rmb'000*
Net profit	3,043,053	1,222,200
Add: Undistributed profits at the beginning of the period	3,732,361	2,960,225
Profits distributable to shareholders	6,775,414	4,182,425
Less: Dividends	1,066,675	889,095
Undistributed profits at the end of the period	5,708,739	3,293,330

Additional information:

	Six months ended 30 June	
	2006	**2005**
	Rmb'000	*Rmb'000*
Item		
1. Gains / (losses) from the sale and disposal of divisions or invested entities	—	—
2. Losses arising from natural disasters	—	—
3. Increase / (decrease) in total profits due to the changes in accounting policies	—	—
4. Increase / (decrease) in total profits due to the changes in accounting estimates	—	—
5. Gains / (losses) arising from debt restructuring	—	—
6. Others	—	—

These financial statements have been approved by the board of directors on 14 August 2006.

Liu Jie
Chairman

Ma Lianyong
Chief Accountant

The accompanying notes on pages 81 to 131 form an integral part of these financial statements.

Income Statement and Profit Appropriation Statement (unaudited)

For the six months ended 30 June 2006

(Expressed in Renminbi)

	Note	Six months ended 30 June 2006 *Rmb'000*	2005 *Rmb'000*
Income from principal operations	26	24,771,966	14,078,272
Less: Cost of sales	27	18,771,493	11,955,575
Business tax and surcharges	28	205,564	25,873
Profit from principal operations		5,794,909	2,096,824
Add: Other operating profit	29	3,109	47,050
Less: Operating expenses		395,194	223,435
Administrative expenses		626,447	152,036
Financial expenses	30	483,410	22,260
Operating profit		4,292,967	1,746,143
Add: Investment income	31	20,523	9,100
Non-operating income		6,531	761
Less: Non-operating expenses		63,134	629
Total profit		4,256,887	1,755,375
Less: Income tax expense	3(b)	1,206,009	529,987
Net profit		3,050,878	1,225,388

The accompanying notes on pages 81 to 131 form an integral part of these financial statements.

Income Statement and Profit Appropriation Statement (unaudited) *(continued)*

For the six months ended 30 June 2006

(Expressed in Renminbi)

	Note	Six months ended 30 June 2006 *Rmb'000*	2005 *Rmb'000*
Net Profit		3,050,878	1,225,388
Add: Undistributed profits at the beginning of the period		3,744,144	2,960,225
Distributable profits		6,795,022	4,185,613
Less: Dividends		1,066,675	889,095
Undistributed profits at the end of the period		5,728,347	3,296,518

Additional information:

Item	Six months ended 30 June 2006 *Rmb'000*	2005 *Rmb'000*
1. Gains / (losses) from the sale and disposal of divisions or invested entities	—	—
2. Losses arising from natural disasters	—	—
3. Increase / (decrease) in total profits due to the changes in accounting policies	—	—
4. Increase / (decrease) in total profits due to the changes in accounting estimates	—	—
5. Gains / (losses) arising from debt restructuring	—	—
6. Others	—	—

These financial statements have been approved by the board of directors on 14 August 2006.

Liu Jie
Chairman

Ma Lianyong
Chief Accountant

The accompanying notes on pages 81 to 131 form an integral part of these financial statements.

Consolidated Cash Flow Statement (unaudited)

For the six months ended 30 June 2006

(Expressed in Renminbi)

	Note to the consolidated cash flow statement	Six months ended 30 June 2006 *Rmb'000*
Cash flows from operating activities:		
Cash received from sale of goods		26,043,964
Refund of taxes		249,974
Cash received in relation to other operating activities		2,491
Sub-total of cash inflows		26,296,429
Cash paid for goods		(17,771,010)
Cash paid to and on behalf of employees		(808,488)
Taxes paid		(2,014,025)
Cash paid in relation to other operating activities		(375,927)
Sub-total of cash outflows		(20,969,450)
Net cash flow from operating activities	(a)	5,326,979
Cash flows from investing activities:		
Net proceeds from the disposal of fixed assets		1
Net proceeds from purchase of ANSI	(d)	592,988
Cash received in relation to other investing activities		122,571
Sub-total of cash inflows		715,560

The accompanying notes on pages 81 to 131 form an integral part of these financial statements.

Consolidated Cash Flow Statement (unaudited) *(continued)*

For the six months ended 30 June 2006

(Expressed in Renminbi)

	Note to the consolidated cash flow statement	Six months ended 30 June 2006 *Rmb'000*
Cash paid for acquisition of fixed assets, construction in progress, intangible assets and other long-term assets		(2,102,863)
Cash paid in relation to other investing activities		(559,151)
Sub-total of cash outflows		(2,662,014)
Net cash flow from investing activities		(1,946,454)
Cash flows from financing activities:		
Proceeds from loans		4,577,500
Cash received in relation to other financing activities		7
Sub-total of cash inflows		4,577,507
Repayment of loans		(6,306,053)
Cash paid for dividends or interest payment	(b)	(630,818)
Cash paid in relation to other financing activities		(20,026)
Sub-total of cash outflows		(6,956,897)
Net cash flow from financing activities		(2,379,390)
Effect of exchange rate fluctuations on cash held		(24,460)
Net increase in cash and cash equivalents	(c)	976,675

The accompanying notes on pages 81 to 131 form an integral part of these financial statements.

Consolidated Cash Flow Statement (unaudited) ***(continued)***

For the six months ended 30 June 2006

(Expressed in Renminbi)

		Six months ended 30 June 2006 *Rmb'000*
Notes to the consolidated cash flow statement		
(a)	**Reconciliation of net profit to cash flows from operations:**	
	Net profit	3,043,053
	Add: Bad debt provision	6,030
	Write back of inventory provision	(11,075)
	Depreciation of fixed assets	1,818,735
	Amortisation of intangible assets	62,413
	Loss on disposal of fixed assets	58,045
	Decrease in deferred expenses	2,692
	Increase in accrued expenses	16,503
	Financial expenses	499,648
	Investment loss	409
	Decrease in inventories	173,284
	Increase in operating receivables	(1,742,826)
	Increase in operating payables	1,400,068
	Net cash flow from operating activities	5,326,979
(b)	**Non-cash transactions of financing activities**	
	Settlement of dividend on A shares by bills	399,907
(c)	**Net increase in cash and cash equivalents:**	
	Cash at the end of the period	1,539,014
	Less: Cash at the beginning of the period	562,339
	Net increase in cash and cash equivalents	976,675

The accompanying notes on pages 81 to 131 form an integral part of these financial statements.

Consolidated Cash Flow Statement (unaudited) *(continued)*

For the six months ended 30 June 2006

(Expressed in Renminbi)

	Six months ended 30 June 2006
	Rmb'000

Notes to the consolidated cash flow statement

(d) Net proceeds from purchase of ANSI

The Acquisition had the following effect on the Group's assets and liabilities:

Cash at bank and in hand	592,988
Bills receivable	469,229
Trade receivables	202,855
Other receivables	267,200
Prepayments	443,571
Inventories	3,472,603
Deferred expenses	3,480
Fixed assets	23,308,243
Construction in progress	2,477,115
Intangible assets	5,316,982
Long-term deferred expenses	1,089
Short-term loans	(2,400,000)
Bills payable	(1,262,215)
Trade payables	(1,793,547)
Receipts in advance	(1,374,269)
Accrued payroll	(153,737)
Staff welfare payable	(61,333)
Taxes payable	650,278
Other payables	(1,297,338)
Current portion of long-term liabilities	(3,570,000)
Long-term loans	(5,580,854)
Net assets and liabilities acquired	19,712,340
Less: Consideration paid, satisfied in shares issued	(12,741,300)
Deferred cash payment transferred to long-term payable	(6,971,040)
Cash at bank and in hand transferred in from ANSI	(592,988)
Net proceeds from purchase of ANSI	(592,988)

These financial statements have been approved by the board of directors on 14 August 2006.

Liu Jie	**Ma Lianyong**
Chairman	*Chief Accountant*

The accompanying notes on pages 81 to 131 form an integral part of these financial statements.

Cash Flow Statement (unaudited)

For the six months ended 30 June 2006
(Expressed in Renminbi)

	Note to the cash flow statement	Six months ended 30 June 2006 *Rmb'000*
Cash flows from operating activities:		
Cash received from sales of goods		25,908,508
Refund of taxes		231,022
Cash received in relation to other operating activities		2,276
Sub-total of cash inflows		26,141,806
Cash paid for goods		(17,632,536)
Cash paid to and on behalf of employees		(803,743)
Taxes paid		(2,012,979)
Cash paid in relation to other operating activities		(370,584)
Sub-total of cash outflows		(20,819,842)
Net cash flow from operating activities	(a)	5,321,964
Cash flows from investing activities:		
Net proceeds upon purchase of net assets of ANSI	(d)	569,442
Cash received in relation to other investing activities		121,925
Sub-total of cash inflows		691,367
Cash paid for acquisition of fixed assets, construction in progress, intangible assets and other long-term assets		(2,096,032)
Cash paid in relation to other investing activities		(558,019)
Sub-total of cash outflows		(2,654,051)
Net cash flow from investing activities		(1,962,684)

The accompanying notes on pages 81 to 131 form an integral part of these financial statements.

Cash Flow Statement (unaudited) *(continued)*

For the six months ended 30 June 2006

(Expressed in Renminbi)

	Note to the cash flow statement	Six months ended 30 June 2006 *Rmb'000*
Cash flow from financing activities:		
Cash received from bank loan		4,240,000
Cash paid in relation to other financing activities		7
Sub-total of cash outflows		4,240,007
Repayment of loans		(6,018,285)
Cash paid for dividends or interest payment	(b)	(615,314)
Cash paid in relation to other financing activities		(20,026)
Sub-total of cash outflows		(6,653,625)
Net cash flow from financing activities		(2,413,618)
Effect of exchange rate fluctuations on cash held		(22,860)
Net increase in cash and cash equivalents	(c)	922,802

The accompanying notes on pages 81 to 131 form an integral part of these financial statements.

Cash Flow Statement (unaudited) *(continued)*

For the six months ended 30 June 2006

(Expressed in Renminbi)

Notes to the cash flow statement

(a) Reconciliation of net profit to cash flows from operations:

	Six months ended 30 June 2006 *Rmb'000*
Net profit	3,050,878
Add: Bad debt provision	6,030
Depreciation of fixed assets	1,795,538
Amortisation of intangible assets	60,175
Loss on disposal of fixed assets	58,046
Decrease in deferred expenses	3,322
Increase in accrued expenses	14,021
Financial expenses	482,126
Investment gain	(20,523)
Decrease in inventories	128,838
Increase in operating receivables	(1,657,853)
Increase in operating payables	1,401,366
Net cash flow from operating activities	5,321,964

(b) Non-cash transactions of financing activities

	Six months ended 30 June 2006 *Rmb'000*
Settlement of dividend on A shares by bills	399,907

(c) Net increase in cash and cash equivalents:

	Six months ended 30 June 2006 *Rmb'000*
Cash at the end of the period	1,437,863
Less: Cash at the beginning of the period	515,061
Net increase in cash and cash equivalents	922,802

The accompanying notes on pages 81 to 131 form an integral part of these financial statements.

Cash Flow Statement (unaudited) *(continued)*

For the six months ended 30 June 2006
(Expressed in Renminbi)

Notes to the cash flow statement

(d) Net proceeds from purchase of net assets of ANSI

The Acquisition had the following effect on the Company's assets and liabilities:

	Six months ended 30 June 2006 *Rmb'000*
Cash at bank and in hand	569,442
Bills receivable	469,229
Trade receivables	202,855
Other receivables	255,868
Prepayments	443,571
Inventories	3,472,603
Deferred expenses	3,480
Long-term equity investments	45,188
Fixed assets	23,308,066
Construction in progress	2,468,065
Intangible assets	5,316,982
Short-term loans	(2,400,000)
Bills payable	(1,262,215)
Trade payables	(1,793,547)
Receipts in advance	(1,374,269)
Accrued payroll	(153,737)
Staff welfare payable	(61,333)
Taxes payable	650,266
Other payables	(1,297,320)
Current portion of long-term liabilities	(3,570,000)
Long-term loans	(5,580,854)
Net assets and liabilities acquired	19,712,340
Less: Consideration paid, satisfied in shares issued	(12,741,300)
Deferred cash payment transferred to long-term payable	(6,971,040)
Cash at bank and in hand transferred in from ANSI	(569,442)
Net proceeds from purchase of ANSI	(569,442)

These financial statements have been approved by the board of directors on 14 August 2006.

Liu Jie
Chairman

Ma Lianyong
Chief Accountant

The accompanying notes on pages 81 to 131 form an integral part of these financial statements.

Notes on the Financial Statements
For the six months ended 30 June 2006

1. *STATUS OF THE COMPANY*

Angang New Steel Company Limited (the "Company") was formally established on 8 May 1997 as a joint stock limited company.

The Company was established as a joint stock limited company under the Company Law of the People's Republic of China ("PRC"), with Anshan Iron & Steel Group Complex ("Angang Holding") as the sole promoter, pursuant to the approval document Tigaisheng [1997] No. 62 "Reply to the Approval of the Establishment of Angang New Steel Company Limited" issued by the State Commission for Economic Restructuring of the PRC. The Company took over the businesses of the Wire Rod Plant, the Thick Plate Plant, and the Cold Rolling Plant (collectively referred to as the "Plants") of Angang Holding. According to the Division Agreement which took effect from 1 January 1997, Angang Holding transferred the production, sales, research and development, administration activities of the Plants together with the relevant assets and liabilities as at 31 December 1996 as its contribution to the Company. The above net assets were converted into 1,319,000,000 shares of the Company of Rmb1.00 each.

The Company issued 890,000,000 ordinary H shares ("H shares") with a par value of Rmb1.00 each on 22 July 1997 which were subsequently listed on The Stock Exchange of Hong Kong Limited on 24 July 1997. The Company also issued 300,000,000 ordinary A shares ("A shares") with a par value of Rmb1.00 each on 16 November 1997 which were subsequently listed on the Shenzhen Stock Exchange on 25 December 1997.

On 26 January 2006, the Company made an additional issue of 2,970,000,000 A shares of Rmb 1 each at an issue price of Rmb4.29 each to Angang Holding for a total consideration of Rmb12.74 billion. Proceeds of the issue were used to partly finance the acquisition of the entire equity interest in Angang New Steel and Iron Company Limited ("ANSI"). Details are set out in Note 21.

At the 2005 annual general meeting, the shareholders passed a resolution to rename the Company as "Angang Steel Company Limited". An application for the change of company name has been filed with the industry and commerce authorities.

The Company and its joint ventures (collectively referred to as the "Group") are principally engaged in ferrous metal smelting and steel pressing and processing.

2. *SIGNIFICANT ACCOUNTING POLICIES*

The significant accounting policies adopted by the Group in the preparation of the financial statements conform with the relevant requirements of the Accounting Standards for Business Enterprises and Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the PRC.

(a) Accounting period

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

(b) Preparation of the consolidated financial statements

The consolidated financial statements of the Group have been prepared in accordance with the Accounting Regulations for Business Enterprises and the Interim Provisions on Consolidated Financial Statements (Caikuaizi [1995] No. 11) issued by the Ministry of Finance.

The consolidated financial statements include the financial statements of the Company and its joint ventures.

For the jointly controlled entity which the Company has joint control with other investors under contractual agreement, the Company consolidates the assets, liabilities, revenues, costs and expenses of its joint ventures using the proportionate consolidation method, including the Group's proportionate share of the joint ventures' assets, liabilities, revenues, costs and expenses with items of a similar nature on a line by line basis in the preparation of the consolidated financial statements.

When the accounting policies of jointly controlled entity are different from those of the Company, they will be adjusted according to the Company's accounting policies in the consolidated financial statements. Material group transactions, including any unrealised gains and intragroup balances, are eliminated in consolidation.

2. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(c) Accounting basis and measurement principle

The financial statements of the Group have been prepared on an accrual basis, with the historical cost method as the measurement principle, unless otherwise stated.

(d) Reporting currency

The reporting currency of the Group is Renminbi.

(e) Translation of foreign currencies

Foreign currency transactions are translated into Renminbi at the exchange rates quoted by the People's Bank of China and other recognised exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates quoted by the People's Bank of China and other recognised exchange rates ruling at the balance sheet date. Except for the exchange gains and losses directly relating to the purchase or construction of fixed assets (including exchange gains and losses arising from loans used to finance the construction of fixed assets) (note 2(j)), exchange gains and losses on foreign currency translation are dealt with in the income statement of the current period.

Exchange differences arise during the start-up period are aggregated into the long-term deferred expenses and are then fully charged to the income statement in the month of commencement of operations.

(f) Cash equivalents

Cash equivalents are short-term, highly liquid investments of the Group which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(g) Bad debt provision

Trade receivables showing signs of uncollectibility are identified individually and bad debt provision is then made based on the probability of being uncollectible. Bad debt provision for other receivables is determined based on the nature and corresponding collectibility by the Company.

2. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(h) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost of inventories includes the costs of purchase, costs of conversion and other costs. Inventories are stated at the cost of purchase computed using the weighted average method. In addition to the actual cost for the purchase of raw materials, the cost of work in progress and finished goods also includes direct labour and an appropriate proportion of manufacturing overheads based on normal operating capacity.

Except spare parts, inventory provision is provided at the difference between the cost of individual inventory item and its net realisable value. Spare parts are provided based on the management's assessment. Net realisable value is determined according to the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated selling costs and related taxes necessary to make the sale.

Low value consumables, packaging and other materials are expensed when being consumed.

Inventories are recorded by perpetual method.

(i) Long-term equity investments

Long-term investments controlled or jointly controlled by the Company or over which the Company exercises significant influence are accounted for under the equity method. It is initially recorded at cost and adjusted thereafter according to the Company's share of equity interest in the invested entity.

Long-term investments that are not controlled or jointly controlled by the Company, and over which the Company does not exercise significant influence are recorded at cost. Investment income is recognised when the invested entity declares a cash dividend or profit appropriation.

Disposals or transfers of long-term equity investments are recognised in the income statement of the current period based on the difference between the disposal proceeds and the carrying amount of the investments.

A provision for impairment loss of long-term equity investments is made. (refer to Note 2(m)).

2. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(j) Fixed assets and construction in progress

Fixed assets represent assets with a useful life of over one year and with a higher unit cost which are held by the Group for production and operation purpose.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment loss (refer to Note 2(m)). Construction in progress is stated in the balance sheet at cost less impairment loss (refer to Note 2(m)).

All direct and indirect costs related to the purchase or construction of fixed assets, incurred before the assets are ready for its intended use, are capitalised as construction in progress. Those costs included borrowing costs, which include foreign exchange gains or losses on specific borrowings for the construction of the fixed assets during the construction period.

Construction in progress is transferred to fixed assets when the asset is ready for its intended use. No depreciation is provided for construction in progress.

Depreciation is provided over the estimated useful life or estimated remaining useful life of each asset on a straight- line basis.The respective estimated remaining useful lives or estimated useful lives and residual values are as follows:

	Estimated remaining useful life / estimated useful life	**Estimated residual value**
Land use right	50 years	—
Buildings and plants	10 to 20 years	3% to 5%
Machinery and equipment	6 to 15 years	3% to 5%
Other fixed assets	2 to 12 years	3% to 5%

2. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(k) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation and impairment losses (refer to Note 2(m)). Amortisation is provided on a straight-line basis over the estimated useful life, the beneficial period as specified in the related agreement or the grant period as stipulated by law. The respective amortisation periods are as follows:

	Amortisation period
Land use rights	50 years
Acquired software	3 to 10 years
Industrial technology	6 to 10 years

(l) Pre-operating expenses

All the costs incurred during the set up period, except for that incurred for the purchase or construction of fixed assets, are initially recorded as long-term deferred expenses and then fully charged to the income statement in the month when operations commence.

(m) Impairment loss of assets

The carrying amounts of the Group's assets (including long-term equity investments, fixed assets, construction in progress, intangible assets and other assets), other than trade receivables and inventories (refer to Notes 2(g), 2(h)), are reviewed periodically in order to assess whether the recoverable amounts have decreased below the book value. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decrease has occurred, the carrying amount is reduced to the recoverable amount.The amount by which the carrying amount is reduced is the impairment loss.

2. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(m) Impairment loss of assets *(continued)*

The recoverable amount is the greater of the net selling price and present value of the estimated future cash flows arising from the continuous use of the asset and from the disposal of the asset at the end of its useful life.

Provision for impairment loss is calculated on an item by item basis and recognised as an expense in the income statement. However, when a deficit between the initial investment cost and the Company's share of the investors' equity of the investee enterprise has been debited to the capital reserve, any impairment losses for long-term equity investment are firstly set off against the difference initially recognised in the capital reserve relating to the investment and any excess impairment losses are then recognised in the income statement.

If there is an indication that there has been a change in the estimates used to determine the recoverable amount and as a result the estimated recoverable amount is greater than the carrying amount of the asset, the impairment loss recognised in prior years is reversed. Reversals of impairment loss are recognised in the income statement. Impairment losses are reversed to the extent of the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. In respect of the reversal of an impairment loss for a long-term equity investment, the reversal starts with the impairment losses that had previously been recognised in the income statement and then the impairment losses that had been charged to capital reserve.

(n) Income tax

Income tax is provided on an accrual basis. The income tax of the Group for the current period is calculated according to the taxable income of the current period and the applicable tax rate.

2. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(o) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made.

Where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the obligation is disclosed as a contingent liability.

(p) Revenue recognition

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding the receipt of the consideration and the return of goods, or when the revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

(q) Repairs and maintenance expenses

Repairs and maintenance expenses, including cost of major overhaul, are charged to the income statement of the current period as and when they are incurred.

(r) Research and development costs

Research and development costs are charged to the income statement in the period as and when they are incurred.

(s) Borrowing costs

Specific borrowing costs attributable to the construction of fixed assets are capitalised as the cost of the fixed assets during the construction period until they are ready for their intended use.

Except the above borrowing costs, other borrowing costs are expensed in the income statement in the period in which they are incurred.

(t) Dividend distribution

Cash dividends are included in the income statement and profit appropriation statement when declared. The cash dividends proposed or approved after the balance sheet date but before the issuance of the financial statements are presented separately in the shareholders' funds in the balance sheet.

2. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(u) Retirement benefits

According to PRC government regulations, the Group has entered into government organised defined contribution pension scheme on behalf of its employees.The Group contributes to the scheme based on a certain percentage of employee's wages. Contributions to defined contribution pension scheme are recognised as an expense in the income statement as incurred. Further information is set out in Note 33.

(v) Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control and jointly control the party or exercise significant influence over the party, or vice versa, or where the Group and the party or parties are subject to common control or common significant influence. Related parties may be individuals or enterprise.

3. *TAXATION*

(a) Tax relating to sales of goods applicable to the Group includes value added tax ("VAT"). The VAT rate for its major products is 17% (2005: 17%).

(b) Income tax

The applicable income tax rate of the current period of the Company is 33% (2005: 33%).

According to Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises, the Company's joint venture, ANSC-TKS Galvanizing Co., Ltd ("ANSC-TKS"), is exempt from income tax during its first two profitable years, starting from the first year when ANSC-TKS has a profit after offsetting any previous years' losses. A 50% income tax exemption is granted to ANSC-TKS from the third profitable year to fifth profitable year.

No income tax was provided for the joint venture of the Company, ANSC-Xinchuan Heavy Industries Dalian Steel Product Processing and Distribution Company Limited ("ANSC-Xinchuan"), as it had not begun its operations during the period.

No income tax was provided for the joint venture of the Company, Changchun FAM Steel Processing and Distribution Company Limited ("Changchun FAM"), as it had not begun its operations during the period.

3. *TAXATION (continued)*

(c) Others

The Group is subject to surcharges, including city construction and maintenance tax, education surcharge and local education surcharge, which are computed based on 7%, 3% and 1% of net VAT payable, respectively.

(d) Taxes payable

	The Group		The Company	
	30 June 2006 *Rmb'000*	31 December 2005 *Rmb'000* *(audited)*	30 June 2006 *Rmb'000*	31 December 2005 *Rmb'000* *(audited)*
VAT payable / (deductible)	83,966	(71,229)	85,471	(60,889)
Income tax payable / (refundable)	40,571	(40,723)	40,571	(40,723)
Others	64,030	1,421	63,896	1,324
	188,567	(110,531)	189,938	(100,288)

4. *CASH AT BANK AND IN HAND*

The Group

	30 June 2006 Original currency '000	30 June 2006 Exchange rate	30 June 2006 Rmb / Rmb equivalent '000	31 December 2005 (audited) Original currency '000	31 December 2005 (audited) Exchange rate	31 December 2005 (audited) Rmb / Rmb equivalent '000
Cash in hand						
Renminbi			38			7
Euro	1	10.13	14	1	9.58	14
US Dollars	1	8.00	7	—	—	—
Cash at bank						
Renminbi			1,511,557			547,183
HK Dollars	610	1.03	628	603	1.04	627
US Dollars	3,297	8.00	26,363	1,579	8.07	12,745
Euro	40	10.13	407	184	9.58	1,763
			1,539,014			562,339

The Company

	30 June 2006 Original currency '000	30 June 2006 Exchange rate	30 June 2006 Rmb / Rmb equivalent '000	31 December 2005 (audited) Original currency '000	31 December 2005 (audited) Exchange rate	31 December 2005 (audited) Rmb / Rmb equivalent '000
Cash in hand						
Renminbi			35			7
Cash at bank						
Renminbi			1,437,176			514,402
HK Dollars	607	1.03	628	603	1.04	627
US Dollars	—	—	—	—	8.07	1
Euro	2	10.13	24	2	9.58	24
			1,437,863			515,061

As at 30 June 2006, the Company has cash balance of Rmb1,173,713,000 deposited with Angang Group Financial Company Limited ("Angang Finance") (31 December 2005: Rmb421,402,000).

5. *BILLS RECEIVABLE*

All bills receivable held by the Group are bills of acceptance issued by banks which have not been pledged.

Among the balance of bills receivable, no balance is due from a shareholder who holds 5% or more of the Company's voting shares.

6. *TRADE RECEIVABLES*

The Group

	30 June 2006				31 December 2005 (audited)			
	Amount *Rmb'000*	**%**	**Bad debt Provision** *Rmb'000*	**%**	**Amount** *Rmb'000*	**%**	**Bad debt Provision** *Rmb'000*	**%**
Within one year	920,649	100	—	—	594,563	100	—	—
One year to two years	1,059	—	—	—	—	—	—	—
Two years to three years	919	—	158	17	—	—	—	—
Over three years	1,667	—	1,667	100	—	—	—	—
Total	922,294	100	1,825		594,563	100	—	

The Company

	30 June 2006				31 December 2005 (audited)			
	Amount *Rmb'000*	**%**	**Bad debt Provision** *Rmb'000*	**%**	**Amount** *Rmb'000*	**%**	**Bad debt Provision** *Rmb'000*	**%**
Within one year	898,633	100	—	—	649,462	100	—	—
One year to two years	1,059	—	—	—	—	—	—	—
Two years to three years	919	—	158	17	—	—	—	—
Over three years	1,667	—	1,667	100	—	—	—	—
Total	902,278	100	1,825		649,462	100	—	

6. TRADE RECEIVABLES (continued)

	The Group		The Company	
	30 June 2006 *Rmb'000*	**31 December 2005** *Rmb'000 (audited)*	**30 June 2006** *Rmb'000*	**31 December 2005** *Rmb'000 (audited)*
Third parties	164,173	338,391	39,323	393,290
Angang Holding	1,601	—	1,601	—
Subsidiaries of Angang Holding	758,520	256,172	861,354	256,172
	924,294	594,563	902,278	649,462
Less: Bad debt provision	(1,825)	—	(1,825)	—
	922,469	594,563	900,453	649,462

Bad debt provision	The Group		The Company	
	30 June 2006 *Rmb'000*	**31 December 2005** *Rmb'000 (audited)*	**30 June 2006** *Rmb'000*	**31 December 2005** *Rmb'000 (audited)*
Beginning balance	—	—	—	—
Add: Provision for the period	1,825	—	1,825	—
Ending balance	1,825	—	1,825	—

As at 30 June 2006, the management considers that most of the account receivables can be recovered and all debtors have the ability to repay the debts; hence, the level of bad debt provision is less than 5%.

During the year, the Group had no individually significant recover of trade receivables which had been fully or substantially provided fro in prior years.

6. TRADE RECEIVABLES (continued)

Among the balance of trade receivables, Angang Holding is a shareholder who holds 5% or more of the Company's voting shares.

As at 30 June 2006, the total trade receivables of the Group's / Company's five largest debtors are as follows:

	The Group		The Company	
	30 June 2006	31 December 2005 (audited)	30 June 2006	31 December 2005 (audited)
Amount (Rmb'000)	869,721	589,511	888,279	649,462
% of total accounts receivable	94%	99%	98%	100%

7. OTHER RECEIVABLES

The Group	30 June 2006		31 December 2005 (audited)	
	Rmb'000	*%*	*Rmb'000*	*%*
Within one year	20,015	25	2,182	33
Between one and two years	54,152	69	4,273	66
Between two and three years	368	1	—	—
Over three years	4,223	5	38	1
	78,758	100	6,493	100
Less: Bad debt provision				
Over three years	(4,205)		—	
	74,553		6,493	

7. *OTHER RECEIVABLES (continued)*

The Company	**30 June 2006**		**31 December 2005 (audited)**	
	Rmb'000	*%*	*Rmb'000*	*%*
Within one year	18,697	26	251	87
Between one and two years	50,003	68	—	—
Between two and three years	42	—	—	—
Over three years	4,223	6	38	13
	72,965	100	289	100
Less: Bad debt provision				
Over three years	(4,205)		—	
	68,760		289	

	The Group		**The Company**	
	30 June 2006	**31 December 2005**	**30 June 2006**	**31 December 2005**
	Rmb'000	*Rmb'000 (audited)*	*Rmb'000*	*Rmb'000 (audited)*
Third parties	77,746	6,493	71,953	289
Subsidiaries of Angang Holding	1,012	—	1,012	—
Less: Bad debt provision	(4,205)	—	(4,205)	—
	74,553	6,493	68,760	289

7. *OTHER RECEIVABLES (continued)*

Bad debt provision	**The Group** 30 June 2006 *Rmb'000*	**The Group** 31 December 2005 *Rmb'000* *(audited)*	**The Company** 30 June 2006 *Rmb'000*	**The Company** 31 December 2005 *Rmb'000* *(audited)*
Balance at the beginning of the period / year	—	3	—	3
Add: Provision for the period / year	4,205	79	4,205	79
Less: Written back for the period / year	—	(82)	—	(82)
Balance at the end of the period / year	4,205	—	4,205	—

During the period, the Group had no individually significant recovery of other receivables which had been fully or substantially provided for in prior years.

Among the balance of other receivables, no balance is due from a shareholder who holds 5% or more of the Company's voting shares.

8. *PREPAYMENTS*

The Group	30 June 2006		31 December 2005 (audited)	
	Rmb'000	*%*	*Rmb'000*	*%*
Within one year	658,886	99	173,728	100
One year to two years	9,327	1	—	—
	668,213	100	173,728	100

The Company	30 June 2006		31 December 2005 (audited)	
	Rmb'000	*%*	*Rmb'000*	*%*
Within one year	644,505	99	166,047	100
One year to two years	9,327	1	—	—
	653,832	100	166,047	100

	The Group		The Company	
	30 June 2006	31 December 2005	30 June 2006	31 December 2005
	Rmb'000	*Rmb'000* *(audited)*	*Rmb'000*	*Rmb'000* *(audited)*
Prepayments to third parties	160,419	45,907	146,038	38,226
Subsidiaries of Angang Holding	507,794	127,821	507,794	127,821
	668,213	173,728	653,832	166,047

Among the balance of prepayments, no balance is due from a shareholder who holds 5% or more of the Company's voting shares.

9. INVENTORIES

	The Group		The Company	
	30 June 2006 Rmb'000	31 December 2005 Rmb'000 (audited)	30 June 2006 Rmb'000	31 December 2005 Rmb'000 (audited)
Raw materials	1,674,313	311,682	1,630,954	297,920
Work in progress	977,958	190,330	977,958	190,330
Finished goods	1,431,687	1,245,740	1,368,117	1,105,429
Spare parts and low value consumables	1,915,128	927,080	1,880,107	894,758
	5,999,086	2,674,832	5,857,136	2,488,437
Less: Provision for diminution in value				
— Raw materials	—	(1,825)	—	—
— Finished goods	(7,000)	(16,250)	—	—
— Spare parts	(48,466)	(48,466)	(48,466)	(48,466)
	(55,466)	(66,541)	(48,466)	(48,466)
	5,943,620	2,608,291	5,808,670	2,439,971

9. *INVENTORIES (continued)*

Provision for diminution in value	The Group 30 June 2006 Rmb'000	The Group 31 December 2005 Rmb'000 (audited)	The Company 30 June 2006 Rmb'000	The Company 31 December 2005 Rmb'000 (audited)
Balance at the beginning of the period	66,541	50,462	48,466	48,466
Add: Provision for the period	7,000	16,079	—	—
Less: Written back for the period	(18,075)	—	—	—
Balance at the end of the period	55,466	66,541	48,466	48,466

All of the above inventories are either purchased or manufactured by the Group.

	The Group Six months ended 30 June 2006 Rmb'000	The Group Six months ended 30 June 2005 Rmb'000 (audited)	The Company Six months ended 30 June 2006 Rmb'000	The Company Six months ended 30 June 2005 Rmb'000 (audited)
The cost of inventories recognised as cost of sales	18,621,454	12,054,757	18,447,084	11,955,575

10. *LONG-TERM EQUITY INVESTMENTS*

The Group	Investment in associates *Rmb'000*	Other equity investment *Rmb'000*	Total *Rmb'000*
Cost of investment			
Balance at the beginning of the period	30,927	10,500	41,427
Additions	15	—	15
Deductions	(424)	—	(424)
Balance at the end of the period	30,518	10,500	41,018

The Company	Investment in jointly controlled entities *Rmb'000*	Investment in associates *Rmb'000*	Other equity investment *Rmb'000*	Total *Rmb'000*
Cost of investment				
Balance at the beginning of the period	170,585	30,927	10,500	212,012
Additions	66,120	15	—	66,135
Deductions	—	(424)	—	(424)
Balance at the end of the period	236,705	30,518	10,500	277,723

As at 30 June 2006, no provision for diminution in value has been made for individual long-term equity investments by the Group.

10. LONG-TERM EQUITY INVESTMENTS (continued)

(a) As at 30 June 2006, the Company's investment in jointly controlled entities are as follows:

Name of invested entity	Share of equity interest in the invested entity	Term of investment	Initial cost of investment *Rmb'000*
ANSC-TKS	50%	50 years	248,305
ANSC-Xinchuan	50%	50 years	20,000
Changchun FAM	50%	50 years	45,188
			313,493

	ANSC TKS *Rmb'000*	ANSC Xinchuan *Rmb'000*	Changchun FAM *Rmb'000*	Total *Rmb'000*
Cost of investment				
Balance at the beginning of the period	150,585	20,000	—	170,585
Add: Purchase from ANSI	—	—	45,188	45,188
Add: Adjustment using equity method	20,932	—	—	20,932
Balance at the end of the period	171,517	20,000	45,188	236,705

Pursuant to an Equity Pledge Agreement entered into between the Company and Bank of China, Liaoning Branch on 20 October 2002, the Company pledged to Bank of China, Liaoning Branch all its equity interests in ANSC-TKS to secure the performance of the obligation of ANSC-TKS, i.e. to repay and settle the related debts due to Bank of China, Liaoning Branch in full and in a timely manner. Details of the arrangement are set out in Note 20.

10. *LONG-TERM EQUITY INVESTMENTS (continued)*

(b) As at 30 June 2006, the Group's and the Company's investment in associates are as follows:

Name of invested entity	Share of equity interest in the invested entity	Term of investment	Initial cost of investment
			Rmb'000
TKAS - ANSC (Changchun) Tailored Blanks Ltd ("TKAS")	45%	50 years	18,643
Angang Shenyang Steel Product Processing and Distribution Company Limited ("Angang Shenyang")	30%	50 years	14,400
			33,043

	TKAS	Angang Shenyang	Total
	Rmb'000	*Rmb'000*	*Rmb'000*
Cost of investment			
Balance at the beginning of the period	15,941	14,986	30,927
Add: Adjustment using equity method	(424)	15	(409)
Balance at the end of the period	15,517	15,001	30,518

(c) As at 30 June 2006, the Group's and the Company's other equity investment is as follows:

Name of invested entity	Share of equity interest in the invested entity	Term of investment	Initial cost of investment
			Rmb'000
Zhongye Nanfang Engineering Technology Company Limited ("Zhongye Nanfang")	7%	30 years	10,500

(d) As at 30 June 2006, the Company's total investment represents 1% (31 December 2005: 2%) of the Company's net asset value.

11. FIXED ASSETS

The Group	Land use rights Rmb'000	Buildings and plants Rmb'000	Machinery and equipment Rmb'000	Others Rmb'000	Total Rmb'000
Cost:					
Balance at the beginning of the period	218,750	2,556,639	7,852,911	809,901	11,438,201
Through acquisition of ANSI	—	7,343,476	15,026,482	938,285	23,308,243
Additions	—	1,636	5,765	562	7,963
Transferred from construction in progress (Note 12)	—	726,258	3,548,022	188,580	4,462,860
Disposals of fixed assets	—	(36,822)	(34,102)	(627)	(71,551)
Reclassification	—	—	233,162	(233,162)	—
Balance at the end of the period	218,750	10,591,187	26,632,240	1,703,539	39,145,716
Accumulated depreciation:					
Balance at the beginning of the period	8,524	850,996	3,528,125	517,848	4,905,493
Charge for the period	2,327	337,103	1,343,950	135,545	1,818,925
Written back on disposal of fixed assets	—	(1,713)	(2,346)	(346)	(4,405)
Reclassification	—	—	156,287	(156,287)	—
Balance at the end of the period	10,851	1,186,386	5,026,016	496,760	6,720,013
Carrying value:					
Balance at the end of the period	207,899	9,404,801	21,606,224	1,206,779	32,425,703
Balance at the beginning of the period	210,226	1,705,643	4,324,786	292,053	6,532,708

11. FIXED ASSETS (continued)

The Company	Land use rights Rmb'000	Buildings and plants Rmb'000	Machinery and equipment Rmb'000	Others Rmb'000	Total Rmb'000
Cost:					
Balance at the beginning of the period	196,402	2,457,337	7,450,682	790,480	10,894,901
Through acquisition of ANSI	—	7,343,476	15,026,482	938,108	23,308,066
Transferred from construction in progress (Note 12)	—	726,258	3,547,812	188,580	4,462,650
Disposals of fixed assets	—	(36,822)	(34,102)	(627)	(71,551)
Reclassification	—	—	233,162	(233,162)	—
Balance at the end of the period	196,402	10,490,249	26,224,036	1,683,379	38,594,066
Accumulated depreciation:					
Balance at the beginning of the period	7,724	843,148	3,464,416	511,309	4,826,597
Charge for the period	2,098	334,849	1,324,708	133,883	1,795,538
Written back on disposal of fixed assets	—	(1,713)	(2,346)	(346)	(4,405)
Reclassification	—	—	156,287	(156,287)	—
Balance at the end of the period	9,822	1,176,284	4,943,065	488,559	6,617,730
Carrying value:					
Balance at the end of the period	186,580	9,313,965	21,280,971	1,194,820	31,976,336
Balance at the beginning of the period	188,678	1,614,189	3,986,266	279,171	6,068,304

11. FIXED ASSETS (continued)

As at 30 June 2006, the cost of the fully depreciated fixed assets of the Group which are still in use amounted to Rmb1,686,672,000 (31 December 2005: Rmb1,391,193,000).

Part of the fixed assets are pledged by the Group as collaterals of the syndicated loan. Details of which are set out in Note 20.

As at 30 June 2006, the carrying value of fixed assets of the Group does not comprise significantly idle, written off and disposable fixed assets.

The properties purchased by the Company from ANSI are undergoing procedures for transfer of title.

12. CONSTRUCTION IN PROGRESS

	Amount		Including: Capitalisation of interest expenses	
	The Group	**The Company**	**The Group**	**The Company**
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*
Cost				
Balance at the beginning of the period	2,840,603	2,836,255	46,170	46,170
Through acquisition of ANSI	2,477,115	2,468,065	—	—
Additions	2,198,414	2,187,760	3,926	3,926
Transfer to fixed assets (Note 11)	(4,462,860)	(4,462,650)	—	—
Balance at the end of the period	3,053,272	3,029,430	50,096	50,096

Construction in progress comprises expenditure incurred for buildings, plants, machinery and equipment which have not yet been put into operation. Interest expense of the Group for the current period was capitalised at a rate of 5.76% (2005: 5.60%).

12. *CONSTRUCTION IN PROGRESS (continued)*

As at 30 June 2006, the projects under construction of the Group/Company are as follows:

Project	Budget *Rmb'000*	Balance at 1 Jan 2006 *Rmb'000*	Through acquisition of ANSI *Rmb'000*	Additions *Rmb'000*	Transferred to fixed assets *Rmb'000* *(Note 11)*	Balance at 30 Jun 2006 *Rmb'000*	% of budget	Capital Source	Interest Capitalized for the period *Rmb'000*
Upgrade of cold rolling production lines	3,820,530	548,868	—	188,672	—	737,540	93%	Operating fund, bank loans	3,926
2130 continuous cold rolling line	2,640,000	2,226,314	—	245,894	2,400,000	72,208	94%	Operating fund	—
West project1450	2,000,000	—	—	269,013	—	269,013	13%	Operating fund, bank loans	—
West project2150	3,790,000	—	649,090	215,081	601,565	262,606	90%	Operating fund	—
New#1,2,3 and 4 furnace	4,534,000	—	967,314	590,945	877,976	680,283	94%	Operating fund	—
Iron smelting plant supporting project	2,292,000	—	413,746	209,171	228,235	394,682	27%	Operating fund	—
Sintering unit	810,000	—	35,827	23,340	417	58,750	95%	Operating fund	—
Chemical plant renovation	3,338,830	—	57,666	161,446	49,623	169,489	39%	Operating fund	—
#1 Steel smelting RH furnace renovation	108,000	26,577	—	53,782	80,000	359	74%	Operating fund	—
Thick plates plant heating process renovation	130,000	8,147	—	64,437	—	72,584	56%	Operating fund	—
Others		26,349	344,422	165,979	224,834	311,916		Operating fund	—
Company total	2,836,255	2,468,065	2,187,760	4,462,650	3,029,430	3,926			
Associates	426,078	4,348	9,050	10,654	210	23,842	6%	Operating fund	—
Group total		2,840,603	2,477,115	2,198,414	4,462,860	3,053,272			3,926

Part of the construction in progress are pledged by the Group as collaterals of the syndicated loan. Details of which are set out in Note 20.

13. INTANGIBLE ASSETS

The Group	Land use rights *Rmb'000*	Acquired software *Rmb'000*	Industrial technology *Rmb'000*	Total *Rmb'000*
Cost				
Balance at the beginning of the period	354,200	17,725	28,230	400,155
Additions	5,284,452	789	31,741	5,316,982
Balance at the end of the period	5,638,652	18,514	59,971	5,717,137
Less: Accumulated amortisation				
Balance at the beginning of the period	57,212	4,588	4,470	66,270
Additions	57,294	1,249	3,870	62,413
Balance at the end of the period	114,506	5,837	8,340	128,683
Carrying value				
Balance at the end of the period	5,524,146	12,677	51,631	5,588,454
Balance at the beginning of the period	296,988	13,137	23,760	333,885

13. INTANGIBLE ASSETS (continued)

The Company	Land use rights Rmb'000	Acquired software Rmb'000	Industrial technology Rmb'000	Total Rmb'000
Cost				
Balance at the beginning of the period	354,200	2,601	—	356,801
Additions	5,284,452	789	31,741	5,316,982
Balance at the end of the period	5,638,652	3,390	31,741	5,673,783
Less: Accumulated amortisation				
Balance at the beginning of the period	57,212	1,734	—	58,946
Additions	57,294	481	2,400	60,175
Balance at the end of the period	114,506	2,215	2,400	119,121
Carrying value				
Balance at the end of the period	5,524,146	1,175	29,341	5,554,662
Balance at the beginning of the period	296,988	867	—	297,855

Land use rights include contribution of Rmb226,800,000 made by Angang Holding and the amount of Rmb5,411,852,000 acquired by the Company. Land use rights are amortised over a remaining period of 41 to 49 years.

Acquired software is amortised on a straight-line basis over an estimated useful life of 3 to 10 years. Industrial technology purchased by the Group from Thyssen Krupp Stahl AG ("Thyssen") is amortised over its beneficial period or residual period of 6 to 10 years.

Land use rights purchased by the Company from ANSI are undergoing procedures for transfer of title.

14. SHORT-TERM LOANS

The Group	30 June 2006 Principal	Interest rate p.a.		31 December 2005 (audited) Principal	Interest rate p.a.	
	Rmb'000			Rmb'000		
Bank loans	1,707,500	4.698% - 5.58%	credit loan	117,500	5.22% - 5.58%	credit loan

The Company	30 June 2006 Principal	Interest rate p.a.	31 December 2005 (audited) Principal	Interest rate p.a.
	Rmb'000		Rmb'000	
Bank loans	1,520,000	4.698% - 5.022%	—	—

Among the above balance, no balance is due to a shareholder who holds 5% or more of the Company's voting shares.

15. BILLS PAYABLE

Bills payable of the Group primarily represent bank accepted bills for the purchases of raw materials and spare parts. The repayment terms are within six months.

Among the balance of bills payable, no balance is due to a shareholder who holds 5% or more of the Company's voting shares.

16. TRADE PAYABLES

	The Group		The Company	
	30 June 2006	31 December 2005	30 June 2006	31 December 2005
	Rmb'000	*Rmb'000 (audited)*	*Rmb'000*	*Rmb'000 (audited)*
Third parties	1,049,467	224,809	1,036,150	212,535
Angang Holding	23,581	4,628	23,581	4,628
Other subsidiaries of Angang Holding	120,047	14,250	120,047	14,250
	1,193,095	243,687	1,179,778	231,413

No individually significant trade payables of the Group as at 30 June 2006 are aged over three years.

Angang Holding holds more than 5% of the Company's voting shares.

17. RECEIPTS IN ADVANCE

	The Group		The Company	
	30 June 2006	31 December 2005	30 June 2006	31 December 2005
	Rmb'000	*Rmb'000 (audited)*	*Rmb'000*	*Rmb'000 (audited)*
Third parties	2,884,179	889,429	2,863,931	858,809
Angang Holding	193	31	193	31
Other subsidiaries of Angang Holding	75,958	73,415	75,958	73,415
	2,960,330	962,875	2,940,082	932,255

No individually significant receipts in advance of the Group as at 30 June 2006 are aged over one year.

Angang Holding holds more than 5% of the Company's voting shares.

18. OTHER PAYABLES

	The Group		The Company	
	30 June 2006	31 December 2005	30 June 2006	31 December 2005
	Rmb'000	*Rmb'000 (audited)*	*Rmb'000*	*Rmb'000 (audited)*
Construction costs	822,374	147,281	821,380	127,001
Freight charges	58,418	16,389	58,418	16,389
Deposit for steel shelves	130,028	33,902	130,028	33,902
Staff education fund	44,024	6,106	44,020	6,106
Education surcharge and local education surcharge	23,178	125	23,178	125
Others	73,442	4,856	55,392	4,589
	1,151,464	208,659	1,132,416	188,382

	The Group		The Company	
	30 June 2006	31 December 2005	30 June 2006	31 December 2005
	Rmb'000	*Rmb'000 (audited)*	*Rmb'000*	*Rmb'000 (audited)*
Third parties	756,631	150,165	737,583	131,547
Angang Holding	660	29	660	29
Subsidiaries of Angang Holding	394,173	58,465	394,173	56,806
	1,151,464	208,659	1,132,416	188,382

None of the other payables of the Group as at 30 June 2006 are aged over three years.

Angang Holding holds more than 5% of the Company's voting shares.

19. CURRENT PORTION OF LONG-TERM LIABILITIES

	Interest rate p.a.	The Group		The Company	
		30 June 2006	31 December 2005	30 June 2006	31 December 2005
	(Note)	Rmb'000	Rmb'000 (audited)	Rmb'000	Rmb'000 (audited)
Bank loan due within one year:					
Renminbi	5.76% - 6.12%	240,535	600,000	200,000	600,000
Foreign currency	0.25% - 2.88%	142,030	40,535	142,030	—
Subtotal		382,565	640,535	342,030	600,000
Long-term payable due within one year (note 21)		2,323,680	—	2,323,680	—
Total		2,706,245	640,535	2,665,710	600,000

Note: *The interest rates of the loans are floating based on rates quoted by the People's Bank of China.*

20. LOANS

The Group	30 June 2006 Interest rate p.a	Original Currency ('000)	Equivalent Rmb'000	31 December 2005 (audited) Interest rate p.a	Original Currency ('000)	Equivalent Rmb'000
			Rmb'000			*Rmb'000*
Bank loans:						
Renminbi	4.698% - 6.12%	—	8,867,180	5.76% - 6.12%		1,244,548
Euro	0.25%	1,412	14,304	—	—	—
Japanese yen	2.7%	8,495,548	590,441	—	—	—
US dollars	2.88%	705	5,634	—	—	—
			9,477,559			1,244,548
Less: Long-term loan due within one year (note 19)			(382,565)			(640,535)
			9,094,994			604,013

The Company	30 June 2006 Interest rate p.a	Original Currency ('000)	Equivalent Rmb'000	31 December 2005 (audited) Interest rate p.a	Original Currency ('000)	Equivalent Rmb'000
			Rmb'000			*Rmb'000*
Bank loans:						
Renminbi	4.698% - 6.12%	—	8,542,900	5.76%		900,000
Euro	0.25%	1,412	14,304	—	—	—
Japanese yen	2.7%	8,495,548	590,441	—	—	—
US dollars	2.88%	705	5,634	—	—	—
			9,153,279			900,000
Less: Long-term loan due within one year (note 19)			(342,030)			(600,000)
			8,811,249			300,000

20. LOANS (continued)

The exchange rates used are as follows:

	30 June 2006	31 December 2005
Euro	10.13	9.58
Japanese yen	0.0695	0.0687
US dollars	8.00	8.07

Nature of the Company's / Group's long-term loans are analyzed as follows:

	The Group		The Company	
	30 June 2006	31 December 2005	30 June 2006	31 December 2005
	Rmb'000	*Rmb'000 (audited)*	*Rmb'000*	*Rmb'000 (audited)*
Credit loan	4,140,000	—	4,140,000	—
Guaranteed loan	5,013,279	900,000	5,013,279	900,000
Secured loan	324,280	344,548	—	—
	9,477,559	1,244,548	9,153,279	900,000

Due dates of the Group's / Company's long-term loans are analyzed as follows:

	The Group		The Company	
	30 June 2006	31 December 2005	30 June 2006	31 December 2005
	Rmb'000	*Rmb'000 (audited)*	*Rmb'000*	*Rmb'000 (audited)*
From one year to two years	6,056,506	340,535	6,056,506	—
From two years to three years	1,913,606	40,535	1,913,606	300,000
Over three years	1,124,882	222,943	841,137	—
	9,094,994	604,013	8,811,249	300,000

The bank loans of the Company are mainly used for technology renovation and equipment upgrade projects and are guaranteed by Angang Holding.

20. LOANS (continued)

In October 2002, ANSC-TKS entered into a loan agreement ("loan agreement") in respect of a syndicated loan totalling Rmb1.08 billion arranged by Bank of China which would be used for the construction of its production line. ANSC-TKS pledged its land use rights, construction in progress, buildings and plants, machinery and equipment and trade receivables with a total carrying value of Rmb1,052,323,000 (31 December 2005: Rmb1,123,490,000) as at 30 June 2006 to Bank of China as collaterals of the loan.

The Company pledged to Bank of China its 50% equity interest in ANSC-TKS to secure the performance of the obligations of ANSC-TKS under the loan agreement.

Among the above balance, no balance is due to a shareholder who holds 5% or more of the Company's shares.

21. LONG-TERM PAYABLES

Pursuant to agreement "Acquisition Agreement regarding 100% Equity Interests in Angang New Steel And Iron Company Limited (2005)" ("Acquisition Agreement") dated 20 October 2005 entered into between the Company and Anshan Iron & Steel Group Complex ("Angang Holding"), the Company acquire the entire equity interest in ANSI, which has been reorganised in accordance with Angang Holding Gangzhenfa [2004] No.22 "Notice regarding the reorganisation of Angang New Steel and Iron Company Limited" at a consideration amounting to Rmb19.69 billion plus the final adjustment as stated in the Acquisition Agreement. The total final consideration amounted to Rmb19.712 billion.

The above acquisition was completed in January 2006. The Company issued 2.97 billion A shares of Rmb1 each at Rmb4.29 per share (equivalent to Rmb12.74 billion) to Angang Holding as a partial payment for the consideration of the Acquisition. The remaining deferred cash payment will be paid in three instalments within three years and bears interest at rates quoted by the People's Bank of China for the same period.

22. SHARE CAPITAL

	The Group / The Company			
	30 June 2006		31 December 2005 (audited)	
	'000 shares	Rmb'000	'000 shares	Rmb'000
Issued and paid up capital:				
State-owned legal person shares of Rmb1 each:				
Balance at the beginning of the year	1,130,504	1,130,504	1,319,000	1,319,000
Issuing of new shares (note 21)	2,970,000	2,970,000	—	—
Decrease as a result of State-owned Share Reform Plan	—	—	(188,496)	(188,496)
Balance at the end of the year	4,100,504	4,100,504	1,130,504	1,130,504
Renminbi ordinary shares ("A shares") of Rmb1 each:				
Balance at the beginning of the year	942,482	942,482	753,942	753,942
Additional A shares issued upon the conversion of convertible debentures	—	—	44	44
Increase as a result of State-owned Share Reform Plan	—	—	188,496	188,496
Balance at the end of the year	942,482	942,482	942,482	942,482
Overseas-listed foreign invested shares ("H shares") of Rmb1 each:				
Balance at the beginning and the end of the year	890,000	890,000	890,000	890,000
	5,932,986	5,932,986	2,962,986	2,962,986

22. SHARE CAPITAL (continued)

All the State-owned legal person shares, A and H shares rank pari passu in all material respects.

In accordance with the "Approval notice related to State-owned Share Reform Plan of Angang New Steel Company Limited" issued by State-owned Assets Supervision and Administration Commission of the State Council in the PRC, the Company implemented its State-owned Share Reform Plan ("Reform Plan") on 1 December 2005. Angang Holding transferred 188,496,424 shares of the Company (excluding additional shares to be issued arising from the exercise of warrants issued in the Reform Plan) to those registered A share shareholders on 1 December 2005. After that, the state-owned legal shares of the Company held by Angang Holding were reduced by 188,496,424 shares. The Company's A shares were increased by 188,496,424 shares accordingly.

In accordance with State-owned Share Reform Plan of the Company, Angang Holding issued 113,097,855 European-style warrants to A share shareholders registered as at the implementation date of the State-owned Share Reform Plan. If all warrant holders exercise their rights at the exercise date (5 December 2006), state-owned legal person shares and Renminbi ordinary shares will further decrease and increase by 113,097,855 shares respectively.

The increase in share capital for the period has been verified by KPMG Huazhen. A capital verification report, KPMG-A (2006) CR No.0005, was issued on 16 January 2006.

23. CAPITAL RESERVE

	The Group / Company		
	At 1 January 2006	**Increase**	**At 30 June 2006**
	Rmb'000	*Rmb'000*	*Rmb'000*
Net proceeds from shares issuance	3,082,840	9,753,390	12,836,230
Write-off of trade and other payables	6,580	39	6,619
Other capital reserve	376	—	376
	3,089,796	9,753,429	12,843,225

24. SURPLUS RESERVES

	The Group / Company		
	At 1 January 2006	**Profits distribution**	**At 30 June 2006**
	Rmb'000	*Rmb'000*	*Rmb'000*
Statutory surplus reserve	772,057	772,057	1,554,114
Statutory public welfare fund	772,057	(772,057)	—
	1,554,114	—	1,554,114

According to the Notice of the Ministry of Finance on the Relevant Enterprise Accounting Treatments after the Effect of the Company Law (Cai Qi[2006]No. 67), the Company has transferred the balance of statutory public welfare fund as at 31 December 2005 to statutory surplus reserve for management purposes.

25. UNDISTRIBUTED PROFITS

Dividends approved and paid during the period

Pursuant to the shareholder's approval at the Annual General Meeting on 20 June 2006, the Company was authorised to declare cash dividend of Rmb0.36 per share (2005: Rmb0.30 per share) to ordinary shareholders. On 28 June 2006, the Company paid cash dividend for the year 2005 totalling Rmb746,275,000 (2005: Rmb622,095,000) to A share shareholders. On 18 July 2006, the Company paid cash dividend for the year 2005 totalling Rmb320,400,000 to H share shareholders (2005: RMB 267,000,000).

26. *INCOME FROM PRINCIPAL OPERATIONS*

	The Group		The Company	
	Six months ended 30 June 2006	**Six months ended 30 June 2005**	**Six months ended 30 June 2006**	**Six months ended 30 June 2005**
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*
Cold rolled sheets	3,970,126	4,834,239	4,307,123	5,288,960
Galvanised steel sheets and colour coating plates	2,362,588	2,531,525	1,797,905	1,951,438
Thick plates	2,440,413	2,576,230	2,440,413	2,576,230
Large section products	1,203,928	2,269,677	1,203,928	2,269,677
Wire rods	1,267,943	1,426,588	1,267,943	1,426,588
Hot rolled sheets	8,071,433	—	8,071,433	—
Cold rolling silicon plant	1,446,637	—	1,446,637	—
Medium plate plant	1,442,501	—	1,442,501	—
Seamless steel plant	1,280,665	—	1,280,665	—
Section plant	323,541	—	323,541	—
Steel billets	3,281	565,379	3,281	565,379
Others	1,186,596	—	1,186,596	—
	24,999,652	14,203,638	24,771,966	14,078,272

The Group's income from principal operations is derived mainly from the production and sale of steel. The Group's segmental information is detailed in Note 37.

Total sales to the five largest customers were Rmb6,389,624,000 (Six months ended 30 June 2005: Rmb4,986,577,000) which accounted for 26% (Six months ended 30 June 2005: 35%) of the total sales income of the Group for the period ended 30 June 2006.

27. COST OF SALES

The Group's cost of sales solely comprised the cost incurred for the production and sale of steel. The Group's segmental information is detailed in Note 37.

28. BUSINESS TAX AND SURCHARGES

	Tax rate and basis	The Group / The Company Six months ended 30 June 2006 *Rmb'000*	Six months ended 30 June 2005 *Rmb'000*
City construction and maintenance taxes	7% of VAT payable	130,782	16,465
Education surcharge and local education surcharge	3% and 1% of VAT payable	74,782	9,408
		205,564	25,873

29. OTHER OPERATING PROFIT

	The Group Six months ended 30 June 2006 *Rmb'000*	Six months ended 30 June 2005 *Rmb'000*	The Company Six months ended 30 June 2006 *Rmb'000*	Six months ended 30 June 2005 *Rmb'000*
Profit from sales of materials and packaging materials	347	5,045	347	5,045
Profit from sales of scrap materials	—	41,051	—	40,415
Others	3,014	1,590	2,762	1,590
	3,361	47,686	3,109	47,050

30. *FINANCIAL EXPENSES*

	The Group		The Company	
	Six months ended 30 June 2006	Six months ended 30 June 2005	Six months ended 30 June 2006	Six months ended 30 June 2005
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*
Interest and bills discount expenses	485,712	66,449	496,735	52,037
Less: Amount capitalised as construction in progress	(3,926)	(12,412)	(3,926)	(12,412)
Net interest expenses	481,786	54,037	465,809	39,625
Net exchange loss / (gain)	25,337	(12,718)	23,570	(6,297)
Interest income	(7,463)	(11,513)	(7,250)	(11,296)
Bank charges	1,307	292	1,281	228
	500,967	30,098	483,410	22,260

31. INVESTMENT (LOSS) / INCOME

	The Group		The Company	
	Six months ended 30 June 2006	**Six months ended 30 June 2005**	**Six months ended 30 June 2006**	**Six months ended 30 June 2005**
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*
Income from long-term equity investment in joint ventures — Accounted under equity method	—	—	20,932	9,654
Loss from long-term equity investment in associates — Accounted under equity method	(409)	(1,954)	(409)	(1,954)
Income from other long term equity investment — Accounted under cost method	—	1,400	—	1,400
	(409)	(554)	20,523	9,100

There is no severe restriction in the transfer of investment income to the Group.

32. *RELATED PARTIES AND RELATED PARTY TRANSACTIONS*

(a) Related party with controlling interest:

Name of enterprise	Registered address	Principal activities	Relationship with the Company	Economic nature	Legal representative
Angang Holding	Tie Xi District Anshan Liaoning Province	Production and sale of steel and metal products, steel filament tubes, and metal structures	Holding company	State-owned	Liu Jie

The registered capital of Angang Holding as at 30 June 2006 is Rmb10,794,160,000 (2005: Rmb10,794,160,000). It holds 69.11% (2005: 38.15%) of the total share capital of the Company. There was no change in the registered capital of Angang Holding during the period. The changes in percentage of shares held by Angang Holding are detailed in Note 22 "Share Capital".

(b) Related parties without controlling interest:

Name of enterprise	Relation with the Company
Angang Group International Trade Corporation ("AITC")	Fellow subsidiary
Angang Finance	Fellow subsidiary
ANSC-TKS	Joint venture
ANSC-Xinchuan	Joint venture
Changchun FAM	Joint venture
Angang Shenyang	Associate and fellow subsidiary
TKAS (Changchun)	Associate

32. *RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)*

(c) Details of related party transactions with Angang Holding and its subsidiaries ("Angang Group"):

	Note	Six months ended 30 June 2006 *Rmb'000*	Six months ended 30 June 2005 *Rmb'000*
Sales of finished goods (excluding business tax and surcharges)	(i)	3,504,987	1,246,348
Sales of scrap materials (excluding business tax and surcharges)	(i)	79,430	401,349
Provision of general services	(i)	203,807	—
Purchase of raw materials	(ii)	4,890,543	10,399,046
Purchase of ancillary materials and spare parts	(iii)	612,638	82,758
Supply of fuel and power	(iv)	524,819	183,917
Supporting services received	(v)	1,210,393	241,062
Interest income	(vi)	1,873	2,709
Interest expense	(vi)	57,363	—

32. *RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)*

(c) Details of related party transactions with Angang Holding and its subsidiaries ("Angang Group"): *(continued)*

(i) Sales and provision of general services

The Company sold steel products and scrap materials to Angang Group mainly at selling prices based on the average prices charged to independent customers for the preceding month or market prices.

The Company provided general services, such as electricity, steam and transportation, to Angang Group at State prices, production cost plus 5%, or market prices.

(ii) Purchase of raw materials

The Company purchased its principal raw materials from Angang Group, at prices determined and modified on a semi-annual basis.

The purchase price is mainly no higher than the average sales prices quoted to the Company plus freight charges in the previous interim period and the average sales prices charged to independent customers plus costs plus 10% (if applicable).

(iii) Purchase of ancillary materials and spare parts

The Company purchased ancillary materials and spare parts from Angang Group at selling prices not higher than the average prices charged to independent customers for the preceding month.

(iv) Supply of fuel and power

The Company purchased power from Angang Group mainly at State prices.

(v) Supporting services received

Angang Group provided supporting services to the Company, which include: transportation services; agency services; equipment repair and general maintenance and overhaul services. These services are charged either at the applicable State prices, market prices or fixed rate commission.

32. *RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)*

(c) Details of related party transactions with Angang Holding and its subsidiaries ("Angang Group"): *(continued)*

(vi) Interest income / expense

Angang Group provided financial services, including settlement, deposit taking, borrowing and discounting services, at State prices.

The deferred cash payment for the acquisition of ANSI bears interest at rates quoted by the People's Bank of China for the same period.

(vii) Guarantee of loans

As at 30 June 2006, total bank loans of the Company amounted to Rmb5,013,279,000 (31 December 2005: Rmb900,000,000). These bank loans were guaranteed by Angang Holding, details of which are set out in Note 20.

(viii) The Supply of Materials and Services Agreement

The Company entered into a new Supply of Materials and Services Agreement with Angang Holding on 29 December 2004, which became effective upon the completion of the Acquisition and superseded the original Supply of Materials and Services Agreement. There were no significant changes in the pricing policies under the new Supply of Materials and Services Agreement.

(d) Details of related party transactions of ANSC-TKS:

(i) Equity investment of the Company in ANSC-TKS

The Company pledged its 50% equity interest in ANSC-TKS to Bank of China to secure the performance of the obligations of ANSC-TKS under the loan agreement.

Pursuant to the funding supporting agreement entered into between the Company and Bank of China Liaoning Branch on 22 October 2002, the Company committed to finance ANSC-TKS if it does not have sufficient funds to complete the construction projects, repay the syndicated loan or finance the operations after completion of the construction projects. The commitment is limited to US$8,000,000 and will be reduced to US$4,000,000 after the tenth repayment date.

32. *RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)*

(d) Details of related party transactions of ANSC-TKS: *(continued)*

(ii) Sales of products from the Company to ANSC-TKS

The Company sold products to ANSC-TKS totalling Rmb673,993,000 for six months period ended 30 June 2006 (Six months ended 30 June 2005: Rmb934,345,000).

(iii) Sale of finished products and purchase of raw materials to / from Thyssen

ANSC-TKS sold finished products to and purchased raw materials from Thyssen, under similar terms and pricing policies for independent parties. The sales and purchases during the six months period ended 30 June 2006 amounted to Rmb32,600,000 (Six months ended 30 June 2005: Rmb287,812,000) and Rmb28,427,000 (Six months ended 30 June 2005: Rmb35,699,000) respectively. Sales amounted to Rmb16,300,000 and purchases amounted to Rmb14,214,000 have been included in the sales and cost of sales of the Group's consolidated financial statements respectively.

(e) Amounts due from / to related parties

The amounts of related party balances of the Group / Company are summarised as follows:

	The Group		The Company	
	30 June 2006	31 December 2005	30 June 2006	31 December 2005
	Rmb'000	*Rmb'000 (audited)*	*Rmb'000*	*Rmb'000 (audited)*
Trade receivables	760,121	256,172	862,955	256,172
Other receivables	1,012	—	1,012	—
Prepayments	507,794	127,821	507,794	127,821
Trade payables	(143,628)	(18,878)	(143,628)	(18,878)
Receipts in advance	(76,151)	(73,446)	(76,151)	(73,446)
Accrued expense	(178,200)	—	(178,200)	—
Other payables	(394,833)	(58,494)	(394,833)	(56,835)
Long-term payables due within one year	(2,323,680)	—	(2,323,680)	—
Long-term payables	(4,647,360)	—	(4,647,360)	—

33 RETIREMENT BENEFITS AND OTHER STAFF BENEFITS

According to the document Liaolaoshepi [2005] No.2 issued by Labour and Social Security Department of Liaoning Province, the required contribution rate from the Company to the retirement benefits scheme is 20% (2005: 22.5%).

Pursuant to regulations issued by local labour bureau, ANSC-TKS, ANSC-Xinchuan and Changchun FAM are required to contribute 19%, 19% and 27% of total salary to retirement benefit schemes.

34. JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

As at 30 June 2006, particulars of the jointly controlled entities of the Company are set out below:

Name of investee enterprise	Registered Capital	% of equity held by the Company	Initial cost of investment	Principal activities
ANSC-TKS	US$60,000,000	50%	US$ 30,000,000	Production and sale of hot dip galvanized steel products
ANSC-Xinchuan	Rmb40,000,000	50%	Rmb20,000,000	Sale, processing, and distribution of steel products
Changchun-FAM	Rmb90,374,000	50%	Rmb45,188,000	Steel processing, sale, distribution, warehouse and other related service

As at 30 June 2006, particulars of the associates of the Company are set out below:

Name of investee enterprise	Registered Capital	% of equity held by the Company	Initial cost of investment	Principal activities
Angang Shenyang	Rmb48,000,000	30%	Rmb14,400,000	Sale, processing, and distribution of steel products
TKAS	US$5,000,000	45%	US$ 2,250,000	Development, production and sale of tailored blanks

35. *COMMITMENTS*

(a) Capital commitments

At 30 June 2006, the Group/Company had the following capital commitments:

	The Group		The Company	
	30 June 2006	**31 December 2005**	**30 June 2006**	**31 December 2005**
	Rmb'000	*Rmb'000 (audited)*	*Rmb'000*	*Rmb'000 (audited)*
Contracted for				
— Construction and upgrade of production lines	4,390,811	847,352	4,368,573	846,850
— Investment	524,000	188,000	524,000	188,000
— Acquisition of ANSI (note)	—	19,691,566	—	19,691,566
Authorised but not contracted for				
— Construction and upgrade of production lines	4,231,029	729,964	3,452,041	385,364
	9,145,840	21,456,882	8,344,614	21,111,780

Note: Acquisition of ANSI

In January 2006, the Company completed the acquisition of the entire interest in ANSI. Details are set out in Note 21.

(b) Other commitments

Pursuant to the funding supporting agreement entered into between the Company and Bank of China Liaoning Branch dated 22 October 2002, the Company committed to finance ANSC-TKS if it does not have sufficient funds to complete the construction projects, repay the syndicated loan or finance the operations after the completion of the construction projects. Details are set out in Note 20.

36. *NON-OPERATING ITEMS*

According to "Questions and answers on the preparation of information disclosures of companies issuing public shares No. 1 - Extraordinary gain and loss (2004 amended)", non-operating items for the Group and the Company are disclosed as follows:

	Six months ended 30 June 2006 *Rmb'000*	Six months ended 30 June 2005 *Rmb'000*
Loss on disposal of assets	58,045	230
Penalty charges	4	48
Penalty income	(1,654)	(397)
Others	208	—
Total non-operating items	56,603	(119)
Less: tax effect of the above items	(18,679)	39
Net non-operating items	37,924	(80)

37. *SEGMENT REPORTING*

The Group operates as a business segment for the production and sales of steel products mainly in the PRC, except for certain exports to other countries and regions. Details of segment revenue based on the geographical location of customers are set out as follows:

The Group	**PRC**		**Other countries**		**Total**	
Category	**Six months ended 30 June 2006** *Rmb'000*	**Six months ended 30 June 2005** *Rmb'000*	**Six months ended 30 June 2006** *Rmb'000*	**Six months ended 30 June 2005** *Rmb'000*	**Six months ended 30 June 2006** *Rmb'000*	**Six months ended 30 June 2005** *Rmb'000*
Income from principal operations	19,320,517	11,039,910	5,679,135	3,163,728	24,999,652	14,203,638
Profit from principal operations	4,381,906	1,580,242	1,450,399	542,766	5,832,305	2,123,008

37. *SEGMENT REPORTING (continued)*

The Company

Category	PRC Six months ended 30 June 2006 *Rmb'000*	PRC Six months ended 30 June 2005 *Rmb'000*	Other countries Six months ended 30 June 2006 *Rmb'000*	Other countries Six months ended 30 June 2005 *Rmb'000*	Total Six months ended 30 June 2006 *Rmb'000*	Total Six months ended 30 June 2005 *Rmb'000*
Income from principal operations	19,365,160	11,168,240	5,406,806	2,910,032	24,771,966	14,078,272
Profit from principal operations	4,386,952	1,552,316	1,407,957	544,508	5,794,909	2,096,824

38. *POST BALANCE SHEET EVENTS*

On 10 August 2006, the board of directors of the Company approved the proposal in relation to the steel construction projects in the Bayuquan port, Ying Kou. The estimated investment of this project will be approximately Rmb22.6 billion which will be financed by the Company's internal resources, bank loans and other appropriate financing activities. The proposal is subject to the shareholders' approval at an extraordinary general meeting to be held on 29 September 2006.

Details of the Provision for Impairment Losses of Assets

For the six months ended 30 June 2006

	The Group			
	Balance at the beginning of the period	Additions	Written back for the period	Balance at the end of the period
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*
1. Bad debt provision	—	6,030	—	6,030
Including: Accounts receivable	—	1,825	—	1,825
Other receivables	—	4,205	—	4,205
2. Provision for diminution in value of inventories	66,541	7,000	(18,075)	55,466
Including: Raw materials	1,825	—	(1,825)	—
Finished goods	16,250	7,000	(16,250)	7,000
Spare parts	48,466	—	—	48,466

	The Company			
	Balance at the beginning of the period	Additions	Written back for the period	Balance at the end of the period
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*
1. Bad debt provision	—	6,030	—	6,030
Including: Accounts receivable	—	1,825	—	1,825
Other receivables	—	4,205	—	4,205
2. Provision for diminution in value of inventories	48,466	—	—	48,466
Including: Spare parts	48,466	—	—	48,466

C. Differences between Financial Statements prepared in accordance with International Financial Reporting Standards ("IFRSs") and the PRC Accounting Rules and Regulations

	Note	Six months ended 30 June 2006 Rmb'000 (unaudited)	2005 Rmb'000 (unaudited)
Profit attributable to equity shareholders of the Company under IFRSs		3,109,429	1,223,621
Adjustments:			
Pre-operating expenses	(ii)	2,290	160
Revaluation of land use rights	(iii)	(2,268)	(2,268)
Amortisation of lease prepayments	(iv)	(5)	(5)
General borrowing costs capitalised	(v)	(99,028)	—
Write off of long outstanding accounts payable	(vi)	(39)	—
Receipt of government grant	(vii)	—	(5)
Deferred tax charge	(viii)	32,674	697
Total		(66,376)	(1,421)
Net profit under the PRC Accounting Rules and Regulations		3,043,053	1,222,200

C. Differences between Financial Statements prepared in accordance with International Financial Reporting Standards ("IFRSs") and the PRC Accounting Rules and Regulations *(continued)*

	Note	At 30 June 2006 *Rmb'000* *(unaudited)*	At 31 December 2005 *Rmb'000* *(audited)*
Total equity attributable to equity shareholders of the Company under IFRSs		26,016,846	11,250,702
Adjustments:			
Convertible debentures			
— Additional borrowing costs capitalised	(i)	(7,293)	(7,293)
Pre-operating expenses	(ii)	2,719	429
Revaluation of land use rights	(iii)	188,244	190,512
Amortisation of lease prepayments	(iv)	738	743
General borrowing costs capitalised	(v)	(166,172)	(67,144)
Deferred tax	(viii)	(6,018)	(38,692)
Total		12,218	78,555
Shareholders' fund under the PRC Accounting Rules and Regulations		26,029,064	11,329,257

C. Differences between Financial Statements prepared in accordance with International Financial Reporting Standards ("IFRSs") and the PRC Accounting Rules and Regulations *(continued)*

Notes:

(i) *The amounts represent the different treatments on transaction costs and discount on convertible debentures between IFRSs and the PRC Accounting Rules and Regulations.*

(ii) *Pre-operating expenses are expensed when incurred under IFRSs. However, in the PRC financial statements, pre-operating expenses are capitalised in long-term deferred expenses before the commencement of operation and will be charged to expense on the first date of operation.*

(iii) *Under the PRC Accounting Rules and Regulations, land use rights are carried at revalued amount. Land use rights are carried at historical cost base under IFRSs. Accordingly, the surplus on the revaluation of land use rights net of deferred tax asset was reversed from shareholder's equity in the financial statements prepared under IFRSs.*

(iv) *Land use rights are amortised on a straight-line basis over the respective periods of rights from the date of grant under IFRSs. Under the PRC Accounting Rules and Regulations, land use rights are amortised over the remaining useful lives when the construction work on the related land has been completed.*

(v) *Under IFRSs, borrowing costs are capitalised as the cost of qualifying assets if they fulfilled the criteria for capitalisation, no matter they are specific borrowings or other borrowings. Under the PRC Accounting Rules and Regulations, only specific borrowing costs with certain conditions fulfilled can be capitalized, while other borrowing costs are recognised as expenses when incurred.*

(vi) *Under IFRSs, the write off of long outstanding accounts payable is recognised in the income statement. Under the PRC Accounting Rules and Regulations, the write off of long outstanding accounts payable is credited to capital reserve.*

(vii) *Under IFRSs, receipt of government grant is recognised as an income in the income statement. Under the PRC Accounting Rules and Regulations, receipt of government grant is credited to capital reserve.*

(viii) *Under IFRSs, deferred tax assets and liabilities are provided at the tax rate of 33%.*

VIII. PUBLICATION OF FINANCIAL INFORMATION

The information in this announcement contains the same information in the announcement published by the Company in the PRC. The interim results announcement of the Company will be published simultaneously in the PRC and Hong Kong. The interim report for the six months ended 30 June 2006, which sets out all the information required by paragraphs 46(1) and 46(3) inclusive in Appendix 16 of the Listing Rules, will be available on both the websites of The Stock Exchange of Hong Kong Limited (http://www.hkex.com.hk) and the Shenzhen Stock Exchange (http://www.cninfo.com.cn) from the date of this announcement.

IX. DOCUMENTS AVAILABLE FOR INSPECTION

1. Original of the interim report of the Company signed by the Chairman;
2. Financial statements of the Company signed by the Company's Legal Representative, Chief Accountant and Head of the Accounting Department of the Company;
3. Originals of all the announcements released by the Company in the China Securities Journal and the Securities Times in the period;
4. Original of the Articles of Association of the Company; and
5. Interim report of the Company submitted to the Stock Exchange.

The above documents are available for inspection at the secretarial office of the Board, Angang New Steel Company Limited situated at 1 Qian Shan Xi Lu, Qianshan District, Anshan City, Liaoning Province.

The Board
Angang New Steel Company Limited

Anshan City
Liaoning Province, the PRC
14 August 2006

As at the date of this announcement, the Board comprises the following directors:

Executive Directors:

Liu Jie
Tang Fuping
Yang Hua
Huang Haodong
Wang Chunming
Lin Daqing
Fu Wei
Fu Jihui

Non-Executive Directors:

Yu Wanyuan

Independent non-executive directors:
Wu Xichun
Wang Linsen
Liu Yongze
Francis Li Chak Yan
Wang Xiaobin