鞍鋼股份有限公司
ANGANG STEEL COMPANY LIMITED*
(Stock Code: 0347)

2008 Interim Report

* For identification purposes only

Important: The board of directors (the "Board"), supervisory committee (the "Supervisory Committee") and directors, supervisors and senior management of Angang Steel Company Limited (the "Company") confirm that there are no false representation or misleading statements contained in, or material omissions from, this report, and severally and jointly bear responsibilities for the truthfulness, accuracy and completeness of the contents contained herein.

The Board of the Company is pleased to announce the unaudited results of the Company and subsidiaries under its control (collectively referred to as the "Group") for the six months ended 30 June 2008 together with the comparative figures as stated herein.

For the purpose of this report, the following abbreviations shall have the following meanings:

"Angang Holding"	shall mean Anshan Iron and Steel Group Complex
"ANSC-TKS"	shall mean ANSC-TKS Galvanizing Co., Ltd.
"ANSI"	shall mean Angang New Steel and Iron Company Limited
"Changchun FAM"	shall mean Changchun FAM Steel Processing and Distribution Co., Ltd.
"CSRC"	shall mean China Securities Regulatory Commission
"IFRSs"	shall mean International Financial Reporting Standards

I. COMPANY PROFILE

1.	Legal Name of the Company		
	(in Chinese)	:	鞍鋼股份有限公司
	(in English)	:	ANGANG STEEL COMPANY LIMITED
2.	Registered and Business Address of the Company	:	Production Area of Angang Steel, Tie Xi District, Anshan City, Liaoning Province, the People's Republic of China (the "PRC")
	Postal Code	:	114021
	Website	:	http://www.ansteel.com.cn
	E-mail	:	ansteel@ansteel.com.cn

3.	Legal Representative of the Company	:	Mr. Zhang Xiaogang
4.	Secretary to the Board of the Company	:	Mr. Fu Jihui
	Correspondence Address	:	1 Qianshan Road West, Qianshan District, Anshan City, Liaoning Province, the PRC
	Telephone	:	(86) 412-8419192/8417273
	Fax	:	(86) 412-6727772
	E-mail	:	ansteel@ansteel.com.cn
5.	Company's Designated PRC Newspapers for Disclosure of Information	:	China Securities Journal, Securities Times
	Website for Interim Report download designated by CSRC	:	http://www.cninfo.com.cn
	Website for Disclosure of the Company's Information in Hong Kong	:	http://www.hkex.com.hk and http://www.angang.wspr.com.hk
	Company's Interim Report Available at	:	1 Qianshan Road West, 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: Angang Steel 000898 H shares: Angang Steel 0347
8.	The subsidiaries under the Company's control	:	As at 30 June 2008, the Company controlled a subsidiary, namely Angang Steel Logistics (Wuhan) Company Limited. On 26 June 2008, the Company exclusively contributed RMB60 million to establish Angang Steel Logistics (Wuhan) Company Limited, which has been included in the consolidated statements of the Group since 26 June 2008.

II. MAJOR FINANCIAL DATA AND INDICES (UNAUDITED)

1. Major financial data

Prepared under International Financial Reporting Standards

Unit: RMB million

Items	For the six months ended 30 June 2008	2007
Profit attributable to equity shareholders of the Company	**5,992**	4,802
Earnings per share (basic) (RMB)	**0.828**	0.809
Return on net assets (weighted average)	**10.50%**	14.82%

Items	30 June 2008	31 December 2007
Total assets	**91,018**	87,381
Equity attributable to equity shareholders of the Company	**56,005**	54,127
Liability to total assets ratio	**38.47%**	38.06%
Net assets per share (RMB)	**7.74**	7.48

Prepared under the PRC Accounting Standards for Business Enterprises

Unit: RMB million

Items	For the six months ended 30 June 2008	2007
Operating profit	**7,542**	6,850
Total profit	**7,525**	6,810
Net profit	**5,980**	4,804
Net profit less extraordinary items	**5,993**	4,831
Basic earnings per share (RMB)	**0.827**	0.810
Diluted earnings per share (RMB)	**0.827**	0.810
Return on net assets (fully diluted)	**10.66%**	15.26%
Net cash flow from operating activities	**6,914**	5,545
Net cash flow per share from operating activities (RMB)	**0.956**	0.935

Items	30 June 2008	31 December 2007
Total assets	**89,822**	86,786
Owners' equity (shareholders' equity)	**56,121**	54,255
Net assets per share (RMB)	**7.76**	7.50

Unit: RMB million

Extraordinary items	Impact on profit
Non-operating income	14
Non-operating expenses	(31)
Relevant Income tax	4
Total	(13)

2. Differences between financial statements prepared in accordance with International Financial Reporting Standards and the PRC Accounting Standards for Business Enterprises

Unit: RMB million

Items	PRC Accounting Standards for Business Enterprises	International Financial Reporting Standards
Net profit	5,980	5,992
Net assets	56,121	56,005

Explanations on differences

(1.) Adjustment in net profit:

a. An increase of RMB2 million in net profit due to amortisation of revaluation of land use rights;

b. An increase of RMB15 million in net profit due to write-off of provision for production safety expenses;

c. A decrease of RMB5 million in net profit due to an increase of deferred income tax assets resulting in an increase of income tax.

(2.) Adjustments in shareholders' equity:

a. A decrease of RMB179 million in shareholders' equity due to revaluation of land use rights;

b. An increase of RMB26 million in shareholders' equity due to write-off of provision for production safety expenses;

c. An increase of RMB37 million in shareholders' equity due to an increase of deferred income tax assets.

3. Return on net assets and earnings per share for the profit in the interim period of 2008 as calculated in accordance with the "Regulations for Preparation and Reporting of Information Disclosed by Listed Companies (No. 9)" issued by CSRC (Prepared in accordance with the PRC Accounting Standards for Business Enterprises):

Profit for the reporting period	Return on net assets (%) Fully diluted	Return on net assets (%) Weighted average	Earnings per share (RMB/share) Basic earnings per share	Earnings per share (RMB/share) Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	10.66	10.46	0.827	0.827
Net profit less extraordinary items attributable to ordinary shareholders of the Company	10.68	10.48	0.828	0.828

Note: Differences between the weighted average return on net assets and fully diluted return on net assets are mainly due to the change of capital reserve and weighted average of net profit arising from the change in the fair value of the Company's available-for-sale financial assets.

III. CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF MAJOR SHAREHOLDERS

1. Share capital structure

During the six months ended 30 June 2008, changes in the share capital structure of the Company were as follows:

Unit: Share

	Before of the change		Increase/decrease during the period					After the change	
	Number	Percentage (%)	Issue of new shares	Bonus issue	Shares converted from capital reserve	Others	Subtotal	Number	Percentage (%)
I. Shares subject to trading moratorium	4,867,698,264	67.28	–	–	–	2,700	2,700	4,867,700,964	67.28
1. State-owned shares	4,867,680,330	67.28	–	–	–	–	–	4,867,680,330	67.28
2. State-owned legal person shares	–	–	–	–	–	–	–	–	–
3. Other domestic shares	17,934	0.00	–	–	–	2,700	2,700	20,634	0.00
Including: shares held by domestic legal persons	–	–	–	–	–	–	–	–	–
shares held by domestic natural persons	17,934	0.00	–	–	–	2,700	2,700	20,634	0.00
4. Foreign investment shares	–	–	–	–	–	–	–	–	–
Including: shares held by overseas legal persons	–	–	–	–	–	–	–	–	–
shares held by overseas natural persons	–	–	–	–	–	–	–	–	–
II. Shares not subject to trading moratorium	2,367,109,583	32.72	–	–	–	(2,700)	(2,700)	2,367,106,883	32.72
1. Renminbi ordinary shares	1,281,309,583	17.71	–	–	–	(2,700)	(2,700)	1,281,306,883	17.71
2. Domestically listed foreign investment shares	–	–	–	–	–	–	–	–	–
3. Overseas listed foreign investment shares	1,085,800,000	15.01	–	–	–	–	–	1,085,800,000	15.01
4. Others	–	–	–	–	–	–	–	–	–
III. Total shares	7,234,807,847	100.00	–	–	–	0	0	7,234,807,847	100.00

2. Particulars of Shareholding

(1.) As at 30 June 2008, the Company had a total of 167,488 shareholders, of which 432 were holders of H shares.

(2.) Shareholdings of major shareholders

As at 30 June 2008, the top 10 shareholders, the top 10 shareholders not subject to trading moratorium and their respective shareholdings were as follows:

Details of shareholdings of the top 10 shareholders

Name of shareholders	Nature of shareholder	Percentage of shareholding *(%)*	Total number of shares held *(share)*	Numbers of shares subject to trading moratorium *(share)*	Number of shares pledged/ frozen
Angang Holding	Holder of state-owned shares	67.28%	4,867,680,330	4,867,680,330	—
HKSCC (Nominees) Limited	Holder of H shares	14.88%	1,076,433,340	—	Unknown
Bank of China — Jiashi Stable Open End Securities Investment Fund (中國銀行 — 嘉實穩健開放式證券投資基金)	Others	0.70%	50,781,969	—	Unknown
China Industrial and Commercial Bank — Yifangda Value Growth Mixed Securities Investment Fund (中國工商銀行 — 易方達價值成長混合型證券投資基金)	Others	0.39%	28,212,120	—	Unknown
China Construction Bank — Huabao Industrial Prime Stock Securities Investment Fund (中國建設銀行 — 華寶興業行業精選股票型證券投資基金)	Others	0.37%	26,747,322	—	Unknown
China Construction Bank — China International China Advantage Securities Investment Fund (中國建設銀行 — 上投摩根中國優勢證券投資基金)	Others	0.31%	22,500,059	—	Unknown

Name of shareholders	Nature of shareholder	Percentage of shareholding *(%)*	Total number of shares held *(share)*	Numbers of shares subject to trading moratorium *(share)*	Number of shares pledged/ frozen
China Industrial and Commercial Bank — Huaan Middle-Small Growth Stock Securities Investment Fund (中國工商銀行 — 華安中小盤成長股票型證券投資基金)	Others	0.30%	22,000,000	—	Unknown
China Construction Bank — Great Wall Brand Prime Stock Securities Investment Fund (中國建設銀行 — 長城品牌優選股票型證券投資基金)	Others	0.27%	19,184,142	—	Unknown
Agricultural Bank of China — Dacheng Innovation Growth Mixed Securities Investment Fund (LOF) (中國農業銀行 — 大成創新成長混合型證券投資基金(LOF))	Others	0.26%	19,000,000	—	Unknown
Agricultural Bank of China — Zhongyou Core Growth Equity Securities Investment Fund (中國農業銀行 — 中郵核心成長股票型證券投資基金)	Others	0.25%	17,767,248	—	Unknown

Details of shareholdings of the top 10 shareholders not subject to trading moratorium

Name of shareholder	Numbers of shares held not subject to trading moratorium *(Share)*	Class of Shares
HKSCC (Nominees) Limited	1,076,433,340	Overseas listed foreign shares
Bank of China — Jiashi Stable Open End Securities Investment Fund (中國銀行 — 嘉實穩健開放式證券投資基金)	50,781,969	Renminbi ordinary shares
China Industrial and Commercial Bank — Yifangda Value Growth Mixed Securities Investment Fund (中國工商銀行 — 易方達價值成長混合型證券投資基金)	28,212,120	Renminbi ordinary shares
China Construction Bank — Huabao Industrial Prime Stock Securities Investment Fund (中國建設銀行 — 華寶興業行業精選股票型證券投資基金)	26,747,322	Renminbi ordinary shares
China Construction Bank — China International China Advantage Securities Investment Fund (中國建設銀行 — 上投摩根中國優勢證券投資基金)	22,500,059	Renminbi ordinary shares
China Industrial and Commercial Bank — Huaan Middle-Small Growth Stock Securities Investment Fund (中國工商銀行 — 華安中小盤成長股票型證券投資基金)	22,000,000	Renminbi ordinary shares
China Construction Bank — Great Wall Brand Prime Stock Securities Investment Fund (中國建設銀行 — 長城品牌優選股票型證券投資基金)	19,184,142	Renminbi ordinary shares
Agricultural Bank of China — Dacheng Innovation Growth Mixed Securities Investment Fund (LOF) (中國農業銀行 — 大成創新成長混合型證券投資基金(LOF))	19,000,000	Renminbi ordinary shares

Name of shareholder	Numbers of shares held not subject to trading moratorium *(Share)*	Class of Shares
Agricultural Bank of China — Zhongyou Core Growth Equity Securities Investment Fund (中國農業銀行 — 中郵核心成長股票型證券投資基金)	17,767,248	Renminbi ordinary shares
China Industrial and Commercial Bank — Zhaoshang Core Growth Equity Securities Investment Fund (中國工商銀行 — 招商核心成長股票型證券投資基金)	16,128,142	Renminbi ordinary shares

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

English names of the shareholders (except HKSCC (Nominees) Limited) are for the identification purpose only.

(3.) Details of the controlling shareholder of the Company

The controlling shareholder of the Company is Angang Holding

Legal representative:	Zhang Xiaogang
Year of incorporation:	1948
Scope of operation:	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 equipment and parts, electrical machinery, electricity transmission and supply and control equipment 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 million
Shareholding structure:	Wholly-owned by the PRC

(4.) Interests and short positions in the shares and underlying shares of the Company held by substantial shareholders and others

Save for disclosed below, as at 30 June 2008, no other person (other than the Company's directors, supervisors and senior management) had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the Hong Kong Securities and Futures Ordinance

Interests in ordinary shares of the Company

Name of shareholder	Number and class of shares held	Percentage in total share capital *(%)*	Percentage in total issued H shares *(%)*	Percentage in total issued domestic shares *(%)*	Capacity
Angang Holding	4,867,680,330 State-owned Shares	67.28	—	79.16	Beneficial owner
HKSCC (Nominees) Limited	1,076,433,340 H Shares	14.88	99.14	—	Nominee

IV. DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Shareholdings of Directors, Supervisors and senior management

As at 30 June 2008, the actual numbers of shares in the Company's issued share capital held by directors, supervisors and senior management of the Company were as follows:

Name	Position	Number of shares held at the beginning of the period	Increase in number of shares held during the period	Decrease in number of shares held during the period	Number of shares held at the end of the period	Reason for change
Zhang Xiaogang	Chairman	0	—	—	0	—
Tang Fuping	Vice Chairman, General Manager	0	—	—	0	—
Yang Hua	Vice Chairman	0	—	—	0	—
Huang Haodong	Director, Deputy General Manager	0	—	—	0	—
Wang Chunming	Director	0	—	—	0	—
Lin Daqing	Director, Deputy General Manager	0	2,700	—	2,700	Purchasing shares
Fu Wei	Director, Deputy General Manager	15,372	—	—	15,372	—
Fu Jihui	Director, Secretary to the Board	8,540	—	—	8,540	—
Yu Wanyuan	Non-executive Director	0	—	—	0	—
Wu Xichun	Independent Non-executive Director	0	—	—	0	—
Wang Linsen	Independent Non-executive Director	0	—	—	0	—
Liu Yongze	Independent Non-executive Director	0	—	—	0	—
Li Chak Yan, Francis	Independent Non-executive Director	0	—	—	0	—
Wang Xiaobin	Independent Non-executive Director	0	—	—	0	—
Wen Baoman	Chairman of the Supervisory Committee	0	—	—	0	—
Shan Mingyi	Supervisor	5,124	—	—	5,124	—
Zhang Lifen	Supervisor	0	—	—	0	—
Li Ji	Supervisor	0	—	—	0	—
Xing Guibin	Supervisor	0	—	—	0	—
Ma Lianyong	Chief Accountant	0	—	—	0	—

All the shares held by the above persons are A shares of the Company. Such shares were held by the persons mentioned above in the capacity of individual beneficial owners, except for Mr. Shan Mingyi in the capacity of family interest (held by his wife).

2. Interests and short positions in shares, underlying shares and debentures of the Company held by Directors and Supervisors

Save as disclosed above, as at 30 June 2008, 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 or any of its associated corporations (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 Company's ninth meeting of the fourth Session of the Supervisory Committee was held on 4 January 2008, at which Mr. Wen Baoman was elected as the Chairman of the fourth session of Supervisory Committee of the Company.

V. DIRECTOR'S REPORT

1. Business review:

Based on the IFRSs, the Company recorded a profit attributable to shareholders of RMB5,992 million for the six months ended 30 June 2008, representing an increase of 24.78% as compared with the same period of last year, and its basic earnings per share was RMB0.828. In accordance with the PRC Accounting Standards for Business Enterprises, the Company recorded a net profit of RMB5,980 million for the six months ended 30 June 2008, representing an increase of 24.48% as compared with the same period of last year, and its earnings per share was RMB0.827.

In the first half of 2008, the Company endeavoured to overcome unfavourable circumstances arising from the price increase in raw materials and fuels, constraint on transportation capacity and natural disasters. Through various measures such as adjusting marketing strategy and optimizing production management, the Company further improved operation performance and achieved a record high for its output, sales revenue and total profits of iron, steel and steel products.

(1.) Year-on-year increase in output of major products

In the first half of 2008, the Company produced 8,111,600 tonnes of iron, 8,186,500 tonnes of steel and 7,692,500 tones of steel products, representing an increase of 2.02%, 3.98% and 3.87%, respectively, as compared with the same period of last year. The steel products produced by the Company in the same period include 1,767,400 tonnes of cold rolled sheets, 750,600 tonnes of galvanized steel sheets and colour coated plates, 615,900 tonnes of thick plates, 264,500 tonnes of large and continuous rolling steel products, 363,600 tonnes of wire rods, 2,762,800 tonnes of hot rolled sheets, 457,000 tonnes of cold rolled silicon steel, 440,500 tonnes of medium plates and 270,200 tonnes of seamless steel pipes.

(2.) ***Outstanding results in technological innovation and new product development***

The Company has obtained significant economic benefits by developing, applying and commercializing new products. In the first half of 2008, the Company produced 1,662,700 tonnes of new products, representing an increase of 133,000 tonnes and an increase of RMB1,839 million in sales revenue as compared with the same period of last year. Leveraging on the PRC preferential tax policies to encourage production of new products using new production know-how and technologies, the Company obtained a tax deduction and exemption of RMB278 million. In the first half of 2008, the Company has submitted 124 patent applications that had been accepted by the PRC intellectual property authority, among which 3 patent applications started PCT procedures. The Company also had 5 science projects that passed science and technology achievement appraisal and new product appraisal in Liaoning Province.

(3.) ***Further achievements in energy saving and emission reduction***

In the first half of 2008, by enhancing energy saving and emission reduction, the Company achieved the best results in its history in relation to utilization of blast furnace, coke and iron and steel materials and consumption of energy and water. Comprehensive energy consumption rate, new water consumption rate and comparable energy consumption rate decreased by 2.17%, 10.56% and 1.12% respectively, as compared with those of the same period last year.

(4.) *Substantial progress in marketing*

The Company proactively moved forward with market development for its specialised steel products and steadily advanced its brand promotion strategies. In the first half of 2008, sales volume of specialised steel products accounted for 92.24% of the total sales volume of the Company. Sales volumes of shipbuilding sheets, automotive sheets, home appliance sheets increased by 25.54%, 52.64%, 27.58%, respectively, as compared with those of last year.

The Company endeavoured to develop direct supply enterprises to expand its sales channels. In the first half of 2008, sales volume to direct supply enterprises accounted for 62.94% of the total sales volume to domestic market, representing an increase of 3.89 percentage points as compared to last year.

The Company explored overseas market and kept close attentions on the trend of international steel products market. Meanwhile, through adjusting the product mix and areas for export and enhancing the coordination in export, the Company has ensured an appropriate percentage of the export of steel products. In the first half of 2008, the Company exported 1,200,000 tonnes of steel products, representing 15.63% of its total sales volume.

(5.) *Smooth progress in Bayuquan Iron and Steel project*

In the first half of 2008, the Bayuquan Branch Company made effective progress in production preparation, construction quality supervision, corporate systems and culture establishment and human resources allocation, which laid a solid foundation for a high standard commencement of the Bayuquan Iron and Steel project.

As at the end of June 2008, the coke oven, hot blast stoves of blast furnace, hot-rolling heating furnace and thick plate heating furnace had commenced trial run for cold and hot load testings.

(6.) *Solidifying corporate foundation and continuing improvement in level of innovative management*

The Campaign of benchmarking management for performance excellence was effectively carried out. With the establishment of the benchmarking management system and through implementation of process of checking-analysing-improving differences, the Company developed and implemented a comprehensive and participatory management model, with all-member participation, focusing on continuing improvements.

By establishing a quality evaluation system, comprising four significant indices, namely, Pass Rate of Outsourcing Class A Metallurgical Materials, Spot rate of Steel Products, Rate of Quality Complaint from Customers, and Quality Cost, the Company continued to improve its quality management. In the first half of 2008, the Company has further enhanced its product quality which was evidenced by the improvements in 12 of its product quality standards and increased satisfaction of its customers.

2. Products representing more than 10% of the operating revenue of the Group are as follows (in accordance with the PRC Accounting Standards for Business Enterprises):

Principal business of the Group by industry and products

Unit: RMB million

	Operating revenue	Operating cost	Gross profit margin *(%)*	Increase/ decrease of operating revenue compared with the same period of previous year *(%)*	Increase/ decrease of operating cost compared with the same period of previous year *(%)*	Increase/ decrease of gross profit margin compared with the same period of previous year *(percentage points)*
Principal activities by industry						
Steel pressing and processing	38,689	27,862	27.98	22.18	24.84	(1.54)
Including: connected transactions	2,259	1,607	28.86	9.93	9.69	0.15
Principal activities by products						
Hot rolled sheets	12,893	9,004	30.16	8.85	8.56	0.18
Cold rolled sheets	8,731	6,313	27.69	34.18	46.47	(6.07)
Galvanized steel sheets and colour coated plates	4,187	3,352	19.94	26.27	17.37	6.07
Including: connected transactions	1,747	1,249	28.51	16.16	13.44	1.71

Pricing policy for connected transactions	Selling prices between the Company and independent third parties
Explanation on necessity and continuity of the connected transactions	Steel production process features a strong continuity. The Company relies on Angang Holding and its subsidiaries for supply of most of raw materials. The Company also sells some of its products to Angang Holding and its subsidiaries. It is expected that such connected transactions will continue in the future operation of the Company

Note: the connected transactions of the Company's sales of products and provision of comprehensive services to its controlling shareholder and its subsidiaries amounted to RMB2,789 million during the reporting period.

Explanations:

(1) The increase in operating revenue of hot rolled sheets was mainly due to higher prices of products and adjusted product mix; the increase in operating cost was mainly due to a hike in the cost of raw materials.

(2) The increase in operating revenue of cold rolled sheets was attributable to (i) commencement of operation of the 1450 cold rolled sheet production lines of the Company which resulted in growth of sales volume of cold rolled sheets; and (ii) increase in price of products and adjustment of product mix; the increased operating cost was due to (i) growth of sales volume of cold rolled sheets; and (ii) increase in the cost of raw materials. The decrease in gross profit margin was mainly due to the increase in product cost surpassing the increase in product prices as a result of hiking cost of raw materials.

(3) The increase in operating revenue of galvanized steel sheets and colour coated plates was due to (i) growth in sales volume; and (ii) increase in prices of products. The increased operating cost was due to (i) increase in sales volume; and (ii) increase in cost of raw materials.

(4) Increases in operating revenue and operating cost of connected transactions were attributable to (i) change in product mix; and (ii) increase in price of products.

Segmental information of principal business of the Group by geographical locations of sales

Unit: RMB million

	Operating revenue during the reporting period	Operating revenue during the same period of last year	Increase/ (decrease) of operating revenue compared with the same period of last year *(%)*
Northeast China	13,834	9,185	50.62
North China	5,706	4,393	29.89
East China	7,846	6,078	29.09
South China	5,274	4,316	22.20
Central south China	819	519	57.80
Northwest China	534	293	82.25
Southwest China	210	134	56.72
Export sales	5,945	7,817	(23.95)
Total	40,168	32,735	22.71

3. Problems and difficulties in the operation

In the first half of 2008, steel enterprises were faced with a noticeable pressure due to the increase in the prices of raw materials and fuel in and outside of China. To cope with these adverse factors, the Company has implemented various measures, including rationalising the resources allocation, enhancing cost control and improving energy saving and emission reduction, to explore its internal potentials and enhance its market competitiveness.

4. Investment of the Company

(1.) From October 2007 to November 2007, the Company raised funds of RMB20,006 million in total by rights issue of 1,301,822,150 shares to all shareholders of the Company, with a net value of RMB19,905 million less issuance expenses.

Unit: RMB million

Amount raised in total	19,905	Total amount used during the reporting period	7,878
		Accumulated amount used	19,747

Projects undertaken	Amount of proposed investment	Changes in project	Actual amount contributed by the Company	Proceeds incurred	Whether progressing as scheduled and conforming to estimated proceeds
Bayuquan project	22,600	No	26,605	Financial internal rate of return is 12.1%	Yes
Total	22,600	—	26,605	—	—

Explanation on failure in completion as scheduled and conforming to estimated proceeds	—
Explanation on reason for change and change procedures	—

Application of unused funds raised	The unused proceeds will still be used in Bayuquan project, and the remaining RMB158 million was deposited with the designated account for funds raised from the rights issue.

Note: Due to increase in investment cost as a result of price inflation, the actual investment in Bayuquan project will surpass estimated investment amount.

(2.) Progress on major investments by non-publicly raised funds

Unit: RMB million

Project Name	Project budget amount	Project Progress	Project proceeds
Renovation of Chemical Plant	3,927	75%	1,000
1450 Project in West Area	2,900	79%	98
High performance silicon steel project	2,800	22%	0
Total	9,627	—	1,098

5. No substantial change from the previous year in principal business and its structure

6. No substantial change from the previous year in profitability (gross profit margin)

7. No substantial change from the previous year in profit composition

8. Analysis of Financial Condition of the Group

(Prepared in accordance with IFRSs, unaudited)

(1.) Items of Income Statement and Cash Flow Statement

Unit: RMB million

Item	For the six months ended June 2008	For the six months ended June 2007	Increase/ (decrease) in percentage *(%)*
Turnover	**39,865**	32,698	21.92
Profit before tax	**7,542**	6,808	10.78
Net profit	**5,992**	4,802	24.78
Net increase in cash and cash equivalents	**(6,003)**	(256)	(2,244.92)

Explanations:

a. Increase in turnover as compared to the same period last year was mainly attributable to the higher product prices, increase in sales volume and change in product mix;

b. Increase in profit before tax and net profit as compared to the same period last year was mainly attributable to (i) hiking prices of products; (ii) enlarged production and sales as a result of a series of work, such as, technology renovation; (iii) adjustment in product mix; (iv) increase in net profit due to lower enterprise income tax rate;

c. *Decrease in net increase in cash and cash equivalents as compared to the same period last year was due to (i) the increase of RMB1,259 million in net cash inflow from operating activities as a result of increased net profit; (ii) the increase in net cash outflow of RMB3,010 million arising from investing activities as a result of acquisition of fixed assets and increased expenditure of construction in progress, acquisition of intangible assets and increased external investment; (iii) the increase in net cash outflow of RMB3,996 million arising from financing activities as a result of decrease in loan and increased dividends.*

(2.) Items of Balance Sheet

Unit: RMB million

Item	**As at 30 June 2008**	**As at 31 December 2007**	**Increase/ (decrease) in percentage** *(%)*
Total assets	**91,018**	87,381	4.16
Shareholders' equity	**56,005**	54,127	3.47
Monetary fund	**1,730**	7,733	(77.63)
Trade receivables	**4,561**	6,495	(29.78)
Construction in progress	**21,882**	17,115	27.85
Trade payables	**2,429**	2,718	(10.63)

Explanations:

a. *The increase in total assets and shareholders' equity was attributable to the net profit generated from operations;*

b. *The decrease in monetary fund was attributable to 2007 cash dividend distribution and the increase in monetary fund from rights issue being used for expenditure of Bayuquan project in the first half of 2008;*

c. *The decrease in trade receivables was attributable to fewer bank acceptances received by the Company from sales and releasing of mature bank acceptances;*

d. *The increase in construction in progress was attributable to the increased expenditures of Bayuquan project and other projects;*

e. *The decrease in trade payables was due to amount of released mature bank acceptances exceeding the amount of bank acceptances issued.*

9. Business plan for the second half of the year

(1.) To fully focus on production commencement of the Bayuquan project. By taking advantage of its integrated production management and control, the Company will be able to expedite the progress to realize effective production. In the meantime, the Company will optimize management mode, rationalize resources allocation and maintain effective coordination in production management, information exchange and logistics and transportation arrangements.

(2.) To continue improving the Company's management by further implementing and enhancing the program of benchmarking management for performance excellence and optimizing such benchmarking system.

(3.) To further strengthen investment management and increase investment amount in scientific research and development, and attain further achievements in technology renovation.

(4.) To further implement energy saving and emission reduction measures. The Company will initiate comprehensively the first batch of 36 energy saving projects, push forward environmental protection project for year 2008 and realize the energy saving and emission reduction targets.

(5.) To devote more efforts in enhancing product mix, optimizing product selling price and controlling raw materials cost.

(6.) To enhance comprehensive financial management and establish standard production cost management model and capital operation and management model.

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

(1.) As at 30 June 2008, the Group had long-term loans of RMB13,313 million, which was mainly used for equipment renovation project and construction of Bayuquan project. The loans are for a term of 2 to 22 years at an annual interest rate of 5.427% to 7.047%.

(2.) As at 30 June 2008, the Group had cash and cash equivalents of RMB1,730 million, compared with RMB7,733 million at the end of 2007.

(3.) As at 30 June 2008, the total assets less current liabilities of the Group amounted to RMB69,464 million as compared with RMB66,570 million at the end of 2007. The equity attributable to equity shareholders of the Group amounted to RMB56,005 million as at 30 June 2008 as compared with RMB54,127 million at the end of 2007.

11. Pledged assets

No assets were pledged by the Group during the reporting period.

12. Commitments and contingent liabilities (in accordance with IFRSs)

As at 30 June 2008, the Group had capital commitment of RMB13,660 million, which was mainly for the executed construction and renovation contracts that are not yet performed or fully performed.

As at 30 June 2008, the Group did not have any contingent liabilities.

13. Equity to liability ratio (in accordance with IFRSs)

The shareholder's equity to debt ratio of the Group as at 30 June 2008 was 1.60 times, and was 1.63 times as at 31 December 2007.

14. Foreign exchange risk

The Group exported some of its products while importing certain raw materials, equipment, spare parts and materials. Major export and import transactions were settled through import & export agencies at a locked exchange rate. Hence, there is no significant foreign exchange risk for the Group.

15. Employees

As at 30 June 2008, the Company had 31,576 employees, of which 20,872 were production personnel, 331 were sales personnel, 2,691 were technicians, 290 were financial personnel and 1,758 were administration and managerial personnel. Among the employees of the Company, 5,230 employees had obtained bachelor's degree or above, representing 16.56% of the employees; 7,073 employees had obtained diploma, representing 22.40% of the employees and 14,641 employees had received diploma from technical secondary schools, representing 46.37% of the employees.

The Company has adopted position-based and risk-based annual remuneration packages for senior management, position-based remuneration packages with profit share incentives for new product development for scientific research personnel, and profit-linked remuneration package for sales personnel. For other personnel, the Company has adopted position-based remuneration packages.

In the first half of 2008, the Company further optimized training management system and arranged various knowledge, skill, qualifications training for leading cadres, managerial staffs, technicians and production operators, with total 10,492 participants. In order to speed up the training for young and middle-aged technical business talents and improve the business skill of new employees, the Company diverted each of its department to carry out master teaching apprentice activity and training agreements between masters and apprentices were signed.

As a result of a series of trainings, the overall quality of the staff was improved, which guarantees a smooth implementation of production, operation and technological transformation for the Company.

VI. EXPLANATIONS ON SIGNIFICANT MATTERS

1. Corporate governance

In strict compliance with the applicable requirements of the PRC Company Law, the PRC Securities Law, the relevant requirement of CSRC, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange"), the Rules Governing the Listing of Shares on the Shenzhen Stock Exchange, the Corporate Governance Guideline of Listed Companies and the Guidelines for the Internal Control of Listed Companies of the Shenzhen Stock Exchange, the Company has regulated its operations and established a sound corporate governance system and an effective internal control system.

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 provisions of the Code and most of the recommended best practices set out in the Code.

From 26 September 2007 to 28 September 2007, CSRC Liaoning Bureau conducted an on-site inspection for the special campaign to strengthen the corporate governance. On 31 October 2007, CSRC Liaoning Bureau issued Comprehensive Assessment Opinion on Corporate Governance of Angang Steel Company Limited (Liao Zheng Jian Shang Shi Zi [2007] No.96) ("Opinion").

(1.) It was pointed out in the Opinion that "some parcels of land are still going through transfer registration procedures for land use rights after your company has acquired all equity interests of ANSI."

272 parcels of land were required to go through transfer registration procedures for land use rights after the Company has acquired all equity interests of ANSI, of which, 265 parcels of land have completed transfer registration procedures of land certificates, 7 parcels of land have not completed transfer registration procedures of land certificates. In particular, transfer registration documents for 6 parcels of land have been submitted to Anshan Municipal Bureau of Lands and Resources for handling transfer registration procedures; 1 parcel of land will be repossessed by Anshan Municipal government due to city removal and renovation project. Government would make compensation or replacement for withdrawal of the parcel and the transfer registration for this parcel is now pending.

(2.) It was also pointed out in the Opinion that, "your Company's plan for acquiring relevant assets of Angang International Trade Corporation to reduce connected transaction has not made any substantial progress."

At present, the Company has not completed the acquisition of relevant assets of Angang International Trade Corporation. However, the Company planned to implement the acquisition gradually in the near future.

Leveraging on the opportunity of special campaign for corporate governance, the Company will further optimize the corporate governance structure, continuously improve corporate governance level, and ensure the sustainable, healthy and balanced development of the Company so as to reward investors with excellent results.

2. Proposal for interim profit distribution and transfer from capital reserve to share capital

The Company will not declare any interim dividends nor transfer any surplus reserves to the share capital of the Company for the six months ended 30 June 2008.

3. Implementation of profit distribution plan

On 10 June 2008, the Company convened its 2007 annual general meeting in Anshan, at which the 2007 profit distribution plan was considered and approved. A cash dividend of RMB5.5 per 10 shares based on the total share capital of 7,234,807,847 shares as at 31 December 2007 will be distributed. On 30 June 2008, 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 general meeting, being HK$100.00 to RMB88.69. The cash dividends actually paid to holders of H shares was HK$673.30 million. On 27 June 2008, the Company distributed cash dividends to domestic holders of circulating A Shares and state-owned shareholders totalling RMB3,381.95 million. The cash dividends for 2007 distributed by the Company was RMB3,979.11 million in total.

4. Material litigation and arbitration

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

5. Material acquisition, sale or disposal of assets

The other party and the assets acquired	Date of acquisition	Acquisition Price *(RMB million)*	Net profit contributed to the Company since date of acquisition to the year-end	Whether or not a connected transaction (if yes, state the basis of pricing)	Whether or not title of assets transferred	Whether or not all claims and obligations transferred
Acquired part of the land use rights of Bayuquan Port from Angang Holding	22 April 2008	1,265	Nil	Yes Consideration of the transaction is determined based on the appraised value of Liaoning Guo Di Assets Valuation Company Limited	No	No claims and obligations

6. Material connected transactions in the reporting period

(1.) Continuing connected transactions

During the reporting period, the Company purchased most of its raw materials, energy and services 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 in accordance with the Materials and Services Supply Agreement entered into between the parties.

a. Angang Holding and its subsidiaries provided the Company with the following major items:

Items	Pricing principle	Price	Amount *(RMB million)*	As a percentage of the contractual amount of similar transactions *(%)*
Iron Concentrate	Not higher than the average import price of PRC iron concentrate reported to the PRC customs in the preceding half-year reporting period before adjustment and the railway transportation cost from Bayuquan 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 preceding half-year. For every 1 percentage point of increase or decrease in the grade of iron concentrate, the price will be increased or decreased by RMB10/tonne. Angang Holding pledged to give discount after the highest price is confirmed. The discount rate is 5% of average import CIF price of iron concentrate reported to the PRC customs in the preceding half-year.	RMB791/ tonne	3,880	61.77

Items	Pricing principle	Price	Amount *(RMB million)*	As a percentage of the contractual amount of similar transactions *(%)*
Pellet	Based on the average price of pellets purchased by the Company from independent third parties in the preceding half-year of reported period. For every 1 percentage point of increase or decrease in the grade of pellets, the price will be increased or decreased by RMB10/tonne.	RMB1,012/ tonne	2,678	99.92
Sinter ore	The price of iron concentrate plus processing cost in the preceding half-year of reported period and 10% gross profit (of which, the processing cost is not higher than that of similar products produced by the Company)	RMB986/ tonne	1,952	99.96

Items	Pricing principle	Price	Amount *(RMB million)*	As a percentage of the contractual amount of similar transactions *(%)*
Scrap steel	Market price	—	130	96.02
Billets	Market price	—	—	—
Sub-total	—	—	8,640	78.19
Electricity	State price	RMB0.47/ KWh	798	38.06
Sub-total		—	798	38.06
Lime stone	Not higher than selling prices offered by the relevant member of Angang Holding to the independent third parties	RMB65/ tonne	40	69.50
Lime powder		RMB358/ tonne	394	99.66
Refractory materials		—	105	19.82
Other ancillary materials		—	73	6.68
Spare parts and tools		—	413	7.55
Subtotal	—	—	1,025	13.59
Total	—	—	10,463	50.57

b. Angang Holding and its subsidiaries provided the Company with the following major services:

Items	Pricing principle	Amount *(RMB million)*	As a percentage of the contractual amount of similar transactions *(%)*
Railway transportation	State price	310	77.52
Road transportation	Market price	172	81.53
Agency services: — Import of raw material, equipment, components and auxiliary material — Agency for product export — Agency for domestic sale of product	Within 1.5% as commission (not more than the main commission levied by the main state import and export companies of the PRC) or free of change	154	100.00
Repair and maintenance of equipment	Market price	204	54.94
Design and engineering services		3,312	61.34
Education facilities, vocational education, on the job training, translation services		—	—
Company vehicle service		10	94.15
Charge for arrangement of business reception and meeting		—	—

Items	Pricing principle	Amount *(RMB million)*	As a percentage of the contractual amount of similar transactions *(%)*
Greening services	Payment of prices of labour service, material and administration based on market price State price	8	99.80
Security services		24	100.00
Newspaper and other publications	State price	1	44.75
Telecommunication business and service, information system	State price or depreciation cost plus maintenance cost	2	19.42
Environmental protection safety monitoring services	State price	1	100.00
Cost for supply of heat	State price	—	—
Production coordination and maintenance	Payment of prices of labour service, material and administration based on market price	516	96.30
Life coordination and maintenance		54	92.36

Items	Pricing principle	Amount *(RMB million)*	As a percentage of the contractual amount of similar transactions *(%)*
Material processing service	Processing cost plus a gross profit not higher than 5%	—	—
Total	—	4,768	46.90
Interest on settlement funds	State price	12	45.11
Loans and discounted rate	State price	16	2.60
Payment of interest on delayed consideration for acquisition of ANSI	Interest rate on bank loans	79	100.00

Note: *In which, for the six months ended 30 June 2008, steel products provided by Angang International Trading Corporation as a domestic and overseas sales agency amounted to 2,040,000 and 1,200,000 tonnes respectively.*

c. The Company provided Angang Holding and its subsidiaries with the following major items:

Items	Pricing principle	Price	Amount (RMB million)	As a percentage of the contractual amount of similar transactions (%)
Cold rolled sheets	The selling price offered by the Company and its subsidiaries to 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 gross profit margin of related products provided by relevant member of companies.	RMB4,796/tonne	692	6.10
Heavy plates		RMB5,512/tonne	127	3.57
Wire rods		RMB4,258/tonne	90	5.66
Large steel products		RMB4,680/tonne	36	3.38
Hot rolled plates		RMB4,274/tonne	916	7.09
Medium plates		RMB4,929/tonne	226	9.46
Galvanized steel sheets		RMB4,600/tonne	125	3.43
Colour coating sheets		RMB6,153/tonne	14	2.47
Seamless steel pipes		RMB4,367/tonne	27	1.99
Molten iron		RMB4,591/tonne	6	100.00
Coke		RMB646/tonne	26	100.00
Chemical by-products		—	47	8.11
Sub-total		—	2,332	5.98
Scrap steel material	Market price	—	91	89.84
Abandoned material		—	4	9.04
Minus sieve powder	Base price of sinter ore for the current period minus the cost of sintering process of Angang Holding	RMB765.50/tonne	128	100.00
Sub-total		—	223	82.26
Total		—	2,555	6.50

d. The Company provided Angang Holding and its subsidiaries with the following comprehensive services:

Items	Pricing principle	Price	Amount (RMB million)	As a percentage of the contractual amount of similar transactions (%)
New water	State price	RMB2.94/tonne	25	99.89
Clean recycled water	Production cost plus a profit margin of 5%	RMB0.74/tonne	14	99.98
Soft water		RMB2.84/tonne	—	—
Gas		RMB43.15/GJ	147	84.40
Blast furnace gas		RMB4.00/GJ	15	100.00
Steam		RMB39.50/GJ	21	98.88
Nitrogen		RMB70.00/1,000M³	—	—
Oxygen		RMB501.86/1,000M³	1	7.92
Argon		RMB600.00/1,000M³	—	—
Compressed air		RMB89.50/1,000M³	1	100.00
Unused hot water		RMB5.60/GJ	9	83.34
Product testing service	Market price	—	—	—
Transportation service		—	1	100.00
Total	—	—	234	40.62

e. The Company provided the jointly-controlled entities with the following items:

Items	**Amount** *(RMB million)*	**As a percentage of the contractual amount of similar transactions** *(%)*
Cold hard coils	1,068	14.00
Hot rolled coils	47	0.36

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

(2.) Connected transactions arising from transfer of assets and investment

a. Acquisition of assets

The 26th meeting of the 4th session of the Board of the Company was held on 22 April 2008. The Board approved the Land Use Rights Acquisition Agreement entered into by the Company and Angang Holding, according to which the Company acquires the land use rights of a parcel of land with a total area of 3,594,000 square metres located in Bayuquan Port. The value of such land use rights amounted to RMB1,265 million as appraised by Liaoning Guo Di Assets Valuation Company Limited* (遼寧國地資產評估有限公司). And the consideration was determined to be RMB1,265 million based on such valuation, and shall be settled in cash.

b. Investment

The 26th meeting of the 4th session of the Board of the Company was held on 22 April 2008. The board has approved the Proposal relating to Investment by the Company in Angang Holding Financial Company Limited (hereafter referred to as "Angang Holding Financial Company"), according to which the Company will invest RMB315 million in Angang Holding Financial Company and then will hold 20% of registered capital in it.

7. Claims and obligations between related parties and the Company

Unit: RMB million

Related parties	Funds provided to related parties		Funds provided by related parties to the Company	
	Amount occurred	Balance	Amount occurred	Balance
Angang Holding	—	—	—	2,324
Total	—	—	—	2,324

Note: On 26 January 2006, the Company issued 2,970,000,000 new circulating A shares to Angang Holding at a price of RMB4.29 each as a part of consideration (equivalent to RMB12,741 million) for the acquisition of the entire equity interests in ANSI. The insufficient part of RMB6,971 million of the funds will be deferred and paid by way of deferred consideration payment. The deferred consideration payment will be deferred and paid by three equal installments within three years following the completion date. Interest will be payable by the Company to Angang Holding on such deferred consideration payment at the rates equivalent to the prevailing interest rates for same terms as quoted by the People's Bank of China and will be payable upon payment of the underlying installment of deferred consideration payment.

As at 30 June 2008, RMB1 billion of the Company's bank loan was secured by Angang Holding.

8. Material contracts and their performance

(1.) The Company did not enter into custody, contracting or lease arrangement in respect of the assets of other companies nor did other companies enter into any custody, contracting or lease arrangement in respect of the assets of the Company during the reporting period;

(2.) There was no material security matter involved by the Company during the reporting period;

(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 for financial management during the reporting period.

9. Opinions of independent Directors in relation to cumulative and current external guarantees and capital occupied by the controlling shareholders and other related parties:

In accordance with the principles of 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" [2003] No.56 (the "Notice") issued by CSRC, we have faithfully and carefully reviewed and finalized the Company's external guarantee and capital transactions between the Company and its related parties, and hereby make the following statements and opinions:

(1.) During the reporting period, the Company did not provide any external guarantee to its controlling shareholders and other related parties, any legal person entities or individuals.

(2.) During the reporting period, none of the controlling shareholders or other related parties had occupied the Company's capital.

(3.) In strict compliance with relevant regulations, the Company has clearly specified relevant procedures and requirements concerning the external guarantee in the Articles of Association. The Company also formulated Administrative Procedures of External Guarantee so as to strengthen the management of the external guarantee. The regulations of the Articles of Association of the Company and Administrative Method of External Guarantee are in compliance with the requirements of the relevant domestic and foreign regulations.

10. Undertakings of Controlling Shareholder

(1.) Angang Holding, the controlling shareholder of the Company, made the minimum undertakings required under the relevant laws and regulations, during the period of the Non-tradable Shares Reform.

In addition to the required minimum undertakings, Angang Holding has made the following special undertakings:

a. 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 except for the shares to be transferred to any holders of tradable ordinary domestic shares upon his/her/its exercise of the warrants.

b. For new circulating A Shares of the Company issued to Angang Holding for the acquisition of the entire equity interest in ANSI subject to the approval of the shareholders' meeting and regulatory authorities, it is undertaken by Angang Holding that 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.

c. 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.

d. Angang Holding assures that it will compensate other shareholders for any loss arising from its failure to fulfill the whole or part of such undertakings.

e. Angang Holding will arrange for the deposit of the relevant shares of the Company held by it as compensation for implementation of consideration arrangement with China Securities Depository and Clearing Corporation Limited, Shenzhen Branch to ensure fulfillment of its obligations under the consideration arrangement.

f. Angang Holding will be responsible for all the costs and expenses arising from the implementation of the Non-tradable Shares Reform.

Angang Holding further states that:

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

During the reporting period, there is not any breach of such undertakings by Angang Holding.

(2.) Angang Holding made an undertaking to the Company on 19 November 2007 that, Angang Holding would provide a discount to the iron concentrate purchased by the Company from it, based on the highest amount as determined under the pricing formula set out in the Supply of Materials and Services Agreement (2008-2009) entered into by the Company and Angang Holding on 24 October 2007, being 5% of the average import CIF price of iron concentrate reported to the PRC customs in the preceding half-year of reporting period.

During the reporting period, no breach of the undertakings by the undertaker was found.

11. Purchase, sale or redemption of the Company's listed securities

During the six months ended 30 June 2008, there was no re-purchase, sale or redemption of the Company's listed securities by the Company and its subsidiaries.

12. Securities transactions of directors

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

13. Independent non-executive directors

During the reporting period, the Board of the Company 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 of Hong Kong, which requires one of those independent non-executive directors to possess professional qualifications or to be specialized in accounting or relevant financial management.

14. Audit committee

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

The Audit Committee, along with the management, has 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 2008.

15. Change of auditors

According to the requirements of the State-owned Assets Supervision and Administration Commission of the State Council, any accounting firm shall not act as the auditor for a corporation for more than 5 consecutive years. KPMG and KPMG Huazhen have been engaged as the auditors of the Company for more than 5 years and shall not continue to act in such capacity.

On 12 June 2008, the appointment of RSM China Certified Public Accountants and RSM Nelson Wheeler as the domestic auditor and international auditor of the Company, respectively, for the year 2008 was approved at the 2007 annual general meeting of the Company.

The Chinese name of RSM Nelson Wheeler has been changed to 中瑞岳華(香港)會計師事務所.

16. Shareholding in other listed companies

Unit: RMB million

Stock Code	Stock code abbreviation	Initial investment	Shareholding in that company *(%)*	Book value at the end of the period	Loss or profit during the reporting period	Change in equity of holders during the reporting period
600961	Zhuzhou Smelter Group (株冶集團)	81	1.90	92	0	(135)

17. Servey and research, communication and site visits during the reporting period

From January to June 2008, the Company had been visited by domestic and overseas investors, fund managers and industrial analysts for 17 times. The number of visitors was over 40 people. The Company was invited to participate in more than 50 telephone conferences held by overseas investors, fund managers and analysts. The information provided and issues addressed by the Company during reception were based on the information set out in announcements published by the Company and in strict compliance with relevant domestic and overseas requirements.

A. Prepared in accordance with International Financial Reporting Standards

Condensed consolidated income statement (unaudited)

For the six months ended 30 June 2008

(Expressed in Renminbi)

		Six months ended 30 June	
		2008	2007 (restated)
	Note	***RMB million***	*RMB million*
Revenue	2, 3	**39,865**	32,698
Cost of sales		**(29,796)**	(23,894)
Sales related taxes		**(525)**	(331)
Gross profit		**9,544**	8,473
Other operating loss, net		**(82)**	(84)
Distribution and other operating expenses		**(845)**	(741)
Administrative expenses		**(828)**	(525)
Profit from operations		**7,789**	7,123
Net finance costs		**(337)**	(354)
Share of profits less losses of jointly controlled entities		**88**	38
Share of profits less losses of associates		**2**	1

The notes on pages 57 to 79 form part of this interim financial report.

Condensed consolidated income statement (unaudited) ***(Continued)***

For the six months ended 30 June 2008

(Expressed in Renminbi)

		Six months ended 30 June	
		2008	2007 (restated)
	Note	***RMB million***	*RMB million*
Profit before tax	4	**7,542**	6,808
Income tax expense	5	**(1,550)**	(2,006)
Profit for the period and attributable to equity shareholders of the Company		**5,992**	4,802
Earnings per share	7		
Basic		**RMB0.828**	RMB0.809

The notes on pages 57 to 79 form part of this interim financial report.

Condensed consolidated balance sheet (unaudited)

At 30 June 2008

(Expressed in Renminbi)

	Note	**At 30 June 2008 *RMB million***	At 31 December 2007 *RMB million*
Non-current assets			
Property, plant and equipment		**33,599**	32,659
Intangible assets		**20**	22
Construction in progress	8	**21,882**	17,115
Lease prepayments		**6,633**	5,370
Interest in jointly controlled entities		**896**	825
Interest in associates		**373**	50
Other investment		**102**	281
Deferred tax assets		**220**	108
		63,725	56,430
Current assets			
Inventories		**10,880**	8,701
Amount due from ultimate parent		**25**	—
Amounts due from fellow subsidiaries		**6,458**	5,102
Amounts due from jointly controlled entities		**1**	—
Trade receivables	9	**4,561**	6,495
Prepayments, deposits and other receivables		**3,638**	2,920
Cash and cash equivalents	10	**1,730**	7,733
		27,293	30,951

The notes on pages 57 to 79 form part of this interim financial report.

Condensed consolidated balance sheet (unaudited) *(Continued)*

At 30 June 2008

(Expressed in Renminbi)

	Note	**At 30 June 2008** ***RMB million***	At 31 December 2007 *RMB million*
Current liabilities			
Trade payables	11	**2,429**	2,718
Amount due to ultimate parent		**143**	41
Amounts due to fellow subsidiaries		**1,421**	1,898
Amounts due to jointly controlled entities		**304**	147
Income tax payable		**249**	102
Other payables		**7,322**	6,255
Bank and other loans	12	**7,362**	7,326
Current portion of long-term payable to ultimate parent	13	**2,324**	2,324
		21,554	20,811
Net current assets		**5,739**	10,140
Total assets less current liabilities carried forward		**69,464**	66,570

The notes on pages 57 to 79 form part of this interim financial report.

Condensed consolidated balance sheet (unaudited) *(Continued)*

At 30 June 2008

(Expressed in Renminbi)

	Note	**At 30 June 2008 RMB million**	At 31 December 2007 RMB million
Total assets less current liabilities brought forward		**69,464**	66,570
Non-current liabilities			
Bank and other loans	12	**13,313**	12,297
Provisions		**146**	146
		13,459	12,443
NET ASSETS		**56,005**	54,127
Capital and reserves			
Share capital		**7,235**	7,235
Share premium		**31,414**	31,414
Reserves		**2,822**	2,957
Retained profits		**14,534**	12,521
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**56,005**	54,127

Approved and authorised for issue by the board of directors on 11 August 2008.

Zhang Xiaogang	**Fu Jihui**
Chairman	*Director*

The notes on pages 57 to 79 form part of this interim financial report.

Consolidated statement of changes in equity (unaudited)

For the six months ended 30 June 2008

(Expressed in Renminbi)

	Note	Share capital RMB million	Share premium RMB million	Reserves RMB million	Retained profits RMB million	Total RMB million
At 1 January 2007		5,933	12,811	2,076	9,181	30,001
Net profit for the period		—	—	—	4,802	4,802
Final dividends — 2006	6	—	—	—	(3,441)	(3,441)
At 30 June 2007		5,933	12,811	2,076	10,542	31,362
At 1 January 2008		7,235	31,414	2,957	12,521	54,127
Net profit for the period		—	—	—	5,992	5,992
Fair value change on other investment		—	—	(135)	—	(135)
Final dividends — 2007	6	—	—	—	(3,979)	(3,979)
At 30 June 2008		7,235	31,414	2,822	14,534	56,005

The notes on pages 57 to 79 form part of this interim financial report.

Condensed consolidated cash flow statement (unaudited)

For the six months ended 30 June 2008

(Expressed in Renminbi)

	Six months ended 30 June	
	2008	2007 (restated)
	RMB million	*RMB million*
Net cash generated from operating activities	**6,330**	5,071
Net cash used in investing activities	**(9,665)**	(6,655)
Net cash (used in)/generated from financing activities	**(2,668)**	1,328
Net decrease in cash and cash equivalents	**(6,003)**	(256)
Cash and cash equivalents at 1 January	**7,733**	1,480
Cash and cash equivalents at 30 June	**1,730**	1,224

The notes on pages 57 to 79 form part of this interim financial report.

1. Basis of preparation

This interim financial report is unaudited but has been reviewed by the Audit Committee of Angang 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 subsidiary (the "Group") since the 2007 annual financial statements. 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 includes all applicable International Financial Reporting Standards ("IFRS"), IAS and related interpretations.

1. Basis of preparation *(Continued)*

The interim financial report has been prepared in accordance with substantially the same accounting policies adopted in the 2007 annual financial statements except the estimation of the useful lives of certain property, plant and equipments have been changed. For the six months ended 30 June 2008, the effect on the change of this estimation is to increase the depreciation of RMB81 million, decrease the carrying amount of property, plant and equipment of RMB81 million, decrease the income tax expense of RMB20 million and decrease the income tax payable of RMB20 million. The effect on the change of this estimation for the current year is predicted to increase the depreciation of RMB168 million, decrease the carrying amount of property, plant and equipment of RMB168 million, decrease the income tax expense of RMB42 million and decrease the income tax payable of RMB42 million.

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 2008. The Board of Directors has determined the accounting policies to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2008, 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 this interim financial report for the periods presented.

The IFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2008 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.

1. Basis of preparation *(Continued)*

The financial information relating to the financial year ended 31 December 2007 that is included in the interim financial report as being previously reported information does not constitute the Group's annual financial statements prepared under IFRSs for that financial year but is derived from those financial statements. The Group's annual financial statements for the year ended 31 December 2007 are available from the Company's registered office. The independent auditor has expressed an unqualified opinion on those financial statements in their report dated 14 April 2008.

2. Segment reporting

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

	Six months ended 30 June	
	2008	2007 (restated)
	RMB million	*RMB million*
Revenue		
People's Republic of China ("PRC")	**33,920**	24,881
Other countries	**5,945**	7,817
	39,865	32,698

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

3. Turnover

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

4. Profit before tax

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

	Six months ended 30 June	
	2008	2007 (restated)
	RMB million	*RMB million*
Interest and other borrowing costs	**692**	643
Less: Amount capitalised as construction in progress*	**(339)**	(273)
Net interest expenses	**353**	370
Interest income	**(26)**	(7)
Amortisation of lease prepayments and intangible assets	**68**	63
Depreciation	**2,249**	2,023
Loss on disposals of property, plant and equipment	**13**	43
Impairment losses		
— Property, plant and equipment	**30**	55
— Inventories	**38**	—
Research and development costs	**12**	14

* *The borrowing costs on funds borrowed generally have been capitalised at an average rate of 6.06% (6 months ended 30 June 2007: 5.99%) per annum.*

5. Income tax expense

Income tax expense in the condensed consolidated income statement represents:

	Six months ended 30 June	
	2008	2007
	RMB million	*RMB million*
Current tax expense — PRC income tax	**1,617**	2,006
Deferred taxation	**(67)**	—
	1,550	2,006

The provision for PRC income tax is calculated at 25% (six months ended 30 June 2007: 33%) of the estimated assessable profits of the Group for the period determined in accordance with relevant income tax rules and regulations in the PRC.

On 16 March 2007, the fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("New Tax Law") which has taken effect on 1 January 2008. As a result of the New Tax Law, the statutory income tax rate currently adopted by the Group has changed from 33% to 25% with effect from 1 January 2008.

6. Dividends

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

	Six months ended 30 June	
	2008	2007
	RMB million	*RMB million*
Final dividends in respect of the financial year ended 31 December 2007, approved during the following interim period, of RMB55 cents per share (year ended 31 December 2006 approved and paid: RMB58 cents per share)	**3,979**	3,441

The final dividends attributable to A share shareholders and H share shareholders amounting to RMB3,382 million (six months ended 30 June 2007: RMB2,925 million) and RMB597 million (six months ended 30 June 2007: RMB516 million) respectively were paid on 27 June 2008 and 30 June 2008.

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: RMBNil).

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 RMB5,992 million (six months ended 30 June 2007: RMB4,802 million) and the weighted average number of shares in issue during the six months ended 30 June 2008 of 7,235 million (six months ended 30 June 2007: 5,933 million).

(b) Diluted earnings per share

There were no dilutive potential equity shares in existence as at 30 June 2007 and 2008.

8. Construction in progress

The acquisitions and transfer of items of construction in progress during the six months ended 30 June 2007 and 2008 are as follows:

	Six months ended 30 June	
	2008	2007 (restated)
	RMB million	*RMB million*
Additions	**8,004**	3,420
Transfer to property, plant and equipment	**(3,237)**	(1,591)

9. Trade receivables

	At 30 June 2008 RMB million	At 31 December 2007 RMB million
Accounts receivable	**956**	412
Bills receivable	**3,605**	6,083
	4,561	6,495

The ageing analysis of trade receivables is as follows:

	At 30 June 2008 RMB million	At 31 December 2007 RMB million
Less than 3 months	**3,708**	4,652
More than 3 months but less than 12 months	**851**	1,839
More than 1 year but less than 2 years	**—**	4
More than 2 years	**2**	—
	4,561	6,495

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.

As at 30 June 2008, the Group's outstanding undue endorsed and discounted bills (with recourse) amounted to RMB257 million (31 December 2007: RMB443 million). These outstanding undue endorsed and discounted bills are due by 31 December 2008.

10. Cash and cash equivalents

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

As at 30 June 2008, a deposit of RMB1,467 million (31 December 2007: RMB1,878 million) was placed in Angang Group Financial Company Limited ("Angang Finance"), an associate of the Company.

11. Trade payables

	At 30 June 2008	At 31 December 2007
	RMB million	*RMB million*
Accounts payable	**1,864**	1,666
Bills payable	**565**	1,052
	2,429	2,718

The ageing analysis of trade payables is as follows:

	At 30 June 2008	At 31 December 2007
	RMB million	*RMB million*
Due on demand	**179**	154
Due within 3 months	**1,837**	2,200
Due after 3 months but within 6 months	**412**	364
Due more than 6 months	**1**	—
	2,429	2,718

12. Bank and other loans

	At 30 June 2008 *RMB million*	At 31 December 2007 *RMB million*
Floating rate loans	**20,675**	19,623
Less: bank and other loans due within one year classified as current liabilities	**(7,362)**	(7,326)
	13,313	12,297

Among the secured loans of the Group as at 30 June 2008, RMB1,000 million (31 December 2007: RMB1,603 million) were secured by the corporate guarantee of Anshan Iron and Steel Group Complex ("Angang Holding"), the ultimate parent of the Company.

As at 30 June 2008, loans from Angang Finance amounted to RMB3,100 million (31 December 2007: RMB500 million).

13. Long-term payable to ultimate parent

According to the acquisition agreement dated 20 October 2005 ("Acquisition Agreement"), the Company acquired the entire equity interest of Angang New Steel & Iron Limited Company ("ANSI") ("Acquisition") from Angang Holding, 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.

The Company issued 2.97 billion A shares of RMB1 each at RMB4.29 per share (equivalent to RMB12.741 billion) to Angang Holding as a partial payment for the consideration of the Acquisition. The remaining balance of the purchase consideration amounted to RMB6,971 million to be paid in three equal instalments and bears interest at rates quoted by People's Bank of China for the same period.

Up to 30 June 2008, the Company has repaid RMB4,647 million. The remaining purchase consideration amounted to RMB2,324 million will be paid in the second half of 2008.

14. Commitments

The Group had capital commitments outstanding as at 30 June 2008 not provided for in the consolidated financial statements as follows:

	At 30 June 2008 *RMB million*	At 31 December 2007 *RMB million*
Authorised and contracted for:		
— Construction projects of production lines	**12,225**	12,887
Authorised but not contracted for:		
— Improvement projects of production lines	**1,435**	3,873
	13,660	16,760

15. Related party transactions

The following is a summary of significant transactions carried out between the Group and Angang Holding and its business undertakings ("Angang Group"), its associates and jointly controlled entities during the period.

(A) Significant transactions and balances with Angang Group

(i) Significant transactions which the Group conducts with Angang Group in the normal course of business are as follows:

	Note	Six months ended 30 June 2008 RMB million	2007 RMB million
Sales of finished goods (before deducting sales related taxes)	(a)	**2,332**	2,098
Sales of scrap materials (before deducting sales related taxes)	(a)	**223**	77
Fee received for utilities and services provided	(b)	**234**	254
Sales of assets	(c)	**4**	25
Purchase of raw materials	(d)	**8,640**	6,710
Purchase of ancillary materials and spare parts	(e)	**1,025**	710
Utility supplies	(f)	**798**	805
Fees paid for welfare and other support services	(g)	**4,768**	3,324
Acquisition of property, plant and equipment	(h)	**1,289**	—
Interest received	(i)	**12**	5
Interest paid	(i)	**95**	239

15. Related party transactions *(Continued)*

(A) Significant transactions and balances with Angang Group *(Continued)*

(i) Significant transactions which the Group conducts with Angang Group in the normal course of business are as follows: *(Continued)*

Notes:

(a) The Group sold finished products and returned scrap materials to Angang Group for their own consumption mainly at selling prices charged to independent customers or market prices. Newly developed finished products for Angang Group were set at market prices, or production cost plus reasonable profit margin if no market prices were available.

The Group sold minus sieve powder to Angang Group at prices for sinter ore less the costs of producing the same by Angang Group.

(b) The Group provided utilities and services, such as gas, electricity, steam and transportation, to Angang Group at applicable State prices, production cost plus 5%, or market prices.

(c) The Group sold certain assets to Angang Group at selling prices based on market value.

(d) The Group 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 prices quoted to the Group for importing principal raw materials of similar quality plus freight charges in the previous interim period or the average prices charged by independent suppliers plus 10% mark up of processing costs in the previous interim period (if applicable) or market price.

15. **Related party transactions *(Continued)***

(A) Significant transactions and balances with Angang Group *(Continued)*

(i) Significant transactions which the Group conducts with Angang Group in the normal course of business are as follows: *(Continued)*

Notes: (Continued)

(e) The Group purchased from Angang Group ancillary materials in the form of steel products and spare parts at selling prices no higher than the average prices of such materials charged by Angang Group to independent customers.

(f) The Group purchased electricity from Angang Group mainly at prices fixed by the State.

(g) Angang Group provided certain supporting services to the Group. These services include railway and road transportation services; agency services for import of raw materials, equipment, spare parts and ancillary materials; agency services for domestic sales and export of products; equipment examination, repair and maintenance; design and engineering services; construction project agency and management services and other employees' supporting services. Service fees were charged at applicable prices fixed by the State, market prices, price at no higher than 1.5% of commission, price at depreciation and repair and maintenance, price with no higher than 5% mark up of processing costs.

15. Related party transactions *(Continued)*

(A) Significant transactions and balances with Angang Group *(Continued)*

(i) Significant transactions which the Group conducts with Angang Group in the normal course of business are as follows: *(Continued)*

Notes: (Continued)

(h) The Group has acquired certain property, plant and equipment from Angang Group during the year at consideration based on the market price.

(i) Angang Group provided financial services in the form of deposit taking, settlement, borrowing and discounting services at State prices.

As at 30 June 2008, the deposit placed with Angang Finance amounted to RMB1,467 million (31 December 2007: RMB1,878 million) and the loans from Angang Finance amounted to RMB3,100 million (31 December 2007: RMB500 million).

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.

(ii) Bank loans

As at 30 June 2008, certain bank loans amounted to RMB1,000 million (31 December 2007: RMB1,603 million) were guaranteed by Angang Holding.

15. Related party transactions *(Continued)*

(A) Significant transactions and balances with Angang Group *(Continued)*

(iii) Amount due from/to ultimate parent

Amount due from ultimate parent mainly represents goods sold, utilities and services provided, retirement benefits receivable and construction in progress prepaid to ultimate parent.

Amount due to ultimate parent mainly represents fees payable for support services and interest accrual for long-term payable to ultimate parent.

The amount due from/to ultimate parent is unsecured, interest free and has no fixed terms of repayment.

(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 Group 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.

15. Related party transactions *(Continued)*

(A) Significant transactions and balances with Angang Group *(Continued)*

(v) Long-term payable to ultimate parent

The amount represents deferred cash payment for the acquisition of entire equity interest in ANSI. For details, please refer to note 13.

(vi) New Supply of Materials and Services Agreement

The Group entered into a new Supply of Materials and Services Agreement 2008/09 with Angang Holding on 24 October 2007, which became effective on 1 January 2008.

(vii) Investment contracts

The Board of Directors has approved a proposal "關於公司投資入股鞍鋼集團財務有限責任公司的議案" in April 2008. Based on the proposal, the Company had invested RMB315 million to Angang Finance, which represented 20% of the registered capital of Angang Finance.

The Board of Directors has approved a proposal "與鞍鋼實業集團有限公司共同投資建設鞍鋼實業集團包裝鋼帶有限公司的議案" in January 2008. Based on the proposal, the Company had invested RMB11 million to Angang Equity Group Packaging Steel Belt Company Limited ("Angang Steel Belt") which represented 30% of the registered capital of Angang Steel Belt.

15. Related party transactions *(Continued)*

(B) Significant transactions with other related parties

(1) Sale of finished goods to ANSC-TKS Galvanizing Co., Ltd. ("ANSC-TKS") by the Group

The Group sold finished products amounting to RMB1,055 million for the six months ended 30 June 2008 (six months ended 30 June 2007: RMB818 million) to ANSC-TKS for further processing.

(2) Sale of finished goods to Changchun FAM Steel Processing and Distribution Company Limited ("Changchun FAM") by the Group

The Group sold finished products amounting to RMB52 million for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil) to Changchun FAM for further processing.

(3) Sale of finished goods to ANSC-TK Changchun Steel Logistics Co., Ltd ("TKAS-SSC") by the Group

The Group sold finished products amounting to RMB7 million for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil) to TKAS-SSC for further processing.

15. Related party transactions *(Continued)*

(B) Significant transactions with other related parties *(Continued)*

(4) Sale of finished goods to TKAS (Changchun) Tailored Blanks Ltd ("TKAS") by the Group

The Group sold finished products amounting to RMB1 million for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil) to TKAS for further processing.

The transactions with related parties above were under normal business terms or relative agreements.

(5) 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	
	2008	2007
	RMB million	*RMB million*
Directors' and supervisors' emoluments	**—**	—
Salaries, allowance and other benefits in kind	**1.73**	1.55
Retirement scheme contributions	**0.29**	0.26
	2.02	1.81

16. Comparative figures

The Company's interest in jointly controlled entities was accounted for using the proportionate consolidation method in accordance with IAS 31 "Interests in joint ventures" and disclosed in the Company's 2007 interim report issued on 21 August 2007. On 5 March 2008, the board of directors of the Company has approved the change in its accounting policy for accounted the interests in joint ventures from proportionate consolidation method to equity method for the year ended 31 December 2007 and thereafter. The new accounting policy has been applied retrospectively with consequential adjustments to comparatives for the six months ended 30 June 2007 and set out below.

16. Comparative figures *(Continued)*

Income statement

For the six months ended 30 June 2007

	2007 (as previously reported) *RMB million*	Effect of adoption of equity method increase/ (decrease) *RMB million*	2007 (as restated) *RMB million*
Revenue	32,996	(298)	32,698
Cost of sales	(24,121)	227	(23,894)
Sales related taxes	(331)	—	(331)
Gross profit	8,544	(71)	8,473
Other operating loss, net	(82)	(2)	(84)
Distribution and other operating expenses	(747)	6	(741)
Administrative expenses	(541)	16	(525)
Profit from operations	7,174	(51)	7,123
Net financing costs	(367)	13	(354)
Share of profits less losses of jointly controlled entities	—	38	38
Share of profits less losses of associates	1	—	1
Profit before tax	6,808	—	6,808
Income tax expense	(2,006)	—	(2,006)
Profit for the period and attributable to equity shareholders of the Company	4,802	—	4,802

16. Comparative figures *(Continued)*

Cash flow statement

For the six months ended 30 June 2007

	2007 (as previously reported) *RMB million*	Effect of adoption of equity method increase/ (decrease) *RMB million*	2007 (as restated) *RMB million*
Net cash generated from operating activities	5,150	(79)	5,071
Net cash used in investing activities	(6,699)	44	(6,655)
Net cash generated from financing activities	1,307	21	1,328
Net decrease in cash and cash equivalents	(242)	(14)	(256)
Cash and cash equivalents at 1 January	1,698	(218)	1,480
Effect of exchange rate fluctuation on cash held	(3)	3	—
Cash and cash equivalents at 30 June	1,453	(229)	1,224

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

(Prepared under Accounting Standards for Business Enterprises in the PRC)

Consolidated Balance Sheet (unaudited)

As at 30 June 2008

(Expressed in RMB million)

	Note	**30 June 2008**	31 December 2007
Assets			
Current assets			
Cash at banks and on hand	6	**1,730**	7,733
Bills receivable	7	**3,605**	6,083
Accounts receivable	8	**1,367**	932
Prepayments	9	**8,240**	6,600
Other receivables	10	**81**	66
Inventories	11	**10,880**	8,701
Total current assets		**25,903**	30,115
Non-current assets			
Available-for-sale financial assets	12	**92**	271
Long-term equity investments	13	**1,279**	885
Fixed assets	14	**33,595**	32,656
Construction in progress	15	**21,882**	17,115
Intangible assets	16	**6,835**	5,577
Deferred tax assets	17	**236**	167
Total non-current assets		**63,919**	56,671
Total assets		**89,822**	86,786

The notes on pages 100 to 208 form part of these financial statements

Consolidated Balance Sheet (unaudited) *(Continued)*

As at 30 June 2008

(Expressed in RMB million)

	Note	**30 June 2008**	31 December 2007
Liabilities and shareholders' equity			
Current liabilities			
Short-term loans	19	**5,650**	4,512
Bills payable	20	**565**	1,052
Accounts payable	21	**1,939**	1,908
Advances from customers	22	**5,691**	4,569
Employee benefits payable	23	**337**	310
Taxes payable	5(4)	**(625)**	(251)
Interest payables	24	**81**	—
Other payables	25	**2,489**	2,737
Non-current liabilities due within one year	26	**4,036**	5,138
Total current liabilities		**20,163**	19,975
Non-current liabilities			
Long-term loans	27	**13,313**	12,297
Long-term payables	28	**26**	11
Deferred tax liabilities	17	**53**	102
Other non-current liabilities	29	**146**	146
Total non-current liabilities		**13,538**	12,556
Total liabilities		**33,701**	32,531

The notes on pages 100 to 208 form part of these financial statements

Consolidated Balance Sheet (unaudited) *(Continued)*

As at 30 June 2008

(Expressed in RMB million)

	Note	**30 June 2008**	31 December 2007
Shareholders' equity			
Share capital	30	**7,235**	7,235
Capital reserve	31	**31,458**	31,593
Surplus reserve	32	**2,981**	2,981
Retained earnings	33	**14,447**	12,446
Total shareholders' equity		**56,121**	54,255
Total liabilities and shareholders' equity		**89,822**	86,786

These financial statements have been approved by the board of directors on 11 August 2008.

Zhang Xiaogang	**Ma Lianyong**	**Angang Steel Company Limited**
Chairman	*Chief Accountant*	

The notes on pages 100 to 208 form part of these financial statements

Balance Sheet (unaudited)

As at 30 June 2008

(Expressed in RMB million)

	Note	30 June 2008	31 December 2007
Assets			
Current assets			
Cash at banks and on hand	6	**1,670**	7,733
Bills receivable	7	**3,605**	6,083
Accounts receivable	8	**1,367**	932
Prepayments	9	**8,240**	6,600
Other receivables	10	**81**	66
Inventories	11	**10,880**	8,701
Total current assets		**25,843**	30,115
Non-current assets			
Available-for-sale financial assets	12	**92**	271
Long-term equity investments	13	**1,339**	885
Fixed assets	14	**33,595**	32,656
Construction in progress	15	**21,882**	17,115
Intangible assets	16	**6,835**	5,577
Deferred tax assets	17	**236**	167
Total non-current assets		**63,979**	56,671
Total assets		**89,822**	86,786

The notes on pages 100 to 208 form part of these financial statements

Balance Sheet (unaudited) *(Continued)*

As at 30 June 2008

(Expressed in RMB million)

	Note	**30 June 2008**	31 December 2007
Liabilities and shareholders' equity			
Current liabilities			
Short-term loans	19	**5,650**	4,512
Bills payable	20	**565**	1,052
Accounts payable	21	**1,939**	1,908
Advances from customers	22	**5,691**	4,569
Employee benefits payable	23	**337**	310
Taxes payable	5(4)	**(625)**	(251)
Interest payables	24	**81**	—
Other payables	25	**2,489**	2,737
Non-current liabilities due within one year	26	**4,036**	5,138
Total current liabilities		**20,163**	19,975
Non-current liabilities			
Long-term loans	27	**13,313**	12,297
Long-term payables	28	**26**	11
Deferred tax liabilities	17	**53**	102
Other non-current liabilities	29	**146**	146
Total non-current liabilities		**13,538**	12,556
Total liabilities		**33,701**	32,531

The notes on pages 100 to 208 form part of these financial statements

Balance Sheet (unaudited) *(Continued)*

As at 30 June 2008

(Expressed in RMB million)

	Note	**30 June 2008**	31 December 2007
Shareholders' equity			
Share capital	30	**7,235**	7,235
Capital reserve	31	**31,458**	31,593
Surplus reserve	32	**2,981**	2,981
Retained earnings	33	**14,447**	12,446
Total shareholders' equity		**56,121**	54,255
Total liabilities and shareholders' equity		**89,822**	86,786

These financial statements have been approved by the board of directors on 11 August 2008.

Zhang Xiaogang	**Ma Lianyong**	**Angang Steel Company Limited**
Chairman	*Chief Accountant*	

The notes on pages 100 to 208 form part of these financial statements

Consolidated Income Statement (unaudited)

For the Six months ended 30 June 2008

(Expressed in RMB million)

			Six months ended 30 June	
		Note	**2008**	2007
Operating income		34	**40,168**	32,735
Less:	Operating costs	35	**29,346**	23,206
	Business taxes and surcharges	36	**525**	331
	Selling expenses		**845**	741
	Administrative expenses		**1,596**	1,238
	Financial expenses	37	**337**	354
	Impairment losses on assets	38	**68**	55
Add:	Investment income	39	**91**	40
	Including: Income from investment in associated enterprises and joint ventures		**90**	36

The notes on pages 100 to 208 form part of these financial statements

Consolidated Income Statement (unaudited) *(Continued)*

For the Six months ended 30 June 2008

(Expressed in RMB million)

	Note	Six months ended 30 June 2008	2007
Operating profit		**7,542**	6,850
Add: Non-operating income	40	**14**	20
Less: Non-operating expenses	41	**31**	60
Including: Loss from disposal of non-current assets		**25**	59
Profit before income tax		**7,525**	6,810
Less: Income tax expense	42	**1,545**	2,006
Net profit		**5,980**	4,804
Earnings per share	51(1)		
Basic earnings per share		**RMB0.827**	RMB0.810
Diluted earnings per share		**RMB0.827**	RMB0.810

These financial statements have been approved by the board of directors on 11 August 2008.

Zhang Xiaogang	**Ma Lianyong**	**Angang Steel Company Limited**
Chairman	*Chief Accountant*	

The notes on pages 100 to 208 form part of these financial statements

Income Statement (unaudited)

For the Six months ended 30 June 2008

(Expressed in RMB million)

		Six months ended 30 June	
	Note	**2008**	2007
Operating income	34	**40,168**	32,735
Less: Operating costs	35	**29,346**	23,206
Business taxes and surcharges	36	**525**	331
Selling expenses		**845**	741
Administrative expenses		**1,596**	1,238
Financial expenses	37	**337**	354
Impairment losses on assets	38	**68**	55
Add: Investment income	39	**91**	40
Including: Income from investment in associated enterprises and joint ventures		**90**	36

The notes on pages 100 to 208 form part of these financial statements

Income Statement (unaudited) *(Continued)*

For the Six months ended 30 June 2008

(Expressed in RMB million)

	Note	Six months ended 30 June 2008	2007
Operating profit		**7,542**	6,850
Add: Non-operating income	40	**14**	20
Less: Non-operating expenses	41	**31**	60
Including: Loss from disposal of non-current assets		**25**	59
Profit before income tax		**7,525**	6,810
Less: Income tax expense	42	**1,545**	2,006
Net profit		**5,980**	4,804
Earnings per share	51(1)		
Basic earnings per share		**RMB0.827**	RMB0.810
Diluted earnings per share		**RMB0.827**	RMB0.810

These financial statements have been approved by the board of directors on 11 August 2008.

Zhang Xiaogang	**Ma Lianyong**	**Angang Steel Company Limited**
Chairman	*Chief Accountant*	

The notes on pages 100 to 208 form part of these financial statements

Consolidated Cash Flow Statement (unaudited)

For the Six months ended 30 June 2008

(Expressed in RMB million)

	Note	Six months ended 30 June 2008	2007
Cash flows from operating activities:			
Cash received from sale of goods and services rendered		**48,718**	34,944
Refund of taxes		**—**	123
Other cash received relating to operating activities		**4**	3
Sub-total of cash inflows from operating activities		**48,722**	35,070
Cash paid for goods purchased and services received		**(35,359)**	(24,388)
Cash paid to and for employees		**(1,288)**	(959)
Cash paid for all types of taxes		**(4,759)**	(3,783)
Other cash paid relating to operating activities		**(402)**	(395)
Sub-total of cash outflows from operating activities		**(41,808)**	(29,525)
Net cash inflow from operating activities	43(1)	**6,914**	5,545

The notes on pages 100 to 208 form part of these financial statements

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

For the Six months ended 30 June 2008

(Expressed in RMB million)

	Note	Six months ended 30 June 2008	2007
Cash flows from investing activities:			
Cash received from return on investments		**2**	4
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets		**6**	61
Other cash received relating to investing activities		**119**	160
Sub-total of cash inflows from investing activities		**127**	225
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		**(9,440)**	(6,695)
Cash paid for acquisition of investments		**(326)**	(178)
Sub-total of cash outflows from investing activities		**(9,766)**	(6,873)
Net cash outflow from investing activities		**(9,639)**	(6,648)

The notes on pages 100 to 208 form part of these financial statements

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

For the Six months ended 30 June 2008

(Expressed in RMB million)

		Six months ended 30 June	
	Note	**2008**	2007
Cash flows from financing activities:			
Cash received from borrowings		**6,570**	11,130
Sub-total of cash inflows from financing activities		**6,570**	11,130
Cash repayments of borrowings		**(5,265)**	(6,387)
Cash paid for dividends, profits distribution or interest		**(4,524)**	(3,869)
Other cash paid relating to financing activities		**(59)**	(27)
Sub-total of cash outflows from financing activities		**(9,848)**	(10,283)

The notes on pages 100 to 208 form part of these financial statements

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

For the Six months ended 30 June 2008

(Expressed in RMB million)

	Note	Six months ended 30 June 2008	2007
Net cash (outflow) inflow from financing activities		**(3,278)**	847
Effect of foreign exchange rate changes on cash and cash equivalents		**—**	—
Net decrease in cash and cash equivalents	43(1)	**(6,003)**	(256)
Add: Cash and cash equivalents at the beginning of the period		**7,733**	1,480
Cash and cash equivalents at the end of the period	43(2)	**1,730**	1,224

These financial statements have been approved by the board of directors on 11 August 2008.

Zhang Xiaogang
Chairman

Ma Lianyong
Chief Accountant

Angang Steel Company Limited

The notes on pages 100 to 208 form part of these financial statements

Cash Flow Statement (unaudited)

For the Six months ended 30 June 2008

(Expressed in RMB million)

	Note	Six months ended 30 June 2008	2007
Cash flows from operating activities:			
Cash received from sale of goods and services rendered		**48,718**	34,944
Refund of taxes		**—**	123
Other cash received relating to operating activities		**4**	3
Sub-total of cash inflows from operating activities		**48,722**	35,070
Cash paid for goods purchased and services received		**(35,359)**	(24,388)
Cash paid to and for employees		**(1,288)**	(959)
Cash paid for all types of taxes		**(4,759)**	(3,783)
Other cash paid relating to operating activities		**(402)**	(395)
Sub-total of cash outflows from operating activities		**(41,808)**	(29,525)
Net cash inflow from operating activities	43(1)	**6,914**	5,545

The notes on pages 100 to 208 form part of these financial statements

Cash Flow Statement (unaudited) *(Continued)*

For the Six months ended 30 June 2008

(Expressed in RMB million)

	Note	Six months ended 30 June **2008**	2007
Cash flows from investing activities:			
Cash received from return on investments		**2**	4
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets		**6**	61
Other cash received relating to investing activities		**119**	160
Sub-total of cash inflows from investing activities		**127**	225
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		**(9,440)**	(6,695)
Cash paid for acquisition of investments		**(386)**	(178)
Sub-total of cash outflows from investing activities		**(9,826)**	(6,873)
Net cash outflow from investing activities		**(9,699)**	(6,648)

The notes on pages 100 to 208 form part of these financial statements

Cash Flow Statement (unaudited) *(Continued)*

For the Six months ended 30 June 2008

(Expressed in RMB million)

		Six months ended 30 June	
	Note	**2008**	2007
Cash flows from financing activities:			
Cash received from borrowings		**6,570**	11,130
Sub-total of cash inflows from financing activities		**6,570**	11,130
Cash repayments of borrowings		**(5,265)**	(6,387)
Cash paid for dividends, profits distribution or interest		**(4,524)**	(3,869)
Other cash paid relating to financing activities		**(59)**	(27)
Sub-total of cash outflows from financing activities		**(9,848)**	(10,283)
Net cash (outflow) inflow from financing activities		**(3,278)**	847

The notes on pages 100 to 208 form part of these financial statements

Cash Flow Statement (unaudited) *(Continued)*

For the Six months ended 30 June 2008

(Expressed in RMB million)

	Note	**Six months ended 30 June** **2008**	2007
Effect of foreign exchange rate changes on cash and cash equivalents		**—**	—
Net decrease in cash and cash equivalents	43(1)	**(6,063)**	(256)
Add: Cash and cash equivalents at the beginning of the period		**7,733**	1,480
Cash and cash equivalents at the end of the period	43(2)	**1,670**	1,224

These financial statements have been approved by the board of directors on 11 August 2008.

Zhang Xiaogang	**Ma Lianyong**	**Angang Steel Company Limited**
Chairman	*Chief Accountant*	

The notes on pages 100 to 208 form part of these financial statements

Consolidated Statement of changes in shareholders' equity (unaudited)

For the Six months ended 30 June 2008
(Expressed in RMB million)

	Share capital	Capital reserve	Surplus reserve	Retained earnings	Total
Balance at 31 December 2006	5,933	12,847	2,228	8,832	29,840
Changes in accounting policies	—	—	—	283	283
Balance at 1 January 2007	5,933	12,847	2,228	9,115	30,123
Changes in equity for the period					
Net profit	—	—	—	4,804	4,804
Distribution to shareholders	—	—	—	(3,441)	(3,441)
Balance at 30 June 2007	5,933	12,847	2,228	10,478	31,486
Balance at 31 December 2007	7,235	31,593	2,981	12,446	54,255
Balance at 1 January 2008	7,235	31,593	2,981	12,446	54,255
Changes in equity for the period					
Net profit	—	—	—	5,980	5,980
Net change in fair value of available-for-sale financial assets	—	(135)	—	—	(135)
Distribution to shareholders	—	—	—	(3,979)	(3,979)
Balance at 30 June 2008	7,235	31,458	2,981	14,447	56,121

These financial statements have been approved by the board of directors on 11 August 2008.

Zhang Xiaogang	**Ma Lianyong**	**Angang Steel Company Limited**
Chairman	*Chief Accountant*	

The notes on pages 100 to 208 form part of these financial statements

Statement of changes in shareholders' equity (unaudited)

For the Six months ended 30 June 2008

(Expressed in RMB million)

	Share capital	Capital reserve	Surplus reserve	Retained earnings	Total
Balance at 31 December 2006	5,933	12,847	2,228	8,832	29,840
Changes in accounting policies	—	—	—	283	283
Balance at 1 January 2007	5,933	12,847	2,228	9,115	30,123
Changes in equity for the period					
Net profit	—	—	—	4,804	4,804
Distribution to shareholders	—	—	—	(3,441)	(3,441)
Balance at 30 June 2007	5,933	12,847	2,228	10,478	31,486
Balance at 31 December 2007	7,235	31,593	2,981	12,446	54,255
Balance at 1 January 2008	7,235	31,593	2,981	12,446	54,255
Changes in equity for the period					
Net profit	—	—	—	5,980	5,980
Net change in fair value of available-for-sale financial assets	—	(135)	—	—	(135)
Distribution to shareholders	—	—	—	(3,979)	(3,979)
Balance at 30 June 2008	7,235	31,458	2,981	14,447	56,121

These financial statements have been approved by the board of directors on 11 August 2008.

Zhang Xiaogang	**Ma Lianyong**	**Angang Steel Company Limited**
Chairman	*Chief Accountant*	

The notes on pages 100 to 208 form part of these financial statements

1. COMPANY STATUS

Angang Steel Company Limited (formerly known as 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 foreign invested ordinary 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 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 ordinary A shares with a par value of RMB1.00 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 ANSI (see Note 26).

1. COMPANY STATUS *(Continued)*

Upon the completion of the entire equity acquisition of ANSI, all the business, assets and liabilities of ANSI were transferred to the Company, and ANSI has applied for deregistration.

According to a special resolution approved by the shareholders in the annual general meeting on 20 June 2006, the Company changed its name from Angang New Steel Company Limited to Angang Steel Company Limited on 29 September 2006 upon the issuance of revised business license.

The Company issued A shares and H rights shares to all shareholders with 5,932,985,697 existing shares on the basis of 2.2 Rights Shares for every 10 existing Shares in October 2007. The subscription price for A shares and H shares is RMB15.40 per share and HKD15.91 respectively. The entitlements to the Rights Shares under the Share Rights Issue represent a total of 1,301,822,150 shares, including 1,106,022,150 A shares ordinary share, and the remaining 195,800,000 H shares. The new shares are listed for trade on Shenzhen Stock Exchange and The Stock Exchange of Hong Kong Limited on 25 October 2007 and 14 November 2007 respectively. The Company had obtained the revised business license on 31 March 2008.

The Company and its subsidiary ("the Group") is principally engaged in ferrous metal smelting and steel pressing and processing.

2. BASIS OF PREPARATION

These financial statements have been translated into English from the Group's/ Company's financial statements issued in Chinese.

(1) Statement of compliance

The financial statements have been prepared in accordance with the requirements of the China Accounting Standards for Business Enterprises (2006) ("New Standards") issued by the Ministry of Finance ("MOF"). These financial statements present truly and completely the financial position, the results of operations and the cash flows of the Group.

These financial statements also comply with the disclosure requirements of "Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports" in relation to the financial statements and its notes revised by the China Securities Regulatory Commission ("CSRC") in 2007.

(2) Accounting year

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

(3) Measurement basis

The measurement basis used by the Group in preparation of the financial statements is historical cost basis except available-for-sale financial assets (see note 3(9)).

(4) Functional currency and presentation currency

The Group's functional currency is Renminbi. These financial statements are presented in Renminbi.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Consolidated financial statements

The consolidated financial statements consolidated the Company and its subsidiaries. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The operating results and financial position of the subsidiaries included in the consolidated financial statements from the date on which control obtained until the date the control ceases.

The Company obtained the subsidiaries from the common control enterprise and prepared the consolidated financial statements of the current period, the subsidiaries would consolidate as if they had been combined from the date when they first came under the control of the ultimate controlling party. Comparative figures have been restated accordingly. When the Company prepared the consolidated financial statements, all the assets, liabilities of the subsidiaries using the existing book values to consolidate in the Company's consolidated balance sheet and the results of the subsidiaries would consolidate in the Company's consolidated income statement since the date when the subsidiaries first came under the control of the ultimate controlling party.

The Company obtained the subsidiaries from non common control enterprise and prepared the consolidated financial statements of the current period. The balance sheets of the subsidiaries to be adjusted according to the identifiable assets, liabilities of the subsidiaries in an acquisition are measured at their fair values at the acquisition date. From the acquisition date, the assets, liabilities and results of the subsidiaries are included in the Company's financial statements.

If the accounting period or accounting policies different from the Company, when consolidation, the accounting period or accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the Company.

(2) Translation of foreign currencies

When the Group receives capital in foreign currencies from investors, the capital is translated to Renminbi at the spot exchange rate on the date of the receipt. Other foreign currency transactions are, on initial recognition, translated to Renminbi at the spot exchange rates on the dates of the transactions.

A spot exchange rate is an exchange rate quoted by the People's Bank of China.

Monetary items denominated in foreign currencies are translated to Renminbi at the spot exchange at the balance sheet date. The resulting exchange differences are recognised in profit or loss, except those arising from the principals and interests on foreign currency borrowings specifically for the purpose of acquisition and construction of qualifying assets (see note 3(15)). Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to Renminbi using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the exchange differences are recognised in profit or loss, except for the differences arising from the translation of available-for-sale financial assets, which is recognised in capital reserve.

(3) Cash and Cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments, which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(4) Inventories

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

Cost of inventories comprises all costs of purchase, costs of conversion and other costs. Inventories are initially measured at their actual cost. Cost of inventories is calculated using the weighted average and specific identification method depends on the nature of the inventories. In addition to the purchasing cost of raw materials, work in progress and finished goods include direct labor costs and an appropriate allocation of production overheads.

Except spare parts, any excess of the cost over the net realisable value of each item of inventories is recognised as a provision for diminution in the value of inventories. Spare parts based on actual situations and estimation of the management, provision of obsolescent inventories to be made. Net realisable value is the estimated selling price in the normal course of business less the estimated costs to completion and the estimated expenses and related taxes necessary to make the sale.

Reusable materials such as low-value consumables, packaging materials and other reusable materials are amortised in full when received for use, in proportion to the amount consumed or in two equal installments when they are first used and when they have been used up depending on their nature. The amounts of the amortization are included in the cost of the related assets or profit or loss.

The Group maintains a perpetual inventory system.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(5) Long-term equity investments

(a) Investment in subsidiaries

In the consolidated financial statements of the Group, the long-term equity investments in subsidiaries prepared in according to note 3(1). In the Company's separate financial statements, the long-term equity investments in subsidiaries are stated at cost less allowance for impairment losses at the year ended date (note 3(8)) and recorded in the balance sheet. Investment cost of the long-term equity investments in subsidiaries is initially recognised at the following basis.

— For the long-term equity investment in subsidiaries arose from common control enterprise, the Group based on the date of common control to recognise the exiting book value of the shareholders' equity of subsidiaries as the initial investment costs of the long-term investments. The difference of the initial investment costs of the long-term investment and the book value of the consideration would adjust to the share premium (or capital premium) in the capital reserve and if the share premium (or capital premium) in the capital reserve insufficient to set off such amount, the insufficient part would adjust to the retained earnings

— For the long-term equity investment in subsidiaries not arose from common control enterprise, the Group based on the cost at the date of acquisition to recognise the initial investment costs.

— For the long-term equity investment in subsidiaries not arose from common control enterprise and settled by cash are based on the actual payment made for the acquisition as the initial investment costs. For the long-term investment which invested by the investors, the Group based on the agreed consideration set out in the contract or agreement of the investment to recognise as the initial investment costs.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(5) Long-term equity investments (Continued)

(b) Investment in jointly controlled enterprises and associates

A jointly controlled enterprise is an enterprise which operates under joint control in accordance with a contractual agreement between the Group and other parties. Joint control is the contractual agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control.

An associate is an enterprise over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an investee but is not control or joint control over those policies.

An investment in a jointly controlled enterprise or an associate is accounted for using the equity method, unless the investment is classified as held for sale. The investment is classified as held for sale when the Group has made a decision and signed a non-cancellable agreement on the transfer of the investment with the transferee, and the transfer is expected to be completed within one year. The investment held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Any excess of its carrying amount over fair value less costs to sell is recognised as a provision for impairment loss of the investment.

At period-end, the Group makes provision for impairment loss of investments in jointly controlled enterprises and associates (see note 3(8)).

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(5) Long-term equity investments (Continued)

(b) Investment in jointly controlled enterprises and associates *(Continued)*

An investment in a jointly controlled enterprise or an associate is initially recognised at actual payment cost if the Group acquires the investment by cash.

The Group makes the following accounting treatments when using the equity method:

— Where the initial investment cost of a long-term equity investment exceeds the Group's interest in the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially recognised at the initial investment cost. Where the initial investment cost is less than the Group's interest in the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially recognised at the investor's share of the fair value of the investee's identifiable net assets, and the difference is charged to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(5) Long-term equity investments (Continued)

(b) Investment in jointly controlled enterprises and associates *(Continued)*

— After the acquisition of the investment, the Group recognises its share of the investee's net profits or losses as investment income or losses, and adjusts the carrying amount of the investment accordingly. Once the investee declares any cash dividends or profits distributions, the carrying amount of the investment is reduced by that attributable to the Group.

The Group recognises its share of the investee's net profits or losses after making appropriate adjustments to align the accounting policies or accounting periods with those of the Group based on the fair values of the investee's individual separately identifiable assets at the time of acquisition. Unrealised profits and losses resulting from transactions between the Group and its associates or jointly controlled enterprises are eliminated for the part attributable to the Group calculated based on its share of the associates or jointly controlled enterprises. Unrealised losses resulting from transactions between the Group and its associates or jointly controlled enterprises are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(5) Long-term equity investments (Continued)

(b) Investment in jointly controlled enterprises and associates *(Continued)*

— The Group discontinues recognising its share of net losses of the investee after the carrying amount of the long-term equity investment and any long-term interest that in substance forms part of the Group's net investment in the associate or the jointly controlled enterprise is reduced to zero, except to the extent that the Group has an obligation to assume additional losses. Where net profits are subsequently made by the associate or jointly controlled enterprise, the Group resumes recognising its share of those profits only after its share of the profits exceeds the share of losses not recognised.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(5) Long-term equity investments (Continued)

(c) Other long-term equity investments

Other long-term equity investments refer to investments for which the Group does not have the right to control, have joint control or exercise significant influence over the investees, and for which the investments are not quoted in an active market and their fair value cannot be reliably measured.

Such investments are initially recognised at the cost determined in accordance with the same principles as those for jointly controlled enterprises and associates, and then accounted for using the cost method. At period-end the Group makes provision for impairment losses on such investments in accordance with note 3(9).

(6) Fixed assets and construction in progress

Fixed assets represent the tangible assets held by the Group for use in the production of goods, supply of services or for operation and administrative purposes with useful lives over one year.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 3(8)). Construction in progress is stated in the balance sheet at cost less impairment losses (see note 3(8)).

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of self-constructed assets includes the cost of materials, direct labor, capitalised borrowing costs (see note 3(15)), and any other costs directly attributable to bringing the asset to working condition for its intended use.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(6) Fixed assets and construction in progress (Continued)

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

Where the individual component parts of an item of fixed asset have different useful lives or provide benefits to the Group in different patterns thus necessitating use of different depreciation rates or methods, they are recognised as a separate fixed asset.

The subsequent costs including the cost of replacing part of an item of fixed assets are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of fixed assets are recognised in profit or loss as incurred.

Gains or losses arising from the retirement or disposal of an item of fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Fixed assets are depreciated using the straight-line method over their estimated useful lives. The estimated useful lives, residual value rates of each class of fixed assets are as follows:

	Estimated useful-life	**Estimated residual value rate**
Plants and buildings	10 to 20 years	3%-5%
Machinery and equipment	3 to 15 years	3%-5%
Other fixed assets	2 to 12 years	3%-5%

Useful lives, residual values and depreciation methods are reviewed by the Group at least each year-end.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(7) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 3(8)). For an intangible asset with finite useful life, its cost less residual value and impairment loss is amortised on the straight-line method over its estimated useful life. The respective amortisation periods for each intangible assets are as follows:

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

An intangible asset is regarded as having an indefinite useful life and is not amortised when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Group. At the balance sheet date, the Group doesn't have any intangible assets with indefinite useful lives.

Expenditures on an internal research and development project are classified into expenditures on the research phase and expenditures on the development phase. Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products or processes before the start of commercial production or use.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(7) Intangible assets (Continued)

Expenditures on research phase are recognised in profit or loss when incurred. Expenditures on development phase are capitalised if development costs can be measured reliably, the product or process is technically and commercially feasible, and the Group intends to and has sufficient resources to complete development. Capitalised development costs are stated in the balance sheet at cost less impairment losses (see note 3(8)). Other development expenditures are recognised as expenses in the period in which they are incurred.

(8) Impairment of non-financial long-term assets

The carrying amounts of the following assets are reviewed at each balance sheet date by the Group based on the internal and external sources of information to determine whether there is any indication of impairment:

— fixed assets

— construction in progress

— intangible assets

— investments in associates and jointly controlled enterprises

If any indication exists that an asset may be impaired, recoverable amount of the asset is estimated by the Group.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(8) Impairment of non-financial long-term assets (Continued)

An asset group is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. An asset group is composed of assets directly relating to cash-generation. Identification of an asset group is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Group also considers how management monitors the Group's operations and how management makes decisions about continuing or disposing of the Group's assets.

The recoverable amount of an asset, asset group or set of asset groups is the higher of its fair value less costs to sell and its present value of expected future cash flows.

An asset's fair value less costs to sell is the amount determined by the price of a sale agreement in an arm's length transaction, less the costs that are directly attributable to the disposal of the asset. The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(8) Impairment of non-financial long-term assets (Continued)

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss and a provision for impairment loss of the asset is recognised accordingly. Impairment losses related to an asset group or a set of asset groups reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, the carrying amount of an impaired asset will not be reduced below the highest of its individual fair value less costs to sell (if determinable), the present value of expected future cash flows (if determinable) and zero.

An impairment loss is not reversed in subsequent periods.

(9) Financial instruments

Financial instruments of the Group comprise cash at bank and on hand, investments in equity securities other than long-term equity investments, receivables, payables, loans and borrowings and share capital, etc.

(a) Recognition and measurement of financial assets and financial liabilities

A financial asset or financial liability is recognised in the balance sheet when the Group becomes a party to the contractual provisions of a financial instrument.

The Group classifies financial assets and financial liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(9) Financial instruments (Continued)

(a) Recognition and measurement of financial assets and financial liabilities *(Continued)*

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any attributable transaction costs are included in their initial costs. Subsequent to initial recognition financial assets and financial liabilities are measured as follows:

— Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Subsequent to initial recognition, receivables are subsequently stated at amortised cost using the effective interest method. But if the effect of discounting to present value is not significant, it is measured at cost less bad debts provision (see note 3(9)b).

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(9) Financial instruments (Continued)

(a) Recognition and measurement of financial assets and financial liabilities *(Continued)*

— Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated upon initial recognition as available-for-sales and other financial assets which do not fall into any of the above categories.

An investment in equity instrument which does not have a quoted market price in an active market and whose fair value cannot be reliably measured is measured at cost subsequent to initial recognition.

Besides investments in equity instruments whose fair value cannot be measured reliably as described above, subsequent to initial recognition, other available-for-sale financial assets are measured at fair value and changes therein, except for impairment losses and foreign exchange gains and losses from monetary financial assets, which are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is removed from equity and recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(9) Financial instruments (Continued)

(a) Recognition and measurement of financial assets and financial liabilities *(Continued)*

— Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Among other financial liabilities, financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Where the Group issues a financial guarantee, subsequent to initial recognition, the guarantee is measured at the higher of the amount initially recognised less accumulated amortisation and the amount of a provision determined in accordance with the principles of contingent liabilities (see note 3(12)).

Except for the other financial liabilities described above, subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(9) Financial instruments (Continued)

(b) Impairment of financial assets

At each balance sheet date, the Group reviewed the carrying amounts of financial assets (other than those at fair value through profit or loss) to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided.

— Receivables

Receivables are assessed for impairment both on an individual basis and on a collective group basis.

Where impairment is assessed on an individual basis, an impairment loss in respect of a receivable is calculated as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. The Group would impair the carrying amount of the receivables to that present value. All impairment losses are recognised in profit or loss.

The assessment is made collectively where receivables share similar credit risk characteristics (including those having not been individually assessed as impaired), based on their historical loss experiences, and adjusted by the observable figures reflecting present economic conditions.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss will not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(9) Financial instruments (Continued)

(b) Impairment of financial assets *(Continued)*

— Available-for-sale financial assets and other long-term equity investments

Available-for-sale financial assets and other long-term equity investments are assessed for impairment on an individual basis.

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that has been recognised directly in equity is removed from equity and recognised in profit or loss even though the financial asset has not been derecognised.

If, after an impairment loss has been recognised on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. An impairment loss recognised for an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss.

For other long-term equity investments (see note 3(5)(c)), the amount of the impairment loss is measured as the difference between the carrying amount of the investment and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognised in profit or loss. Such impairment loss is not reversed.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(9) Financial instruments (Continued)

(c) Determination of fair values

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price and, for a financial asset to be acquired or a financial liability assumed, it is the current asking price.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same and discounted cash flow analysis. The Group calibrates the valuation technique and tests it for validity periodically.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(9) Financial instruments (Continued)

(d) Derecognition of financial assets and financial liabilities

A financial asset is derecognised if the Group's contractual rights to the cash flows from the financial asset expire or if the Group transfers substantially all the risks and rewards of ownership of the financial asset to another party.

Where a transfer of a financial asset in its entirely meets the criteria of the derecognition, the difference between the two amounts below is recognised in profit or loss:

— carrying amount of the financial asset transferred

— the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised directly in shareholders' equity.

The Group derecognises a financial liability (or part of it) only when the underlying present obligation (or part of it) is discharged.

(e) Equity instrument

An equity instrument is a contract that proves the ownership interest of the assets after deducting all liabilities in the Company.

The consideration received from the issuance of equity instruments net of transaction costs is recognised in share capital and capital reserve.

Consideration and transaction costs paid by the Company for repurchasing its own equity instrument are deducted from shareholders' equity.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(10) Employee benefits

Employee benefits are all forms of considerations given and other related expenditures incurred by the Group in exchange for services rendered by employees. Except for termination benefits, employee benefits are recognised as a liability in the period in which the associated services are rendered by employees, with a corresponding increase in cost of relevant assets or expenses in the current period.

(a) Retirement benefits

Pursuant to the relevant laws and regulations of the PRC, the Group has joined a defined contribution basic retirement scheme for the employees arranged by local Labour and Social Security Bureaus. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the government organisation. The contributions are charged to profit or loss or are recognized as cost of assets on an accrual basis. When employees retire, the local Labour and Social Security Bureaus are responsible for the payment of the basic retirement benefits to the retired employees. The Group does not have any other obligations in this respect.

(b) Housing fund and other social insurances

Besides the retirement benefits, pursuant to the relevant laws and regulations of the PRC, the Group has joined defined social security contributions for employees, such as a housing fund, basic medical insurance, unemployment insurance and injury insurance. The Group makes contributions to the housing fund and other social insurances mentioned above at the applicable rate(s) based on the employees' salaries monthly. The contributions are recognised as cost of assets or charged to profit or loss on an accrual basis.

3. **SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)***

(10) Employee benefits (Continued)

(c) Termination benefits

When the Group terminates the employment relationship with employees before the employment contracts have expired, or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision for the termination benefits provided, is recognised in profit or loss when both of the following conditions have been satisfied:

— The Group has a formal plan for the termination of employment or has made an offer to employees for voluntary redundancy, which will be implemented shortly;

— The Group is not allowed to withdraw from termination plan or redundancy offer unilaterally.

(11) Income tax

Current tax expense and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax expense is the expected tax payable calculated at the applicable tax rate on taxable income for the period, and any adjustment to tax payable in respect of previous years.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(11) Income tax (Continued)

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases, which include the deductible losses and tax credits carry forward to subsequent periods. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is not recognised for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or tax loss).

At the balance sheet date, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates that are expected to be applied in the period when the asset is realised or the liability is settled in accordance with tax laws.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(12) Provisions and contingent liabilities

A provision is recognised if, as a result of a past event, the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

In terms of a possible obligation resulting from a past transaction or event, whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, 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 possible or present obligation is disclosed as a contingent liability.

(13) Revenue recognition

Revenue is the gross inflow of economic benefit in the periods arising in the course of the Group's ordinary activities when the inflows result in increase in shareholders' equity, other than increase relating to contributions from shareholders. Revenue is recognised in profit or loss when it is probable that the economic benefits will flow to the Group, the revenue and costs can be measured reliably and the following respective conditions are met:

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(13) Revenue recognition (Continued)

(a) Sale of goods

Revenue from sale of goods is recognised when all of the general conditions stated above and following conditions are satisfied:

— The significant risks and rewards of ownership of goods have been transferred to the buyer;

— The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

Revenue from the sale of goods is measured at the fair value of the considerations received or receivable under the sales contract or agreement.

(b) Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue from the rendering of services is recognised in the income statement by reference to the stage of completion of the transaction based on the proportion of services performed to date to the total services to be performed.

Where the outcome of rendering of services cannot be estimated reliably, if the costs incurred are expected to be recoverable, revenues are recognised to the extent that the costs incurred that are expected to be recoverable, and an equivalent amount is charged to profit or loss as service cost; if the costs incurred are not expected to be recoverable, the costs incurred are recognised in profit or loss and no service revenue is recognised.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(13) Revenue recognition (Continued)

(c) Interest income

Interest income is recognised on a time proportion basis with reference to the principal outstanding and the applicable effective interest rate.

(14) Government grants

Government grants are transfers of monetary assets or non-monetary assets from the government to the Group at no consideration except for the capital contribution from the government as a shareholder of the Company. Special funds such as investment grants allocated by the government, if clearly defined in official documents as part of "capital reserve" are dealt with as capital contributions, and not regarded as government grants.

A government grant is recognised when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions associated with the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount that is received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at its fair value.

A government grant related to an asset is recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset. A grant that compensates the Group for expenses to be incurred in the subsequent periods is recognised initially as deferred income and recognised in profit or loss in the same periods in which the expenses are recognised. A grant that compensates the Group for expenses incurred is recognised in profit or loss immediately.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(15) Borrowing costs

Borrowing costs incurred directly attributable to the acquisition, construction of a qualifying asset are capitalised as part of the cost of the asset.

Except for the above, other borrowing costs are recognised as financial expenses in the income statement when incurred.

In the capitalisation period, the amount of interest (including amortisation of any discount or premium on borrowing) to be capitalised in each accounting period is determined as follows:

— Where funds are borrowed specifically for the acquisition, construction of a qualifying asset, the amount of interest to be capitalised is the interest expense calculated using effective interest rates during the period less any interest income earned from depositing the borrowed funds or any investment income on the temporary investment of those funds before being used on the asset.

— Where funds are borrowed generally and used for the acquisition, construction of a qualifying asset, the amount of interest to be capitalised on such borrowings is determined by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditures on the asset over the above amounts of specific borrowings. The capitalisation rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(15) Borrowing costs (Continued)

The effective interest rate is determined as the rate that exactly discounts estimated future cash flow through the expected life of the borrowing or, when appropriate, a shorter period to the carrying amount of the borrowings.

The capitalisation period is the period from the date of commencement of capitalisation of borrowing costs to the date of cessation of capitalisation, excluding any period over which capitalisation is suspended. Capitalisation of borrowing costs commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities of acquisition, construction or production that are necessary to prepare the asset for its intended use or sale are in progress, and ceases when the assets become ready for their intended use or sale. Capitalisation of borrowing costs is suspended when the acquisition, construction activities are interrupted abnormally and the interruption lasts over three months.

(16) Dividends appropriated to investors

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorised and declared after the balance sheet date, are not recognised as a liability at the balance sheet date but disclosed in the notes separately.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(17) Related parties

If the Group has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control, jointly control, or significant influence from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Group is under common control only from the State and that have no other related party relationships are not regarded as related parties of the Group. The Group's related parties include, but are not limited to:

(a) the Company's parent;

(b) enterprises that are controlled by the Company's parent;

(c) investors that have joint control over the Company;

(d) investors that exercise significant influence over the Company;

(e) joint ventures of the Company;

(f) associates of the Company;

(g) principal individual investors and close family members of such individuals;

(h) key management personnel of the Company and close family members of such individuals;

(i) key management personnel of the Company's parent;

(j) close family members of key management personnel of the Company's parent; and

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(17) Related parties (Continued)

(k) other enterprises that are controlled, jointly controlled or significantly influenced by principal individual investors, key management personnel of the Company, and close family members of such individuals.

Besides the related parties stated above determined in accordance with the requirements of New Standards, the following enterprises and individuals are considered as (but not restricted to) related parties based on the disclosure requirements of Administrative Procedures on the Information Disclosures of Listed Companies issued by the CSRC:

(l) enterprises that hold 5% or more of the Company's shares or persons that act in concert;

(m) individuals who directly or indirectly hold 5% or more of the Company's shares and close family members of such individuals;

(n) enterprises that satisfy any of the aforesaid conditions in (a), (b) and (l) during the past 12 months or will satisfy them within the next 12 months pursuant to a relevant agreement;

(o) individuals who satisfy any of the aforesaid conditions in (h), (i) and (m) during the past 12 months or will satisfy them within the next 12 months pursuant to a relevant agreement; and

(p) enterprises, other than the Company and subsidiaries controlled by the Company, which are controlled directly or indirectly by an individual defined in (h), (i), (m) or (o), or in which such individual assumes the position of a director or senior executive.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(18) Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. A business segment is a distinguishable component of the Group that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other component. A geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment, which is subject to risks and rewards that are different from those of other segments.

(19) Significant accounting estimates and judgments

The preparation of financial statements requires the Group's management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed by the Group's management on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Note 44 contain information about the assumptions and their risk factors relating to fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(19) Significant accounting estimates and judgments (Continued)

(a) Impairment of receivables

As described in Note 3(9)(b), receivables that are measured at amortisation cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment includes observable data that comes to the attention of the Group about loss events such as a significant decline in the estimated future cash flow of an individual debtor or the portfolio of debtors, and significant changes in the financial condition that have an adverse effect on the debtor. If there is an indication that there has been a change in the factors used to determine the provision for impairment, the impairment loss recognised in prior years is reversed.

(b) Impairment of non-financial long-term assets

As described in Note 3(8), at each balance sheet date the Group reviewed the non-financial long-term assets to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, impairment loss is provided.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(19) Significant accounting estimates and judgments (Continued)

(b) Impairment of non-financial long-term assets *(Continued)*

The recoverable amount of an asset (asset group) is the higher of its net fair price after deducting of disposal expenses and its present value of expected future cash flows. Since a market price of the asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing value in use, significant judgements are exercised over the asset's production, selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the production, selling price and related operating expenses based on reasonable and supportable assumption.

(c) Depreciation and amortisation

As described in note 3(6) and 3(7), fixed assets and intangible assets are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual value. The Group regularly reviewed the estimated useful lives to determine the depreciation and amortisation costs charged in each reporting period. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation is revised.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(20) Explanation of the changes of accounting estimates

From 1 January 2008, the new Enterprise Income Tax Law (新企業所得稅法) issued and implemented which has the following new requirements for the minimum term of depreciation and acceleration of depreciation for fixed assets of the enterprise as follows:

	Item	Old Enterprise Income Tax Law	New Enterprise Income Tax Law
Minimum depreciation term of fixed assets	Electronic equipment	Minimum term of depreciation is 5 years	Minimum term of depreciation is 3 years
	Transportation vehicles other than aircraft, trains and ships	Minimum term of depreciation is 5 years	Minimum term of depreciation is 4 years
Acceleration of depreciation of fixed assets		Accelerated depreciation is applicable to machines or equipment which are key to the facilitation of the technology development, environmental protection and investment projects which are encouraged by the PRC government, and machines or equipment that are exposed to frequent vibration, intensive use or strong corrosion such as acid and alkaline. Shortening of depreciation term is not permitted.	Shortening of depreciation term is applicable to fixed assets which require accelerated depreciation due to technology advances, fast renewal and replacement by new products and exposure to frequent vibration or strong corrosion; provided that the minimum depreciation term shall not lower than 60% of the requisite depreciation term. Alternatively, the double declining balance method (雙倍餘額遞減法) and sum-of-the-years-digits method (年數總額法) may also be adopted.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

(20) Explanation of the changes of accounting estimates (Continued)

In accordance with the requirement under the new Enterprise Income Tax Law and the actual situation of the Group, the Group has decided, with effect from 1 January 2008, made the following accounting estimate adjustments in term of depreciation of the following fixed assets of the Company. The adoption of the minimum depreciation term for electronic equipment and transportation vehicles newly acquired since 2008, and the adoption of shortening of depreciation term for machines or equipment which are exposed to frequent vibration and intensive use as required by the new Enterprise Income Tax Law. This has been approved by the 27th meeting of the 4th session of the board of directors of the Company. The details of the adjustments are as follow:

Item	Categorization in accounting	Old depreciation term	New depreciation term
New electronic equipment added in 2008	Conductor facilities	15 years	3 years
	Power equipment	11 years	3 years
	Tools and apparatus	7 years	3 years
	Management tools	5 years	3 years
New transportation facilities added in 2008	Transportation facilities	10 years	4 years
Facilities exposed to vibration or intensive use	Power equipment	11 years	6.6 years
	Tools and apparatus	7 years	4.2 years
	Machinery facilities	10 years	6 years

The accounting estimate adjustments have no effect on the principal business operations of the Group. The depreciation charges for this period increased by RMB81 million.

4. CONSOLIDATED SCOPE OF THE CONSOLIDATED FINANCIAL STATEMENTS

On 26 June 2008 the Company paid RMB60 million to set up Angang Steel Logistics (Wuhan) Co., Ltd ("Angang Wuhan") which registered capital is RMB60 million. The Company held 100% of its registered capital and the condition of investment in Angang Wuhan (see note 13(1)). From 26 June 2008 Angang Wuhan included in the consolidated financial statements of the Group.

Details of Company's subsidiary are as follows:

Name of investee	Organisation code	Registered place	Business nature	Registered capital	The Company's Shareholding percentage	The Company's Voting rights	At period end Total assets	At period end Total liabilities	Current period Total revenue	Current period Net profit
				RMB million			*RMB million*	*RMB million*	*RMB million*	*RMB million*
Angang Wuhan	–	Economic and technological development zone, Wuhan Hubei Province	Production. Processing and sale of steel products and, related products	60	100%	100%	60	–	–	–

5. TAXATION

(1) The taxes applicable to the Group's/Company's sale of goods and rendering of services include business tax, value added tax (VAT) and etc. Their tax rates are as follows

Business tax rate:	5%
VAT rate:	17% 13%

5. TAXATION *(Continued)*

(2) Income tax

The income tax rate applicable to the Group/Company for the period is 25% (2007: 33%).

(a) Pursuant to Order of the President of the PRC [2007] No. 63, "Enterprise Income Tax Law of the PRC" promulgated at the 5th Session of the 10th National People's Congress of the PRC on 16 March 2007, the Group/Company enjoyed tax exemption relating to enterprise research and development cost amounting to RMB1,113 million for this period (for the six months ended 30 June 2007: RMB512 million).

(b) Pursuant to Order of the President of the PRC [2007] No. 63, "Enterprise Income Tax Law of the PRC" promulgated at the 5th Session of the 10th National People's Congress of the PRC on 16 March 2007, the Group/Company enjoyed tax exemption relating to the outputs from environmental protection facilities amounting to RMB69 million (for the six months ended 30 June 2007: RMB210 million).

(3) Others

The Group/Company based on 7%, 3% and 1% of net VAT and business taxes payables to compute and paid city construction and maintenance tax, education surcharge and local education charge.

5. TAXATION *(Continued)*

(4) Taxes payable

	The Group/Company	
	30 June 2008	31 December 2007
	RMB million	*RMB million*
VAT (deductible)/payable	**(1,017)**	(426)
Income tax payable/(refundable)	**249**	102
Individual income tax payable	**70**	6
City construction and maintenance tax payable	**39**	31
Education surcharge payable	**17**	13
Others	**17**	23
Total	**(625)**	(251)

6. CASH AT BANKS AND ON HAND

The Group

	30 June 2008			31 December 2007		
	Original currency	**Exchange rate**	**RMB/RMB equivalent**	Original currency	Exchange rate	RMB/RMB equivalent
	million		***million***	*million*		*million*
Cash on hand						
Renminbi			**1**			1
Cash at banks						
Renminbi			**1,729**			7,672
HK Dollars			**—**	64	0.936	60
			1,730			7,733

6. CASH AT BANKS AND ON HAND *(Continued)*

The Company

	30 June 2008			31 December 2007		
	Original currency	**Exchange rate**	**RMB/RMB equivalent**	Original currency	Exchange rate	RMB/RMB equivalent
	million		***million***	*million*		*million*
Cash on hand						
Renminbi			**1**			1
Cash at banks						
Renminbi			**1,669**			7,672
HK Dollars			**—**	64	0.936	60
			1,670			7,733

As at 30 June 2008, a deposit of RMB1,467 million (31 December 2007: RMB1,878 million) was placed with Angang Group Financial Company Limited ("Angang Finance").

7. BILLS RECEIVABLE

All bills receivable held by the Group/Company are bank acceptance bills which have not been pledged and due within 6 months.

At 30 June 2008, the Group/the Company's outstanding undue endorsed and discounted bills (with recourse) amounted to RMB257 million (31 December 2007: RMB443 million), all of which are due by 31 December 2008.

For the current period, there is no acceptance bills transferred to accounts receivable due to non-performance of the issuers.

No amount due from shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of bills receivable.

8. ACCOUNTS RECEIVABLE

(1) Accounts receivable by customer type:

	The Group/Company			
	30 June 2008		31 December 2007	
	RMB million	***%***	*RMB million*	*%*
Angang Holding	**3**	**1**	—	—
Subsidiaries of Angang Holding	**406**	**29**	520	56
Jointly controlled enterprises	**1**	**—**	—	—
Other customers	**957**	**70**	412	44
Subtotal	**1,367**	**100**	932	100
Less: Bad debts provision	**—**	**—**	—	—
Total	**1,367**	**100**	932	100

Angang Holding is a shareholder who holds 5% or more of the Company's voting shares.

Except the above accounts receivable to Angang Holding, no amount due from shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of accounts receivable.

8. ACCOUNTS RECEIVABLE *(Continued)*

(1) Accounts receivable by customer type: (Continued)

At 30 June 2008, the total amounts of accounts receivable due from the Group's/Company's largest five debtors are as follows:

	30 June 2008	31 December 2007
Amount *(RMB million)*	**1,047**	839
Years past due	**Within 1 year**	Within 1 year
Percentage of total accounts receivable	**77%**	90%

(2) The ageing analysis of accounts receivable is as follows:

	The Group/Company			
	30 June 2008		31 December 2007	
	RMB million	***%***	*RMB million*	*%*
Within 1 year (inclusive)	**1,363**	**100**	928	100
1 and 2 years (inclusive)	**1**	**—**	1	—
2 and 3 years (inclusive)	**1**	**—**	1	—
Over 3 years	**2**	**—**	2	—
Subtotal	**1,367**	**100**	932	100
Less: Bad debt provision	**—**	**—**	—	—
Total	**1,367**	**100**	932	100

The ageing is counted starting from the date of accounts receivable is recognised.

8. ACCOUNTS RECEIVABLE *(Continued)*

(2) The ageing analysis of accounts receivable is as follows: (Continued)

As at 30 June 2008, the management considers that major accounts receivable can be recovered, and the debtors have repayment capabilities, so proportion of bad debt provision is low.

During the period, the Group/the Company had no individually significant recovery of accounts receivable which a full provision or a significant provision was made in previous years.

9. PREPAYMENTS

(1) Prepayments by supplier type:

	The Group/Company			
	30 June 2008		31 December 2007	
	RMB million	***%***	*RMB million*	*%*
Angang Holding	**11**	**—**	—	—
Subsidiaries of Angang Holding	**6,052**	**74**	4,583	69
Third parties suppliers	**2,177**	**26**	2,017	31
Total	**8,240**	**100**	6,600	100

Angang Holding is a shareholder who holds 5% or more of the Company's voting shares.

Except the above prepayments to Angang Holding, no amount due from shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of prepayments.

At 30 June 2008, prepayment for project and equipment amounted to RMB5,115 million.

9. PREPAYMENTS *(Continued)*

(1) Prepayments by supplier type: (Continued)

At 30 June 2008, an analysis of individual prepayment that are 30% or more of the total amount of the Group's prepayments is as follows:

Debtors	**Reason for prepayment**	**Balance** *RMB million*	**Percentage of The Group/ Company's ending balance**
Angang Group International Trade Corporation ("Angang Trade")	Prepayment of construction equipment and raw materials	5,505	67%

(2) The ageing analysis of prepayments is as follows:

	The Group/Company			
	30 June 2008		31 December 2007	
	RMB million	***%***	*RMB million*	*%*
Within 1 year (inclusive)	**6,624**	**80**	6,597	99
1 and 2 years (inclusive)	**1,613**	**19**	3	1
2 and 3 years (inclusive)	**3**	**1**	—	—
Subtotal	**8,240**	**100**	6,600	100
Less: Bad debts provision	**—**	**—**	—	—
Total	**8,240**	**100**	6,600	100

The ageing is counted from the date of prepayments is recognised.

The prepayments over one year are prepaid for spare parts with long procurement cycle.

10. OTHER RECEIVABLES

(1) Other receivables by customer type:

	The Group/Company			
	30 June 2008		31 December 2007	
	RMB million	***%***	*RMB million*	*%*
Angang Holding	**11**	**14**	—	—
Third parties	**70**	**86**	66	100
Less: Bad debt provision	**—**	**—**	—	—
Total	**81**	**100**	66	100

Angang Holding is a shareholder who holds 5% or more of the Company's voting shares.

Except the above other receivables from Angang Holding, no amount due from shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of Other receivables.

At 30 June 2008, the total amount of other receivables due from the Group's largest five debtors were as follows:

	30 June 2008	31 December 2007
Amount *(RMB million)*	**78**	65
Years past due	**1 to 4 years**	1 to 3 years
Percentage of total other receivables	**96%**	98%

10. OTHER RECEIVABLES *(Continued)*

(2) The ageing analysis of other receivables is as follows:

	30 June 2008		31 December 2007	
	RMB million	***%***	*RMB million*	*%*
Within 1 year (inclusive)	**20**	**25**	6	9
1 and 2 years (inclusive)	**1**	**1**	10	15
2 and 3 years (inclusive)	**10**	**12**	50	76
3 and 4 years (inclusive)	**50**	**62**	—	—
Subtotal:	**81**	**100**	66	100
Less: Bad debt provision	**—**	**—**	—	—
Total	**81**	**100**	66	100

As at 30 June 2008, the proposed investment to Heilongjiang Longmei Mining Group amounting RMB60 million (2007: RMB60 million). The re-organisation of Heilongjiang Longmei Mining Group is still under way. Pursuant to the "Investment Re-arrangement Agreement" and the informal communication between the Company and Longmei Mining Group Organising Office, the investment can offset the coal purchase amount if the re-organisation could not succeed as scheduled. As result, the proposed investment is free from impairment risk.

As at 30 June 2008, the management considers that most of the other receivables can be recovered, and the debtors have repayment capabilities, so proportion of bad debt provision is low.

During the period, the Group/Company had no individually significant recovery of other receivables which had full provision or a significant provision was made in previous years.

11. INVENTORIES

(1) An analysis of the movements of the Group's/Company's inventories for the period is as follows:

	Opening balance at the beginning of the period *RMB million*	Addition during the period *RMB million*	Reduction during the period *RMB million*	Closing balance at the ending of the period *RMB million*
Raw materials	2,602	25,785	(24,996)	3,388
Work in progress	1,736	30,152	(29,278)	2,610
Finished goods	1,861	29,279	(28,903)	2,237
Consumables	887	1,365	(1,258)	994
Spare parts	1,674	856	(812)	1,718
Materials in transit	16	27,364	(27,334)	46
Subtotal	8,776	114,798	(112,581)	10,993
Less: Provision for diminution in value of inventories	75	38	—	113
Total	8,701	114,760	(112,581)	10,880

At the period end, there are no inventories pledged as security.

11. INVENTORIES *(Continued)*

(2) An analysis of provision for diminution in value of inventories of the Group/Company is as follows:

	Opening balance at the beginning of the period *RMB million*	Provision made for the period *RMB million*	Written off during the period *RMB million*	Closing balance at end of the period *RMB million*
Spare parts	36	38	—	74
Consumables	39	—	—	39
Total	75	38	—	113

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

As at 30 June 2008, the Group/Company newly provisions made for spare parts due to renovating and rebuilding production line.

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group/Company	
	30 June 2008	31 December 2007
	RMB million	*RMB million*
Available-for-sale equity instrument	**92**	271

On 23 March 2007, the Group/Company subscribed 10 million A share common stock of Zhuzhou Smelter Company Ltd (with restriction period) through non-public offering at the issuance price of RMB8.10 per share. The Group/Company hold 1.9 % interest in Zhuzhou Smelter Company Ltd. Currently, the restriction period was lapsed. As at 30 June 2008, the fair value of this equity instrument is determined based on the quoted price of A share of Zhuzhou Smelter Company Ltd.

13. LONG-TERM EQUITY INVESTMENTS

	The Group		The Company	
	30 June 2008	31 December 2007	**30 June 2008**	31 December 2007
	RMB million	*RMB million*	***RMB million***	*RMB million*
Investment in Subsidiary Company				
— Angang Wuhan Steel Logistics Co., Ltd. ("Angang Wuhan")	**—**	—	**60**	—
Subtotal	**—**	—	**60**	—
Investment in jointly controlled enterprises				
— ANSC-TKS Galvanizing Co., Ltd ("ANSC-TKS")	**619**	548	**619**	548
— ANSC-Xinchuan Heavy Industries Dalian Steel Product Processing and Distribution Company Limited ("ANSC-Dachuan")	**190**	190	**190**	190
— Changchun FAM Steel Processing and Distribution Company Limited ("Changchun FAM")	**49**	46	**49**	46
— ANSC-TKS Changchun Steel Logistics Co., Ltd. ("TKAS-SSC")	**38**	41	**38**	41
Subtotal	**896**	825	**896**	825

13. LONG-TERM EQUITY INVESTMENTS *(Continued)*

	The Group		The Company	
	30 June 2008	31 December 2007	**30 June 2008**	31 December 2007
	RMB million	*RMB million*	***RMB million***	*RMB million*
Investment in associates				
— TKAS (Changchun) Tailored Blanks Ltd ("TKAS")	**38**	37	**38**	37
— Angang Shenyang Steel Product Processing and Distribution Company Limited ("Angang Shenyang")	**9**	13	**9**	13
— Angang Finance	**315**	—	**315**	—
— Angang Entity Group Packaging Steel Belt Company Limited ("Angang Steel Belt")	**11**	—	**11**	—
Subtotal	**373**	50	**373**	50
Other equity investment				
— WISDRI Engineering Research Incorporation Limited ("WISDRI")	**10**	10	**10**	10
Total	**1,279**	885	**1,339**	885

13. LONG-TERM EQUITY INVESTMENTS *(Continued)*

(1) ***As at 30 June 2008, the Group/Company's Subsidiary investment in a subsidiary is as follows:***

	Angang Wuhan *RMB million*	**Total** *RMB million*
Initial investment cost	60	60
Movement of investment costs		
Balance at the beginning of the period	—	—
Add: Additions	60	60
Balance at the end of the period	60	60

Details of the Company's subsidiary please refer to note 4.

The Company's investment in Angang Wuhan has been verified by 武漢經開會計師事務所有限公司 and the capital verification report issued on 26 June 2008. As at 26 June 2008, the registered capital of Angang Finance has been fully paid up in according to its Articles of Association. Angang Wuhan is still under preparatory stage.

13. LONG-TERM EQUITY INVESTMENTS *(Continued)*

(2) As at 30 June 2008, the Group's/Company's investments in jointly controlled enterprises are as follows:

	ANSC-TKS	ANSC-Dachuan	Changchun-FAM	TKAS SSC	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Initial investment cost	533	190	45	48	816
Movement of investment cost					
Balance at the beginning of the period	548	190	46	41	825
Add: Additions	—	—	—	—	—
Adjustment under equity method *(Note 39)*	87	—	4	(3)	88
Unrealized inter-company profit adjustment	(16)	—	(1)	—	(17)
Balance at the end of the period	619	190	49	38	896

13. LONG-TERM EQUITY INVESTMENTS *(Continued)*

(2) As at 30 June 2008, the Group's/Company's investments in jointly controlled enterprises are as follows: (Continued)

Details of jointly controlled enterprises of the Group/Company are as follows:

Name of investee	Organisation code	Registered place	Business nature	Registered capital *million*	Shareholding percentage	The Company's Voting rights	At period end Total assets *RMB million*	At period end Total liabilities *RMB million*	Current period Total revenue *RMB million*	Current period Net Net profit *RMB million*
ANSC-TKS	71093688-2	China	Steel processing	USD132	50%	50%	2,472	1,169	1,523	175
ANSC-Dachuan	75990387-0	China	Steel processing	RMB380	50%	50%	388	8	—	—
Changchun FAM	76717649-0	China	Steel processing	RMB90	50%	50%	297	198	369	7
TKAS-SSC	78592605-6	China	Steel processing	USD12	50%	50%	223	147	49	(7)

The voting rights held by the Company are the same as its shareholding percentage of the jointly controlled enterprises.

13. LONG-TERM EQUITY INVESTMENTS *(Continued)*

(3) As at 30 June 2008, the Group/Company's investments in associates are as follows:

	TKAS	Angang Shenyang	Angang Finance	Angang Steel Belt	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Initial investment cost	37	14	315	11	377
Movement of investment costs					
Balance at the beginning of the period	37	13	—	—	50
Add: Additions	—	—	315	11	326
Adjustment under equity method *(Note 39)*	2	—	—	—	2
Dividend income	—	(1)	—	—	(1)
Unrealized inter-company profit adjustment	(1)	(3)	—	—	(4)
Balance at the end of the period	38	9	315	11	373

13. LONG-TERM EQUITY INVESTMENTS *(Continued)*

(3) As at 30 June 2008, the Group/Company's investments in associates are as follows: (Continued)

Details of the Group/Company's associates are as follows:

Name of investee	Organisation code	Registered place	Business nature	Registered capital *million*	Shareholding percentage	The Company's Voting rights	At year end Total assets *RMB million*	At year end Total liabilities *RMB million*	Current year Total revenue *RMB million*	Current year Net profit *RMB million*
TKAS	76715978-9	China	Steel processing	USD10	45%	45%	153	70	95	5
Angang Shenyang	73866644-x	China	Steel Processing	RMB48	30%	30%	153	104	324	1
Angang Finance	1188857-2	China	Financial Service	RMB1,000	20%	20%	11,374	9,673	–	–
Angang Steel Belt	670458846	China	Steel Processing	RMB36	30%	30%	37	1	–	–

The Company invested in Angang Finance has been verified by 鞍山中科華會計師事務所有限公司 and the capital verification report issued on 27 June 2008. As at 27 June 2008, the registered capital of Angang Finance has been fully paid up in according to its Articles of Association (see note 49 (4)(b)(xi)).

On 21 January 2008 the Company according to "the resolution of the 21st meeting of the 4th session of the board of directors of the Company" invested RMB11 million in Angang Steel Belt. The capital verification procedures has not performed (see note 49(4)(b)(xi)).

The voting rights held by the Company are the same as its shareholding percentage of the associates.

13. LONG-TERM EQUITY INVESTMENTS *(Continued)*

(4) As at 30 June 2008, the Group/Company's other equity investment is as follows:

	WISDRI	Total
	RMB million	*RMB million*
Initial investment cost	10	10
Balance at the beginning of the period	10	10
Add: Additions	—	—
Balance at the ended of the period	10	10

14. FIXED ASSETS

	The Group/Company			
	Buildings and plants	Machinery and equipment	Others	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*
Cost				
As at the beginning of the period	12,165	30,773	2,224	45,162
Additions	2	1	—	3
Transferred from construction in progress *(Note 15)*	876	2,271	90	3,237
Disposals	(9)	(67)	(4)	(80)
As at the end of the period	13,034	32,978	2,310	48,322

14. FIXED ASSETS *(Continued)*

	The Group/Company			
	Buildings and plants	**Machinery and equipment**	**Others**	**Total**
	RMB million	*RMB million*	*RMB million*	*RMB million*
Accumulated depreciation				
As at the beginning of the period	2,267	9,199	906	12,372
Charge for the period	386	1,700	163	2,249
Written back on disposal	(3)	(31)	(2)	(36)
As at the end of the period	2,650	10,868	1,067	14,585
Provision for impairment				
As at the beginning of the period	14	116	4	134
Charge for the period	4	24	2	30
Written back on disposal	—	(22)	—	(22)
As at the end of the period	18	118	6	142
Net book value				
As at the end of the period	10,366	21,991	1,238	33,595
As at the beginning of the period	9,884	21,458	1,314	32,656

As at 30 June 2008, the cost of the fully depreciated fixed assets of the Group/Company which are still in use amounted to RMB2,601 million (31 December 2007: RMB2,298 million). At the period end, the Group/Company had no significant temporary idle fixed assets.

14. FIXED ASSETS *(Continued)*

According to the expert opinion of the asset management departments, the Group/Company made provision for impairment of the fixed assets which cannot bring economic benefits to the enterprise, due to technological obsolescence, damage, or other reasons, amounting the difference between the carrying amount and recoverable amount.

The recoverable amount was calculated based on estimated net cash flows arising from the normal usage during the estimated useful life and the asset disposal.

15. CONSTRUCTION IN PROGRESS

	The Group/Company	
	30 June 2008	31 December 2007
	RMB million	*RMB million*
Cost		
Balance at the beginning of the period/year	**17,115**	8,257
Additions	**8,004**	13,430
Transfer to fixed assets *(Note 14)*	**(3,237)**	(4,572)
Balance at the end of the period/year	**21,882**	17,115

The carrying amounts at the end of the period included borrowing cost of RMB708 million capitalised (31 December 2007: RMB524 million).

The capitalisation rate of the borrowing costs capitalised for the current period by the Group/Company was 6.06% (2007: 5.99%).

15. CONSTRUCTION IN PROGRESS *(Continued)*

At 30 June 2008, the Group/Company's major construction in progress is set out as follows:

Projects	Budget	Beginning balance	Additions	Transfer to Fixed asset	Closing Balance	Percentage of input to budget	Source of funds
	RMB million	*RMB million*	*RMB million*	*RMB million (Note 14)*	*RMB million*		
Bayuquan project	22,600	14,495	5,956	(1,430)	19,021	87%	*Operating fund and Bank loans ** Rights issuance fund
New #2, 3, 4 and 5 furnace	5,876	237	273	(52)	458	90%	*Operating fund
West project 2150	5,868	212	33	(212)	33	93%	*Operating fund
Chemical plant renovation	3,927	906	230	(904)	232	75%	*Operating fund
West project 1450	2,900	604	186	—	790	79%	*Operating fund
High-powered silicon steel project	2,800	171	446	—	617	22%	*Operating fund
Additions to 3# steel plate casting equipment	830	—	1	—	1	—	*Operating fund
ϕ177 petroleum pipe production line	780	159	390	(548)	1	70%	*Operating fund
New wire rods production line Of 600k tons outputs per annum	583	—	24	—	24	4%	*Operating fund
Additions to 35k cubic meters oxygen generator	479	11	133	—	144	28%	*Operating fund
3rd renovation	250	5	40	—	45	20%	*Operating fund
2nd stage of Central power station renovation	200	9	27	—	36	17%	*Operating fund
Other projects		306	265	(91)	480		
Total		17,115	8,004	(3,237)	21,882		

* *Operating funds refer to non-specified loans and funds arising from normal business operations which are used in project expenditure.*

** *The rights issue fund will be used in Bayuquan steel and iron project .*

16. INTANGIBLE ASSETS

	The Group/Company			
	Land use rights	Acquired software	Industrial technology	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*
Cost				
Balance at the beginning of the period	5,854	7	32	5,893
Addition for the period	1,327	1	—	1,328
Balance at the end of the period	7,181	8	32	7,221
Accumulated amortisation				
Balance at the beginning of the period	302	4	10	316
Charge for the period	68	—	2	70
Balance at the end of the period	370	4	12	386
Carrying amount				
At the end of the period	6,811	4	20	6,835
At the beginning of the period	5,552	3	22	5,577

Land use rights of the Group include contribution of RMB227 million made by Angang Holding, the amount of RMB6,954 million acquired by the Company. The additions include the Bayuquan land use rights amounted to RMB1,317 million(of which deed taxes: RMB52 million) acquired from Angang Holding and the amount of RMB10 million acquired from the third parties. Land use rights are amortised over a remaining period of 30 to 50 years.

Up to the date of this report, the Company was in the process of applying for or changing registration of the title certificates of certain of its land use rights, which was related to acquisition of ANSI. As at 30 June 2008, the carrying amount of such land use rights is RMB111 million (31 December 2007: RMB193 million). Pursuant to the acquisition agreement of ANSI, the directors are of the opinion that the Company is entitled to lawfully and validly occupy or use the above mentioned land use right.

17. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets

The Group/Company

	30 June 2008		31 December 2007	
	Deductible temporary differences	**Deferred tax assets**	Deductible temporary differences	Deferred tax assets
	RMB million	***RMB million***	*RMB million*	*RMB million*
Provision for diminution in value of inventories	**113**	**28**	75	19
Provision for impairment of fixed assets	**142**	**36**	134	34
Accumulated depreciation of fixed assets	**22**	**6**	22	5
Wages payable	**192**	**48**	145	36
One-off house allowance	**1**	**—**	1	—
Termination benefits	**171**	**43**	198	49
Production safety expenses	**26**	**6**	11	3
Deductible losses of Bayuquan branch	**228**	**57**	70	18
Staff education fee	**9**	**2**	—	—
Adjustment for unrealized inter-company profit	**40**	**10**	13	3
Total	**944**	**236**	669	167

17. DEFERRED TAX ASSETS AND LIABILITIES *(Continued)*

Deferred tax liabilities

	30 June 2008		31 December 2007	
	Taxable temporary differences	**Deferred tax liabilities**	Taxable temporary differences	Deferred tax liabilities
	RMB million	***RMB million***	*RMB million*	*RMB million*
Capitalised interest expenses of general loan	**203**	**51**	217	54
Fair value change on available-for-sale financial assets	**11**	**2**	190	48
Total	**214**	**53**	407	102

18. PROVISIONS FOR IMPAIRMENT

At 30 June 2008, the provisions for impairment of the Group/Company are set out as follows:

Item	*Notes*	**Balance of the beginning of the period** *RMB million*	**Charge for the period** *RMB million*	**Write off during the period** *RMB million*	**Balance at the end of the period** *RMB million*
Provision for diminution in value of inventories	11	75	38	—	113
Provision for impairment of fixed assets	14	134	30	22	142
Total		209	68	22	255

Please refer to the respective notes of the assets for reasons of impairment losses recognised in this period for these assets

19. SHORT-TERM LOANS

	The Group/Company					
	30 June 2008			31 December 2007		
	Principal	**Interest**		Principal	Interest	
	RMB million	***rate p.a.***		*RMB million*	*rate p.a.*	
Bank loans	**3,050**	**5.913%-6.804%**	**Credit**	4,492	3.24%-6.56%	Credit, Security
Loans from related parties	**2,600**	**6.732%**	**Credit**	20	3.24%	Security
Total	**5,650**			4,512		

As at 30 June 2008, the balance of the Group/Company's short-term loans from Angang Finance is RMB2,600 million.

No amount due to shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of short-term loans.

20. BILLS PAYABLE

Bills payable of the Group/Company primarily represents bank acceptance bills for the purchases of raw materials and spare parts. The repayment terms are within six months.

No shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of bills payable.

21. ACCOUNTS PAYABLE

	The Group/Company	
	30 June	31 December
	2008	2007
	RMB million	*RMB million*
Angang Holding	**2**	13
Subsidiaries of Angang Holding	**73**	229
Third parties suppliers	**1,864**	1,666
Total	**1,939**	1,908

No individually significant accounts payable of the Group/Company as at 30 June 2008 are more than one year past due (31 December 2007: nil).

Angang Holding is a shareholder who holds 5% of or more of the Company's voting shares.

Except the above accounts payable to Angang Holding, no amount due to shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of accounts payable.

22. ADVANCES FROM CUSTOMERS

	The Group/Company	
	30 June	31 December
	2008	2007
	RMB million	*RMB million*
Angang Holding	**1**	—
Subsidiaries of Angang Holding	**681**	656
Other related parties	**304**	147
Other customers	**4,705**	3,766
Total	**5,691**	4,569

No individually significant Advances from customers of the Group/Company as at 30 June 2008 are more than one year past due (31 December 2007: nil).

Angang Holding is a shareholder who holds 5% of or more of the Company's voting shares.

Except the above advances from Angang Holding, no amount due to shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of Advances from customers.

23. EMPLOYEE BENEFITS PAYABLE

	The Group/Company			
	Balance at the beginning of the period	Accrued during the period	Paid during the period	Balance at the end of the period
	RMB million	*RMB million*	*RMB million*	*RMB million*
The Group				
Salaries, bonus, and allowance	213	784	(741)	256
Staff welfare	—	44	(44)	—
Social insurance	—	223	(221)	2
Basic pension	—	152	(152)	—
Medical insurance	—	45	(43)	2
Unemployment insurance	—	15	(15)	—
Staff and worker's injury insurance	—	11	(11)	—
Housing fund	—	75	(75)	—
Termination benefits	52	52	(78)	26
Labour union fee and staff education fee	45	28	(20)	53
Others	—	44	(44)	—
Total	310	1,250	(1,223)	337

24. INTEREST PAYABLES

The Group/Company's interest payables include the amount of RMB79 million interest expenses from the deferred cash payment for the acquisition of ANSI (note: 26) and the RMB2 million interest expenses from foreign currency borrowings (notes: 26, 27).

25. OTHER PAYABLES

	The Group/Company	
	30 June	31 December
	2008	2007
	RMB million	*RMB million*
Construction costs	**2,004**	2,266
Performance guarantee	**123**	91
Freight charges	**73**	178
Land use fee	**59**	—
Customs duty	**91**	—
Deposit for steel shelves	**47**	40
Agency fee	**38**	—
Rights issuance fee	**—**	58
Withholding tax payable	**10**	30
Others	**44**	74
Total	**2,489**	2,737

The analysis of other payables

	The Group/Company	
	30 June	31 December
	2008	2007
	RMB million	*RMB million*
Angang Holding	**61**	29
Subsidiaries of Angang Holding	**667**	1,012
Third parties supplier	**1,761**	1,696
Total	**2,489**	2,737

25. OTHER PAYABLES *(Continued)*

As at 30 June 2008, the Group's/Company's other payables with aging over one year amounting RMB453 million (31 December 2007: RMB307 million), are mainly payables for construction costs and performance guarantee.

Except the above other payables to Angang Holding, no amount due to shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of other payable.

26. NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

		The Group/Company	
		30 June 2008	31 December 2007
	Note	***RMB million***	*RMB million*
Long term loans	(1)	**1,712**	2,814
Long term payables	(2)	**2,324**	2,324
Total		**4,036**	5,138

26. NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR *(Continued)*

(1) The analysis of loans due within one year is set out as follows:

	The Group/Company							
	30 June 2008				31 December 2007			
	Original Currency ***million***	**Exchange rate**	**RMB/RMB equivalent** ***million***	**Annual Interest rate** ***(Note)***	Original Currency *million*	Exchange rate	RMB/RMB equivalent *million*	Annual Interest rate *(Note)*
Bank loans								
— Renminbi			**1,600**	**6.075%-6.804%**			2,203	5.02%-6.80%
— Euro	**0.124**	**10.83**	**1**	**0.25%**	0.124	10.67	1	0.25%
— Japanese yen	**1,719.35**	**0.0645**	**111**	**2.70%**	1,719.35	0.0641	110	2.70%
Loans from related parties								
— Renminbi							500	6.08%
Total			**1,712**				2,814	

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

26. NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR *(Continued)*

(2) According to the acquisition agreement dated 20 October 2005 ("Acquisition Agreement"), by the Company and Angang Holding related to acquisition of the entire equity interest of ANSI ("Acquisition") from Angang Holding, the ultimate holding company of the Company, according to the Angang Holding Gangzhengfa [2004] No. 22 "Notice of the scheme of the asset reorganization of ANSI belonging to Angang Holding", for RMB19.69 billion plus final adjustments 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 ordinary A shares with a par value of RMB1.00 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 installments within three years. The interest of this deferred cash payment based on borrowing rates quoted by the People's Bank of China in the same period. The Company has repaid RMB2,324 million each in 2006 and 2007. The remaining deferred cash payable balance of RMB2,324 million is accounted in non-current liabilities due within one year

Except the above deferred cash payable to Angang Holding, no amount due to shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of non-current liabilities due within one year.

27. LONG-TERM LOANS

	The Group/Company							
	30 June 2008				31 December 2007			
	Original Currency million	Exchange rate	RMB/RMB equivalent million	Annual interest rate (Note)	Original Currency million	Exchange rate	RMB/RMB equivalent million	Annual Interest rate (Note)
The Group								
Bank loans								
— Renminbi			12,580	5.427%-7.047%			12,010	4.94%-7.05%
— Euro	1.054	10.83	11	0.25%	1.12	10.67	12	0.25%
— Japanese yen	3,438.69	0.0645	222	2.70%	4,298.37	0.0641	275	2.70%
Loans from related parties								
— Renminbi			500	6.804%				
Total			13,313				12,297	

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

No amount due to shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of long-term loans.

27. LONG-TERM LOANS *(Continued)*

(1) ***The Group's/Company's long-term loans (including long-term loans due within one year) are analyzed by term of borrowing as follows:***

	The Group/Company	
	30 June 2008	31 December 2007
	RMB million	*RMB million*
Credit loan	**14,025**	13,508
Guaranteed loan	**1,000**	1,603
Total	**15,025**	15,111

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

As at 30 June 2008, the balance of the Company's long-term borrowing from Angang Finance (including long-term loans due within one year) is RMB500 million (31 December 2007: RMB500 million).

(2) ***The maturity analysis of the Company's long-term loan is set out below:***

	The Group/Company	
	30 June 2008	31 December 2007
	RMB million	*RMB million*
Due after 1 year but within 2 years (inclusive)	**5,842**	900
Due after 2 years but within 3 years (inclusive)	**3,962**	7,610
Due after 3 years	**3,509**	3,787
Total	**13,313**	12,297

28. LONG-TERM PAYABLES

	The Group/Company	
	30 June	31 December
	2008	2007
	RMB million	*RMB million*
Production safety expenses	**26**	11

Production safety expenses was accrued according to "Provisional procedures on the financial management on the production safety expenses in high dangerous industries" issued by the MOF and State Administration of Work Safety (Caiqi (2006) No. 478).

29. OTHER NON-CURRENT LIABILITIES

Considering part of the employees who cannot bring economic benefits to the Company and the actual conditions, the Group/Company decides to account for this transaction in reference to termination benefits pursuant to relevant laws and regulations. The Group/Company recognized the following discounted amount as employee benefits payable. The amount refers to the wages and social insurances that the Group/Company planned to pay to the above employees for the period from 1 January 2008 to the year when the above employees retired as usual. For the employee benefits payable that should be paid within one year, it is accounted for in the employee benefits payable (see note 23).

30. SHARE CAPITAL

	The Group/The Company			
	30 June 2008		31 December 2007	
	Shares		Shares	
	million	***RMB million***	*million*	*RMB million*
Issued and paid up capital:				
Ordinary A shares issued with restricted condition				
State-owned shares at par value of RMB1.00 each				
Balance at the end of period/year	**4,868**	**4,868**	4,868	4,868
Shares issued with no restricted condition				
Ordinary A shares at par value of RMB1.00 each				
Balance at the end of period/year	**1,281**	**1,281**	1,281	1,281
Overseas-listed foreign invested ordinary shares ("H shares") at par value of RMB1.00 each				
Balance at the end of period/year	**1,086**	**1,086**	1,086	1,086
Total	**7,235**	**7,235**	7,235	7,235

All the ordinary A and H shares rank pari passu in all material respects.

31. CAPITAL RESERVE

	The Group/Company		
	Beginning of the period	Additions during the period	Balance at the end of period
	RMB million	*RMB million*	*RMB million*
Share premium	31,439	—	31,439
Other capital reserves			
— Available-for-sale financial assets fair value change	143	(135)	8
— Transfer from items under previous standards	11	—	11
Total	31,593	(135)	31,458

32. SURPLUS RESERVE

	The Group/Company		
	Statutory surplus reserve	Voluntary surplus reserve	Total
	RMB million	*RMB million*	*RMB million*
Balance at the beginning of the period	2,981	—	2,981
Balance at the end of the period	2,981	—	2,981

33. APPROPRIATION OF PROFITS

Dividends of ordinary shares in this period

Pursuant to the shareholders' approval at the Annual General Meeting on 12 June 2008, the Company was authorised to declare cash dividend of RMB0.55 per share (2007: RMB0.58 per share) to ordinary shareholders. On 27 June 2008, the Company paid cash dividend for the year 2007 totaling RMB3,382 million (2007: RMB2,925 million) to ordinary A shareholders and RMB597 million (2007: RMB516 million) to H shareholders.

34. OPERATING INCOME

	The Group/Company	
	Six months ended 30 June 2008	Six months ended 30 June 2007
	RMB million	*RMB million*
Operating income from principal operations		
— Galvanised steel sheets and colour coating plates	**4,187**	3,316
— Cold rolled sheets	**8,731**	6,507
— Cold rolling silicon plant	**2,736**	2,243
— Hot rolled sheets	**12,893**	11,845
— Wire rods	**1,587**	1,538
— Large section products	**1,088**	530
— Thick plates	**3,560**	2,522
— Medium plate plant	**2,391**	1,850
— Seamless steel plant	**1,365**	1,222
— Others	**1,327**	1,125
Subtotal	**39,865**	32,698
Other operating income		
— Materials	**272**	—
— Scrap materials	**—**	26
— Others	**31**	11
	303	37
Total	**40,168**	32,735

34. OPERATING INCOME *(Continued)*

The Group's operating income from principal operations is derived from the production and sale of steel. The Company's segmental information is detailed in Note 44.

The Group/Company's sales to the top five customers for the six months ended 30 June 2008 mounted to RMB6,976 million (the six months ended 30 June 2007: RMB5,686 million) which accounted for 17% (the six months ended 30 June 2007: 17%) of the total sales income of the Group/Company for the six months ended 30 June 2008.

35. OPERATING COSTS

	The Group/Company	
	Six months ended 30 June 2008	Six months ended 30 June 2007
Operating cost from principal activities		
Sales of goods	**29,000**	23,174
Other operating expense	**346**	32
Total	**29,346**	23,206

The Group/Company's operating costs mainly comprised the cost incurred for the production and sale of steel.

36. BUSINESS TAXES AND SURCHARGES

	Taxation basis and rate	**The Group/Company** **Six months ended 30 June 2008** ***RMB million***	Six months ended 31 December 2007 *RMB million*
City construction and maintenance tax	7% of VAT and Business Tax payable	**209**	203
Education surcharge and local education surcharge	3% and 1% of VAT and Business Tax payable	**119**	116
Custom duty	5%-15% of FOB	**195**	10
Resources tax and Business Tax		**2**	2
Total		**525**	331

37. FINANCIAL EXPENSES

	The Group/Company **Six months ended 30 June 2008** ***RMB million***	Six months ended 30 June 2007 *RMB million*
Interest and bills discount expenses	**692**	643
Less: borrowing cost capitalised	**(339)**	(273)
Net interest expenses	**353**	370
Interest income from deposits	**(26)**	(7)
Net exchange losses/(gains)	**7**	(11)
Other financial expenses	**3**	2
Total	**337**	354

38. IMPAIRMENT LOSSES

	Note	The Group/Company **Six months ended 30 June 2008** ***RMB million***	 Six months ended 30 June 2007 *RMB million*
Inventories	11	**38**	—
Fixed assets	14	**30**	55
Total		**68**	55

39. INVESTMENT INCOME

	The Group/Company **Six months ended 30 June 2008** ***RMB million***	 Six months ended 30 June 2007 *RMB million*
Income from long-term equity investment in jointly controlled enterprises — Accounted under equity method	**88**	35
Income form long-term equity investment in associates — Accounted under equity Method	**2**	1
Income from other long term equity investment — Accounted under cost Method	**1**	4
Total	**91**	40

39. INVESTMENT INCOME *(Continued)*

The analysis of the Group/Company's long-term equity investment income from major investees is as follows:

	The Group/Company	
	Six months ended 30 June 2008	Six months ended 30 June 2007
	RMB million	*RMB million*
Jointly controlled entities		
— ANSC-TKS	**87**	41
— ANSC-Dachuan	**—**	(1)
— Changchun FAM	**4**	(3)
— TKAS-SSC	**(3)**	(2)
Associates		
— Angang Shenyang	**—**	—
— TKAS	**2**	1
— Angang Steel Belt	**—**	—
— Angang Finance	**—**	—
Other investment		
— WISDRI	**—**	4
— Zhuzhou Smelter	**1**	—
Total	**91**	40

Movement in investment income for the year is mainly due to profit/loss of the jointly controlled enterprises and associates and the dividend income from other long-term equity investment under cost method.

There are no severe restrictions in the transfer of investment income to the Group.

40. NON-OPERATING INCOME

	The Group/Company	
	Six months ended 30 June 2008	Six months ended 30 June 2007
	RMB million	*RMB million*
Gain on disposal of fixed assets	**12**	16
Others	**2**	4
Total	**14**	20

41. NON-OPERATING EXPENSES

	The Group/Company	
	Six months ended 30 June 2008	Six months ended 30 June 2007
	RMB million	*RMB million*
Loss on disposal of fixed assets	**25**	59
Others	**6**	1
Total	**31**	60

42. INCOME TAX EXPENSE

(1) Income tax expense for the period represents:

	The Group/Company	
	Six months ended 30 June 2008	Six months ended 30 June 2007
	RMB million	*RMB million*
Current tax expense	**1,617**	2,006
Deferred tax expense	**(72)**	—
Total	**1,545**	2,006

(2) Reconciliation between income tax expense and the Group's/Company's accounting profits is as follows:

	The Group/Company	
	Six months ended 30 June 2008	Six months ended 30 June 2007
	RMB million	*RMB million*
Profits before income tax	**7,525**	6,810
Expected PRC income tax at a statutory tax rate of 25% (2007:33%)	**1,881**	2,247
Exemption relating to outputs from environmental protection facilities	**(17)**	(69)
Exemption relating to enterprise research and development costs	**(278)**	(169)
Others	**(41)**	(3)
Income tax expenses	**1,545**	2,006

43. SUPPLEMENT TO CASH FLOW STATEMENT

(1) Supplement to Cash Flow Statement

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

	The Group/Company	
	Six months ended 30 June 2008	Six months ended 30 June 2007
	RMB million	*RMB million*
Net profit	**5,980**	4,804
Add: Provision for impairment	**68**	55
Depreciation of fixed assets	**2,249**	2,023
Amortisation of intangible assets	**70**	63
Loss on disposal of fixed assets, intangible assets and other non-current assets	**13**	43
Financial expenses	**336**	336
Investment income	**(91)**	(40)
(Decrease)/increase in deferred tax assets	**(69)**	3
Decrease in deferred tax liabilities	**(3)**	(3)
Increase in inventories	**(2,199)**	(691)
Increase in operating receivables	**(83)**	(2,149)
Increase in operating payables	**643**	1,108
Others	**—**	(7)
Net cash inflow from operating activities	**6,914**	5,545

43. SUPPLEMENT TO CASH FLOW STATEMENT *(Continued)*

(1) Supplement to Cash Flow Statement (Continued)

(b) Change in cash and cash equivalents:

	The Group		The Company	
	30 June 2008	30 June 2007	**30 June 2008**	30 June 2007
	RMB million	*RMB million*	***RMB million***	*RMB million*
Cash at the end of the period	**1,730**	1,224	**1,670**	1,224
Less: Cash at the beginning of the period	**(7,733)**	(1,480)	**(7,733)**	(1,480)
Net decrease in cash and cash equivalents	**(6,003)**	(256)	**(6,063)**	(256)

43. SUPPLEMENT TO CASH FLOW STATEMENT *(Continued)*

(2) Cash and cash equivalents held by the Company are as follows:

	The Group		The Company	
	30 June 2008	30 June 2007	**30 June 2008**	30 June 2007
	RMB million	*RMB million*	***RMB million***	*RMB million*
Cash at bank and on hand				
— Cash on hand	**1**	1	**1**	1
— Bank deposits available on demand	**1,729**	1,223	**1,669**	1,223
Closing balance of cash and cash equivalents at the end of the period	**1,730**	1,224	**1,670**	1,224
Less: Cash and cash equivalents with restriction	**—**	—	**—**	—
Cash and cash equivalents at the end of the period	**1,730**	1,224	**1,670**	1,224

44. SEGMENT REPORTING

The Group/Company operates single business segment for the production and sales of steel products mainly in the PRC, except for certain exports to other countries and regions. All of the Group/Company's assets are in the PRC.

Details of operating income based on the geographical location of customers are set out as follows:

	PRC		Other countries and regions		Total	
	Six months ended		Six months ended		Six months ended	
	30 June	30 June	**30 June**	30 June	**30 June**	30 June
Category	**2008**	2007	**2008**	2007	**2008**	2007
	RMB million	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*
Operating income	**34,223**	24,918	**5,945**	7,817	**40,168**	32,735

45. RISK ANALYSIS, SENSITIVITY ANALYSIS, AND DETERMINATION OF FAIR VALUES FOR FINANCIAL INSTRUMENTS

The Group has exposure to the following risks from its use of financial instruments:

— Credit risk

— Liquidity risk

— Interest rate risk

— Foreign currency risk

This note presents information about the Group's exposure to each of the above risks and their sources, the Group's objectives, policies and processes for measuring and managing risks, etc.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

45. RISK ANALYSIS, SENSITIVITY ANALYSIS, AND DETERMINATION OF FAIR VALUES FOR FINANCIAL INSTRUMENTS *(Continued)*

(1) Credit risk

The Group's credit risk is primarily attributable to receivables. Exposure to these credit risks are monitored by management on an ongoing basis.

In respect of receivables, the Group has established a credit policy under which individual credit evaluations are performed on all customers requiring credit over a certain amount. The Group requires most of the customer prepay full amount either in cash or by issuing bills before delivering goods to them. Receivables are due within 90 days from the date of billing. Debtors with balances that are more than one months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

Most of the Group's customers have been transacting with the Group for many years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to some factors, such as ageing and maturity date.

At 30 June 2008, there were no significant debtors that were past due and impaired.

At the balance sheet date, the Group had a certain concentration of credit risk, at 38% (2007: 27%) of the total accounts receivable and other receivables was due from the Group's five largest customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, in the balance sheet. The Group does not provide any other guarantees which would expose the Group to credit risk.

45. RISK ANALYSIS, SENSITIVITY ANALYSIS, AND DETERMINATION OF FAIR VALUES FOR FINANCIAL INSTRUMENTS *(Continued)*

(2) Liquidity risk

The Group is responsible for its own cash management, including short term investment of cash surpluses and the raising of loans to cover expected cash demands. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash, readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The maturity analysis of long term debts is disclosed in Note 27.

(3) Interest rate risk

The interest-bearing financial instruments held by the Group at 30 June 2008 are set out at Note 6, 19, 26 and 27.

Sensitivity analysis:

In managing interest rate risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. However, over the longer term, permanent changes in interest rates would have an impact on earnings.

For the six months ended 30 June 2008, it is estimated that a general increase of one percentage point in interest rates of cash at bank and on hand, short-term loans, non-current liabilities due within one year, long-term borrowings and long-term payables, with all other variables held constant, would decrease the Group's net profit and equity by RMB20 million (2007: RMB95 million).

45. RISK ANALYSIS, SENSITIVITY ANALYSIS, AND DETERMINATION OF FAIR VALUES FOR FINANCIAL INSTRUMENTS *(Continued)*

(3) Interest rate risk (Continued)

The above sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the Group's exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The one percentage point increase or decrease represents Group's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2007.

(4) Foreign currency risk

The Group did not have a significant foreign currency risk exposure arising from its exports products and importing raw material for production and equipments for projects as the Group adopt locked exchanges rates to settle the amounts with main export and import agent.

(a) The Group's exposure to currency risk based on nominal amounts at 30 June 2008 is set out at Note 6, 26 and 27.

(b) The following are the significant exchange rates applied by the Company:

	Average rate Six months ended		**Reporting date mid-spot rate Six months ended**	
	30 June 2008	30 June 2007	**30 June 2008**	30 June 2007
Japanese yen	**0.067**	0.0638	**0.0645**	0.0618
EUR	**10.84**	10.27	**10.83**	10.23
HKD	**0.901**	0.986	**0.879**	0.974

45. RISK ANALYSIS, SENSITIVITY ANALYSIS, AND DETERMINATION OF FAIR VALUES FOR FINANCIAL INSTRUMENTS *(Continued)*

(4) Foreign currency risk (Continued)

(c) Sensitivity analysis

A 5% strengthening of the Renminbi against the Japanese yen, Euro and HK dollar at 30 June would have (decreased)/increased equity and profit or loss by the amount shown below:

	Shareholder's equity *RMB million*	**Profit and loss** *RMB million*
30 June 2008		
Japanese yen	(17)	(17)
EUR	(1)	(1)
HKD	—	—
31 December 2007		
Japanese yen	(13)	(13)
EUR	(1)	(1)
HKD	2	2

A 5% weakening of the Renminbi against the Japanese yen, Euro and HK dollar at 30 June 2008 would have had the equal but opposite effect on them to the amounts shown above, on the basis that all other variables remain constant.

The above sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the Group's exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date. The stated changes represent Group's assessment of a reasonably possible change in foreign exchange rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2007.

45. RISK ANALYSIS, SENSITIVITY ANALYSIS, AND DETERMINATION OF FAIR VALUES FOR FINANCIAL INSTRUMENTS *(Continued)*

(5) Fair value

All financial assets and financial liabilities are carried at amounts not materially different from their fair values as at 30 June.

(6) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of available-for-sale financial assets, receivables and payables, loans, long-term payables and accrued liabilities that measured at fair value on the balance sheet date.

(a) Available-for-sale financial assets

The fair value of available-for-sale financial assets is determined by the quoted price of market.

(b) Receivables

The fair value is estimated as the present value of the future cash flows, discounted at the market interest rates at the balance sheet date. If the influence of the present value is not material, the fair value is calculated as cost less bad debt provision (see note 3(9)(b))

(c) Loans, long-term payables and employee benefits payable more than one year

The fair value of the Group's loans, long-term payables and employee benefits payable more than one year is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

45. RISK ANALYSIS, SENSITIVITY ANALYSIS, AND DETERMINATION OF FAIR VALUES FOR FINANCIAL INSTRUMENTS *(Continued)*

(6) Estimation of fair values (Continued)

(d) Interest rates used for determining fair value

The interest rates used to discount estimated cash flows are based on the market interest rate of similar financial instruments at the balance sheet date.

46. CAPITAL COMMITMENTS

As at 30 June, the capital commitments of the Company are summarised as follows:

	The Group/Company	
	30 June 2008	31 December 2007
	RMB million	*RMB million*
Investment contracts entered into but not performed or performed partially	**—**	—
Construction and renovation contracts entered into but not performed or performed partially	**12,225**	12,887
Total	**12,225**	12,887

47. CONTINGENCIES

As at 30 June 2008, there are no contingencies that need to be disclosed.

48. NON-ADJUSTING POST BALANCE SHEET EVENTS

As at 30 June 2008, there are no non-adjusting post balance sheet events that need to be disclosed.

49. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Information on the parent of the Company is as follows:

Company name	Organization Code	Registered place	Business nature	Registered Capital *RMB million*	% of sharing of the Company	Proportion of voting rights
Angang Holding	24142001-4	Tie Xi District Anshan Liaoning Province	Production and sale of steel and metal products, steel filament tubes, and metal structures	10,794	67.28%	67.28%

(2) Information on the subsidiary of the Company is as follows:

Company name	Organization Code	Registered place	Business nature	Registered Capital *RMB million*	% of sharing of the Company	Proportion of voting rights
Angang Wuhan	—	Economic and technological development zone, Wuhan Hubei Province	Production. Processing and sale of steel products and, related products	60	100%	100%

49. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(Continued)*

(3) Transactions between the Group/Company and its key management personnel

	The Group/Company	
	Six months ended 30 June 2008	Six months ended 30 June 2007
	RMB million	*RMB million*
Remuneration to key management staff	**2**	2

The above transactions with key management personnel were conducted under normal commercial terms or relevant agreements.

49. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(Continued)*

(4) Transactions between the Company and other related parties

(a) Relationships between the Company and other related parties under the transactions stated in 4(b) (c) (d) (e)below:

Name of enterprise	Organization code	Relation with the company
ANSC-TKS	71093688-2	Jointly controlled enterprises
ANSC-Dachuan	759903870	Jointly controlled enterprises
Changchun FAM	76717649-0	Jointly controlled enterprises
TKAS-SSC	785926056	Jointly controlled enterprises
TKAS	767159789	Associate
Angang Shenyang	73866644-x	Associate
Angang Finance	1188857-2	Associate
Angang Steel Belt	670458846	Associate
Angang Trade	24142372-5	Fellow subsidiary
Angang Construction Group	94129158-3	Fellow subsidiary
Angang Heavy Machine Co., Ltd.	24150326-6	Fellow subsidiary
Angang Fire-resistant Material Co.	94126547-3	Fellow subsidiary
Angang Steel Rope Co., Ltd.	94126496-4	Fellow subsidiary
Angang Anshan Mining Co.	24150404-X	Fellow subsidiary
Angang Entity Group	24142765-4	Fellow subsidiary
Angang House Property Co.	94126840-4	Fellow subsidiary
Angang Railway Transport Facilities Construction Co.	94121854-6	Fellow subsidiary
Angang Real Estate Co., Ltd	11886337-0	Fellow subsidiary
Angang Mechanized Loading Co.	94126489-2	Fellow subsidiary
Angang Design and Research	79159132-8	Fellow subsidiary
Angang Railway Construction Co.	94126830-8	Fellow subsidiary
Angang Electric Co., Ltd	94126485-X	Fellow subsidiary
Angang Automatism Co.	94126643-3	Fellow subsidiary
Angang Auto Transport Co., Ltd	94126444-6	Fellow subsidiary
Dalian Huayelian Automatism Co.	723489698	Fellow subsidiary
Angang Reception Service Co.	94121967-X	Fellow subsidiary

For jointly controlled enterprises and associates of the Company, please refer to Note 13.

49. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(Continued)*

(4) Transactions between the Company and other related parties (Continued)

(b) Details of the Group/Company's material related party transactions with Angang Holding and its subsidiaries ("Angang Group"):

		Six months ended 30 June			
		2008		2007	
	Note	**Amount** *RMB million*	**Percent of related transactions**	Amount *RMB million*	Percent of related transaction
Sales	(i)	**2,332**	**5.98%**	2,098	6.49%
Sales of scrap materials	(i)	**223**	**82.26%**	77	79.77%
General service	(i)	**234**	**40.62%**	254	41.80%
Sales of assets	(ii)	**4**	**100%**	25	46.09%
Purchases					
— Raw materials	(iii)	**8,640**	**78.19%**	6,710	85.66%
— Ancillary materials and spare parts	(iv)	**1,025**	**13.59%**	710	21.07%
Energy and power supplies	(v)	**798**	**38.06%**	805	38.83%
Fees paid for support services	(vi)	**4,768**	**46.90%**	3,324	43.87%
Assets purchasing	(vii)	**1,289**	**95.36%**	—	—
Interest income	(viii)	**12**	**45.11%**	5	75.01%
Interest expenses	(viii)	**95**	**13.72%**	239	35.21%

49. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(Continued)*

(4) Transactions between the Company and other related parties (Continued)

(b) Details of the Group/Company's material related party transactions with Angang Holding and its subsidiaries ("Angang Group"): *(Continued)*

(i) Sales, Sales of scrap materials and general service

The Company sold steel products and scrap materials to Angang Group mainly at selling prices based on the prices charged to independent customers on market prices. The Company developed new products of steel products to Angang Group at prices based on market price. If there was no market price, the price will be based on costs plus reasonable profit.

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

The Company sold minus sieve powder to Angang Group at prices for sintered iron ore less the cost of sintering procedures conducted by Angang Group.

(ii) Sales of assets

The Company sold assets to Angang Group at selling prices based on fair value of market.

49. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(Continued)*

(4) Transactions between the Company and other related parties (Continued)

(b) Details of the Group/Company's material related party transactions with Angang Holding and its subsidiaries ("Angang Group"): ***(Continued)***

(iii) Purchase of raw materials

The Company purchased raw materials from Angang Group, at prices determined and modified on a semiannual basis.

The purchase price is mainly not higher than the average prices quoted to the Company for importing principal raw materials of similar quality plus freight charges in the previous interim period and adjustment for grade, or the average purchases prices paid by the Company to the independent third parties plus adjustment for grade, or the raw material price plus the previous interim period processing cost plus 10% gross profit or market price.

(iv) 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 by Angang Group.

(v) Energy and power supplies

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

49. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(Continued)*

(4) Transactions between the Company and other related parties (Continued)

(b) Details of the Group/Company's material related party transactions with Angang Holding and its subsidiaries ("Angang Group"): *(Continued)*

(vi) Fees paid for supporting services

Angang Group provided certain supporting services to the Company. These services include railway and road transportation services; agency services for import of raw materials, equipment, spare parts and ancillary materials; agency services for domestic sales and export of products; equipment repair and maintenance; engineering services; subcontracting of belt; management services and other employees' supporting services.

The quantity of steel products sold in domestic market and export market through Angang Trade as an agent is 2.04 million tons and 1.20 million tons respectively for the six months ended 30 June 2008 (for the six months ended 30 June 2007: 1.92 million tons and 1.82 million tons).

Service fees were charged at applicable State prices, market prices, not more than 1.5% of commission, depreciation plus maintenance fee, subcontracting cost plus not more than 5% of gross profit to calculate.

(vii) Asset acquisition

The Company acquires assets from Angang Group at the rate of market price.

49. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(Continued)*

(4) Transactions between the Company and other related parties (Continued)

(b) Details of the Group/Company's material related party transactions with Angang Holding and its subsidiaries ("Angang Group"): *(Continued)*

(viii) Interest income/expenses

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 (see note 26).

(ix) Guarantee of loans

As at 30 June 2008, total bank loans of the Company amounting to RMB1,000 million (31 December 2007: RMB1,603 million) were guaranteed by Angang Holding (see note 27).

(x) The Supply of Materials and Services Agreement

The Company has signed a new Supply of Materials and Services Agreement for the year of 2008-2009 with Angang Group on 24 October 2007, which took effect from 1 January 2008.

49. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(Continued)*

(4) Transactions between the Company and other related parties (Continued)

(b) Details of the Group/Company's material related party transactions with Angang Holding and its subsidiaries ("Angang Group"): *(Continued)*

(xi) Investment situation:

The Board of Directors has approved a proposal "關於公司投資入股鞍鋼集團財務有限責任公司的議案" in April 2008. Based on the proposal, the Company had invested RMB315 million to Angang Finance, which represented 20% of the registered capital of Angang Finance.

The Board of Directors has approved a proposal "與鞍鋼實業集團有限公司共同投資建設鞍鋼實業集團包裝鋼帶有限公司的議案" in January 2008. Based on the proposal, the Company had invested RMB11 million to Angang Equity Group Packaging Steel Belt Company Limited ("Angang Steel Belt") which represented 30% of the registered capital of Angang Steel Belt.

49. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(Continued)*

(4) Transactions between the Company and other related parties (Continued)

(c) Sales of products from the Company to Jointly controlled enterprises:

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

The Company sold products to ANSC-TKS totaling RMB1,055 million for the six months ended 30 June 2008 (For the six months ended 30 June 2007: RMB818 million.)

(ii) Sales of products from the Company to Changchun FAM:

The Company sold products to Changchun FAM totaling RMB52 million for the six months ended 30 June 2008 (for the six months ended 30 June 2007: nil.)

(iii) Sales of products from the Company to TKAS-SSC:

The Company sold products to TKAS-SSC totaling RMB7 million for the six months ended 30 June 2008 (for the six months ended 30 June 2007: nil).

(d) Sales of products from the Company to Associate:

The Company sold products to TKAS totaling RMB1 million for the six months ended 30 June 2008 (for the six months ended 30 June 2007: nil).

49. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(Continued)*

(4) Transactions between the Company and other related parties (Continued)

(e) The balances of transactions with other related parties at 30 June 2008 and 30 June 2007 are set out as follows:

	The Group/Company	
	30 June 2008	31 December 2007
	RMB million	*RMB million*
Cash at Bank and on hand	**1,467**	1,878
Accounts receivable	**410**	520
Prepayments	**6,063**	4,583
Other receivable	**11**	—
Short-term loans	**(2,600)**	(20)
Accounts payable	**(75)**	(242)
Advances from customers	**(986)**	(803)
Other payables	**(728)**	(1,041)
Interest payable	**(79)**	—
Long-term loans due within one year	**—**	(500)
Long-term loans	**(500)**	—
Long-term payables due within one year	**(2,324)**	(2,324)

50. EXTRAORDINARY GAIN AND LOSS

In accordance with Questions and Answers on the Preparation of Information Disclosures of Companies Issuing Public Shares No. 1 Extraordinary Gain and Loss (2007 revised), the extraordinary gain and loss of the Company is listed as follows:

	The Group/Company	
	30 June 2008	31 December 2007
	RMB million	*RMB million*
Losses on Disposal of fixed assets	**13**	43
Income from penalty and fine	**(2)**	(1)
Written off of unpayable accounts payables	**—**	(2)
Others	**6**	—
Subtotal	**17**	40
Less: effect on taxation	**(4)**	(13)
Total	**13**	27

51. EARNINGS PER SHARE AND RETURN ON NET ASSETS

(1) The Group's earnings per share

	Six months ended 30 June			
	2008		2007	
	Basic earnings per share	**Diluted earnings per share**	Basic earnings per share	Diluted earnings per share
(a) Earnings per share inclusive of extraordinary gain and loss	**0.827**	**0.827**	0.810	0.810
— net profit attributable to equity shareholders of the Company	**5,980**	**5,980**	4,804	4,804
— weighted average number of the Company's ordinary shares	**7,235**	**7,235**	5,933	5,933
(b) Earnings per share net of extraordinary gain and loss	**0.828**	**0.828**	0.814	0.814
— net profit deducted extraordinary gain and loss attributable to the Company's ordinary equity shareholders	**5,993**	**5,993**	4,831	4,831
— weighted average of equity shares of the Company in current year	**7,235**	**7,235**	5,933	5,933

51. EARNINGS PER SHARE AND RETURN ON NET ASSETS *(Continued)*

(2) Return on net assets of the Company

In accordance with "Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares No.9-Calculation and Disclosure of the Return on Net Assets and Earnings Per Share" (2007 revised) issued by the CSRC, the Company's return on net assets is calculated as follows:

	Six months ended 30 June			
	2008		2007	
	Fully diluted	**Weighted average**	Fully diluted	Weighted average
(a) Return on equity inclusive of extraordinary gain and loss	**10.66%**	**10.46%**	15.26%	14.77%
— net profit attributable to equity shareholders of the Company	**5,980**	**5,980**	4,804	4,804
— Year-end equity attributable to the Company's ordinary equity shareholders	**56,121**	**not applicable**	31,486	not applicable
— weighted average of equity attributable to the Company's equity shareholders	**not applicable**	**57,191**	not applicable	32,525
(b) Return on equity net of extraordinary gain and loss	**10.68%**	**10.48%**	15.34%	14.85%
— net profit deducted extraordinary gain and loss attributable to the Company's ordinary shareholders	**5,993**	**5,993**	4,831	4,831
— Year-end equity attributable to the Company's ordinary equity shareholders	**56,121**	**not applicable**	31,486	not applicable
— weighted average of equity attributable to the Company's ordinary equity shareholders	**not applicable**	**57,191**	not applicable	32,525

Reconciliation Statements of differences in Financial Statements prepared under different GAAP

(1) The effect of the differences between PRC GAAP and IFRSs on profit attributable to equity shareholders of the Company is analysed as follows:

	Note	**Six months ended 30 June 2008** ***RMB million***	Six month ended 30 June 2007 *RMB million*
Amounts under PRC GAAP		**5,980**	4,804
Adjustments:			
Convertible debentures			
— Additional borrowing costs capitalised	(i)	**—**	(7)
Pre-operating expenses		**—**	3
Revaluation of land use rights	(ii)	**2**	2
Production safety expenses	(iii)	**15**	—
Deferred tax assets	(iv)	**(5)**	—
Total		**12**	(2)
Amounts under IFRSs		**5,992**	4,802

Reconciliation Statements of differences in Financial Statements prepared under different GAAP *(Continued)*

(2) The effect of the significant differences between PRC GAAP and IFRSs on equity attributable to equity shareholders of the Company is analysed as follows:

		30 June 2008 *RMB million*	31 December 2007 *RMB million*
Amounts under PRC GAAP		**56,121**	54,255
Adjustments:			
Revaluation of land use rights	(ii)	**(179)**	(181)
Production safety expenses	(iii)	**26**	11
Deferred tax assets	(iv)	**37**	42
Total		**(116)**	(128)
Amounts under IFRSs		**56,005**	54,127

Reconciliation Statements of differences in Financial Statements prepared under different GAAP *(Continued)*

(2) The effect of the significant differences between PRC GAAP and IFRSs on equity attributable to equity shareholders of the Company is analysed as follows: *(Continued)*

Note:

(i) The amounts represent the different treatments on transaction costs and discount on convertible debentures between the IFRSs and PRC GAAP ("Old PRC GAAP"). Adjustment in previous year represents the difference in balance arising from the difference accounting treatment after adoption of the New Standards on 1 January 2007.

(ii) Under the Old PRC GAAP, land use rights are carried at revalued amount. Land use rights are carried at historical cost under IFRSs. Accordingly, the surplus on the revaluation of land use rights net of deferred tax asset and accumulated amortized amount was reversed from shareholder's equity and the amortization of the surplus was added back to the net profit in the financial statements prepared under IFRSs.

(iii) Pursuant to Caiqi (2006) No. 478, as to the enterprises whose businesses are engaged in mining, construction, production of dangerous goods and land transportation, the production safety expenses can be accrued proportionately based on output or operating income. According to IFRSs, expenses are only recognised when they are actually incurred.

(iv) Under IFRSs, income expenses and deferred tax assets and liabilities are provided in accordance with liability method according to the adjustment (iii).

VIII. DOCUMENTS FOR INSPECTION

1. Counterpart of 2008 interim report of the Company signed by the Chairman;

2. Counterpart of financial reports of the Company signed and affixed with the seal by the Legal Representative, Chief Accountant and Head of the Accounting Department of the Company;

3. All documents of announcements disclosed by the Company in the China Securities Journal and the Securities Times during the reporting period;

4. Copy of the Articles of Association of the Company;

5. Interim report of the Company disclosed in the Hong Kong stock market.

The above documents are available for inspection at the secretarial office of the Board, Angang Steel Company Limited, at 1 Qianshan Road West, Qianshan District, Anshan City, Liaoning Province, the PRC.

Board of Directors
Angang Steel Company Limited

11 August 2008

鞍 鋼 股 份 有 限 公 司

ANGANG STEEL COMPANY LIMITED*