

2008

INTERIM REPORT



MAANSHAN IRON & STEEL COMPANY LIMITED

H Share Stock Code: 323
A Share Stock Code: 600808

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IMPORTANT NOTICES

The board of directors (the "Board of Directors"), the supervisory committee, the directors, the supervisors and senior management of the Company warrant that there are no false representations or misleading statements contained in, or material omissions from, this report; and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this report.

No funding appropriation by substantial shareholders was found in the Company.

Mr. Gu Jianguo, Chairman of the Company, Mr. Su Jiangang, Director and General Manager overseeing the accounting operations, and Mr. Guan Yagang, Planning and Finance Manager in charge of the Accounting Department, make representation in respect of the truthfulness and completeness of the financial statements contained in the interim report.

The financial statements contained in this interim report have not been audited, but have been reviewed by the Company's audit committee.

I. Company Profile

1. COMPANY PROFILE

Company Name	:	馬鞍山鋼鐵股份有限公司(abbreviated “馬鋼”)
Company Name in English	:	MAANSHAN IRON & STEEL COMPANY LIMITED (MAS C. L.)
Legal Representative	:	Gu Jianguo
Secretary to the Board of Directors	:	Gao Haijian
Representative for Securities Affairs	:	Hu Shunliang
Company's Registered Office and Correspondence Address	:	No. 8 Hong Qi Zhong Road, Maanshan City, Anhui Province, the PRC
Postal Code	:	243003
Company's Website	:	http://www.magang.com.cn (A Shares) http://www.magang.com.hk (H Shares)
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Place of Listing, Stock Name and Stock Code of A Shares	:	Shanghai Stock Exchange/Magang Stock/600808
Place of Listing, Stock Name and Stock Code of H Shares	:	The Stock Exchange of Hong Kong Limited/ Maanshan Iron & Steel/323
Newspapers for Information Disclosure:	:	Shanghai Securities News
Website Designated by China Securities Regulatory Commission (the “CSRC”) for Information Disclosure	:	http://www.sse.com.cn
The Company's Interim Report is Available at	:	Secretariat Office for the Board of Directors of Maanshan Iron & Steel Company Limited

Maanshan Iron & Steel Company Limited (the “Company”) is principally engaged in the manufacture and sale of iron and steel products. Currently, it is one of the largest iron and steel producers and marketers in the PRC. The manufacturing process primarily involves iron-making, steel-making and steel rolling. The Company's principal product is steel products which come in four major categories: steel plates, section steel, wire rods, train wheels and wheel rims, with a full range of models and specifications designed for a variety of applications. Over 90% of these products are sold in the domestic market.

2. MAJOR FINANCIAL DATA AND INDICATORS

Major financial data and indicators of the Company and its subsidiaries (the "Group") prepared under PRC Accounting Standards (RMB'000)

	As at the end of the reporting period	As at the end of the previous year	Increase/(decrease) of the end of the reporting period as compared to the end of the previous year (%)
Total assets	76,082,077	71,126,024	6.97
Shareholders' equity	24,398,574	23,017,264	6.00
Net assets per share (RMB)	3.61	3.41	5.87
	Reporting period (January to June)	Corresponding period of the previous year	Increase/(decrease) of the reporting period as compared to the corresponding period of the previous year (%)
Operating profit	3,125,952	1,428,441	118.84
Profit before tax	3,153,510	1,361,028	131.70
Net profit	2,261,278	1,111,095	103.52
Net profit excluding non-recurring gains or losses	2,232,194	1,165,530	91.52
Basic earnings per share (RMB)	0.335	0.172	94.77
Diluted earnings per share (RMB)	0.309	0.156	98.08
Return on net assets (%)	9.27	5.36	Up 3.91 percentage points
Net cash flows from operating activities	6,537,919	(1,328,299)	592.20
Net cash flows per share from operating activities (RMB)	0.967	(0.206)	569.42

Items and amounts of non-recurring gains or losses for the current reporting period (RMB'000):

Item	Amount
Net loss on disposal of non-current assets	(575)
Other non-operating income and expenses	(5,878)
Government subsidies	34,010
Income tax effect	1,314
Non-recurring gains or losses attributable to minority shareholders	213

Total non-recurring gains or losses, net 29,084

II. Movements in Share Capital and Major Shareholding Structure

1. THERE WAS NO MOVEMENT IN THE COMPANY'S SHARE CAPITAL DURING THE REPORTING PERIOD.

2. THE NUMBER OF SHAREHOLDERS AND SHAREHOLDING STRUCTURE

(1) The number of shareholders and details of the 10 largest shareholders

Total number of shareholders As at the end of the reporting period, the Company had a total of 355,110 shareholders, including 353,707 A share holders and 1,403 H share holders.

Unit: Shares

Name of shareholder	Type of shareholder	Shareholding of the 10 largest shareholders			
		As a percentage to number of shares held (%)	Total number of shares held	Number of shares held with selling restrictions	Number of pledged or frozen shares
Magang (Group) Holding Company Limited	State-owned shareholder	56.68	3,830,560,000	3,830,560,000	0
HKSCC (Nominees) Limited	Foreign shareholder	25.28	1,708,536,966	0	unknown
鵬華價值優勢股票型證券投資基金	Others	0.40	26,999,683	0	unknown
南方成份精選股票型證券投資基金	Others	0.32	21,554,989	0	unknown
光大保德信量化核心證券投資	Others	0.30	20,552,050	0	unknown
易方達價值成長混合型證券投資基金	Others	0.26	17,700,000	0	unknown
上投摩根中國優勢證券投資基金	Others	0.24	15,999,880	0	unknown
嘉實服務增值行業證券投資基金	Others	0.22	14,974,099	0	unknown
上證紅利交易型開放式指數證券投資基金	Others	0.22	14,705,619	0	unknown
嘉實滬深300指數證券投資基金	Others	0.14	9,328,343	0	unknown

Shareholding of the 10 largest shareholders without selling restrictions

Name of shareholder	Number of shares held without selling restrictions	Type of shares
HKSCC (Nominees) Limited	1,708,536,966	Overseas listed foreign shares
鵬華價值優勢股票型證券投資基金	26,999,683	RMB-denominated ordinary shares
南方成份精選股票型證券投資基金	21,554,989	RMB-denominated ordinary shares
光大保德信量化核心證券投資	20,552,050	RMB-denominated ordinary shares
易方達價值成長混合型證券投資基金	17,700,000	RMB-denominated ordinary shares
上投摩根中國優勢證券投資基金	15,999,880	RMB-denominated ordinary shares
嘉實服務增值行業證券投資基金	14,974,099	RMB-denominated ordinary shares
上證紅利交易型開放式指數證券投資基金	14,705,619	RMB-denominated ordinary shares
嘉實滬深300指數證券投資基金	9,328,343	RMB-denominated ordinary shares
華安宏利股票型證券投資基金	9,000,000	RMB-denominated ordinary shares

Description of any connected relationships or concerted actions among the above-mentioned shareholders

There was no connected relationship between Magang (Group) Holding Company Limited ("Holding") and any of the aforementioned shareholders, nor were they concerted parties. 嘉實基金管理有限公司 was the manager of both 嘉實服務增值行業證券投資基金 and 嘉實滬深300指數證券投資基金. However, the Company is not aware of whether the other shareholders mentioned above had connected relationship or whether they were concerted parties.

During the reporting period, no shares held by Holding were pledged, held in lien or placed in custody, but the Company is not aware whether or not shares held by other shareholders interested in 5% or more of the Company's shares were pledged, held in lien or placed in custody during the reporting period.

HKSCC (Nominees) Limited held 1,708,536,966 H shares of the Company on behalf of multiple clients.

(2) Save as disclosed above, details of the holders of the Company's H shares required to be disclosed pursuant to Section 336 of the Securities and Futures Ordinance as at 30 June 2008:

Name of shareholder	Capacity as holder or deemed holder of interests	Number of shares interested or deemed interested (Shares)	Approximate percentage of the Company's issued H shares (%)
Morgan Stanley	Interests of entities controlled by substantial shareholders	258,547,839 (Long position) 11,793,653 (Short position)	14.92 0.68
UBS AG	Note 1	219,220,968 (Long position) 55,480,360 (Short position)	12.65 3.20
JPMorgan Chase & Co.	Note 2	156,324,140 (Long position) 5,014,000 (Short position) 101,610,000 (Lending pool)	9.02 0.29 5.86
Citigroup Inc.	Note 3	102,220,873 (Long position) 5,307,182 (Short position) 59,385,600 (Lending pool)	5.90 0.31 3.43

Note 1: UBS AG has a long position of 205,195,091 shares and a short position of 55,480,360 shares as the actual owner; a long position of 13,365,877 shares as an entity entitled to guaranteed interests in the shares; and a long position of 660,000 shares in the form of interests held by legal entities controlled by the substantial shareholder.

Note 2: JPMorgan Chase & Co. has a long position of 17,898,140 shares and a short position of 5,014,000 shares as the actual owner; a long position of 36,816,000 shares as the investment manager; and a lending pool of 101,610,00 shares as the custodian.

Note 3: Citigroup Inc. has a long position of 42,835,273 shares and a short position of 5,307,182 shares in the form of interests held by legal entities controlled by the substantial shareholder; and a lending pool of 59,385,600 shares as the custodian.



II. Movements in Share Capital and Major Shareholding Structure (Continued)

(3) Shareholding of the shareholder with selling restrictions and its selling restrictions

Unit: shares

Name of shareholder subject to selling restrictions	Number of shares held with selling restrictions	Time of listing and trading	Additional listed and tradeable shares	Selling restrictions
Magang (Group) Holding Company Limited	3,830,560,000	31 March 2009	3,830,560,000	Note

Note: After the implementation of the State Share Reform, the Company's shares held by Holding will not be listed for trading or transferred within 12 months from the tradeable date of the shares, and the state-owned shares held by Holding will also not be listed for trading or transferred in the following 24 months. However, so far as it is permitted under the scope of prevailing policies, Holding may carry out incentive stock option plan(s) or share transfer to particular investor(s). Target(s) of the incentive stock option plan(s) should hold the shares for such period as prescribed under the relevant policies and particular investor(s) should, after acquiring the shares from Holding, continue to hold such transfer for the same period as undertaken by Holding.

III. Bonds with Warrants

1. DETAILS OF THE 10 LARGEST HOLDERS OF “06馬鋼債” AS AT THE END OF THE REPORTING PERIOD (RMB YUAN)

Name of bond holder	Number of bonds held
Ping An Insurance (Group) Company of China, Ltd.	649,892,000
China Pacific Life Insurance Co., Ltd.	549,146,000
New China Life Insurance Co., Ltd.	541,629,000
China Life Reinsurance Co., Ltd.	383,595,000
泰康人壽保險股份有限公司—分紅—團體分紅—019L—FH001滬	298,244,000
中國大地財產保險股份有限公司	293,517,000
National Social Security Fund No.304	280,884,000
National Social Security Fund No.305	272,536,000
China Marine Finance Co., Ltd.	266,157,000
泰康人壽保險股份有限公司—萬能—個險萬能	251,748,000

2. DURING THE REPORTING PERIOD, THE COMPANY HAS NOT ADJUSTED THE PROPORTION OF EXERCISE RIGHTS AND EXERCISE PRICE OF THE WARRANTS AND THERE WERE NO MATERIAL CHANGES IN THE PROFITABILITY, ASSET CONDITION AND CREDIT CONDITION OF HOLDING, THE GUARANTOR.



IV. Directors, Supervisors and Senior Management

As at the end of the reporting period, Directors Mr. Gu Jianguo, Mr. Gu Zhanggen and Mr. Su Jianguang held 3,886 shares each in the Company. There were no changes during the reporting period. None of the remaining directors, supervisors or senior management held any shares of the Company.

Save as disclosed above, as at 30 June 2008, none of the directors, supervisors, senior management or their respective associates had any interests or short positions in the share capital or relevant share capital of the Company or any of its associated corporations which were required to be reported in accordance with Section 352 of the Securities and Futures Ordinance.

During the reporting period, none of the Company's directors, supervisors, senior management or their respective spouses or minor children received any benefits from any rights granted to them to acquire shares in or debentures of the Company, nor were there any exercising of such rights by any such persons. Neither the Company, the Company's subsidiaries, Holding nor any of Holding's subsidiaries had taken part in any arrangements that allow directors, supervisors and senior management of the Company to benefit from acquiring shares in or debentures of any other corporations.

The Articles of Association of the Company has set out clearly the code of behaviour for the Company's directors, supervisors and senior management in dealing with the securities of the Company. All directors of the Company have confirmed in writing that during the reporting period, directors of the Company complied with the requirements stipulated by the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited.

On 3 January 2008, Mr. Zhu Changqiu requested to resign as a Director and General Manager of the Company as he had reached retirement age. After deliberation, the Board of Directors of the Company agreed to the resignation of Mr. Zhu and resolved to appoint Mr. Su Jianguang as General Manager of the Company and Mr. Gao Haijian to replace Mr. Su as the Secretary to the Board of Directors of the Company.

On 19 February 2008, the 2008 first extraordinary general meeting of the Company approved the supplementation of Mr. Hui Zhigang, Deputy General Manager, as a Director of the fifth session of the Board of Directors of the Company.

Apart from these, during the reporting period, there was no new appointment or removal of other directors, supervisors and senior management.

V. Report of the Directors

1. THE MACRO ENVIRONMENT FOR PRODUCTION OPERATION

In the first half of 2008, prices of primary products in the international market continued to rise. The US subprime mortgage crisis had not subsided and the global economic growth saw a slight decline. The demand in the international steel product market remained strong with rising costs and continuously surging steel product prices. After successively surmounting the threats posed by enormous natural disasters such as snowstorms and earthquakes, the PRC's GDP recorded a growth of 10.4% year-on-year in the first six months, representing a decline of 1.8 percentage-points over the corresponding period of the previous year. The national economy developed in the designated direction set by the macro-economic control measures with a slowing pace of growth in industrial production and improvement in investment mix of fixed assets. The total retail sales of consumer goods of the society at-large experienced an accelerating pace of growth and the driving effect of consumptions on economic growth had become more obvious. The iron and steel industry was affected by the control measures of the government, with export in steel products falling and growth in iron and steel production slowing. The steel product market saw a strained demand and supply relationship amid rising costs and continuous soaring steel product prices.

The fluctuations in the quarter-on-quarter growth of the monthly consolidated price index for steel products in the domestic market became obvious. The growth was less than 1% in January while it exceeded 7% in February and May. The pace of growth slowed down in March and April, followed by a further slowdown in June. In the first half, the domestic average consolidated price index for steel products in the domestic market stood at 144.77 points, up 30.92% year-on-year.

Compared to the end of the previous year, at the end of June the domestic price index for long products recorded an aggregated increase of 24.31% while that for steel plates posted an aggregated increase of 28.55%. During the corresponding period of the previous year, the domestic price indices for long products and steel plates saw respective year-on-year rises of 51.42% and 24.67% in average in the first half. The growth of the price index for long products was 26.75 percentage-points higher than that for steel plates, which was mainly due to a robust domestic demand for steel products and the tightened supply of long products compared to steel plates.

On the costs front, external purchase prices for raw materials and fuel as well as transportation costs for iron and steel enterprises continued to rise during the first half, leading to a significant increase in the production costs of iron and steel. In the first half, the prices of injection coal purchased by large to medium domestic iron and steel production enterprises rose 36.85%; coking coal prices increased by 61.63%; coke prices soared 81.8%; and imported iron ore prices was up 53.86%.

2. THE COMPANY'S PRODUCTION OPERATION

In the first half of 2008, the Company captured the market opportunities brought by rising steel product prices. It adhered to the working principle of "Swiftly changing the development mode; Significantly enhancing operating effectiveness" with a view to refining measures, reinforcing implementation, adhering to system enhancement and ensuring operational efficiency. As a result, the Company achieved good production and operating results.

In the first half, our work mainly included:



- **Unleashed the production capacity of the New Area.** In the first half, the Company focused on raising the production output at the New Area and realising growth in profits as soon as practical, while strengthening the basic management of facilities and enhancing the operation skills of staff. From January to June, the New Area produced 2,940,000 tonnes of pig iron, 2,150,000 tonnes of crude steel and 1,980,000 tonnes of steel products, of which hot-rolled products amounted to approximately 1,550,000 tonnes, cold-rolled products amounted to approximately 300,000 tonnes and hot galvanised products amounted to approximately 130,000 tonnes. The New Area realised a sales revenue of approximately RMB9,954 million. During the reporting period, the Group produced 7,140,000 tonnes of pig iron, 7,950,000 tonnes of crude steel and 7,350,000 tonnes of steel products, representing year-on-year increases of 29.11%, 28.23% and 28.72%, respectively. Among these, the Company produced 6,410,000 tonnes of pig iron, 7,070,000 tonnes of crude steel and 6,510,000 tonnes of steel products, representing year-on-year increases of 28.71%, 27.85% and 28.15%, respectively.
- **Enhanced the system, pushed ahead economic operation, and increased the Company's integrated profitability.** The Company conducted a whole-process evaluation on the monthly production operation plan according to the principle of "ensuring output outweighs input". The Company enhanced resources allocation and concentrated its resources on developing high value-added products as well as increasing the output of products with higher profitability per tonne of steel.
- **Stepped up efforts in technical development and expanded the Company's leading products with an aim to consolidate the brand.** The Company capitalised on the advantages of the equipment in the New Area, through launching projects on scientific research and development and technological breakthroughs, the Company strengthened the integration of research-production-sales. The research and development and production of category steel products had great accomplishments. The Company developed a series of hot-rolled and cold-rolled products such as pipeline steels, plates for vessels, steel for automobile chassis, DC06 deep-drawing plate for automobile and stable corten steel. High-class quality pipeline steels such as X80 and X70 had been recognised by end-users. Pipeline projects such as the West-East Pipeline Project and the Central Asian Natural Gas Pipeline obtained contracted quantities, of which X70 products were exported in contracted quantities to countries such as India. The European Union CE certification was obtained for H-shaped steel products and the pass for free trading in all European Union markets was also obtained.
- **Set prices competitive to market, enhanced per tonne profitability, and ensured a timely recovery of funds.** The Company strived to fully utilise the processing and distribution centres in various areas through enhancing the quality of orders, closely following the pricing in the market, raising the fulfillment rate of contracts, and boosting sales of high value-added products, with a view to maximising the profitability of product sales. During the reporting period, the Group sold 7,320,000 tonnes of steel products, of which 3,490,000 tonnes of steel plates were sold, a year-on-year increase of 78.06%; 1,300,000 tonnes of section steels were sold, a year-on-year decrease of 2.99%; 2,390,000 tonnes of wire rods were sold, a year-on-year increase of 5.75%; 140,000 tonnes of train wheels and wheel rims were sold, a year-on-year increase of 16.67%. The production-and-sales ratio of steel products was 100% and receivable recovery ratio was 100%.
- **Accelerated the construction of key projects.** In the first half, the silicon steel line was completed and commenced operation. The Company's key projects such as phase II of the train wheel rolling system, the Lufenhe sewage treatment project and the large-scale forged backup rolling line of Magang-Union Electric Steel Roll Co., Ltd., a controlling subsidiary, proceeded steadily as scheduled.

- **Identified the target for energy conservation and emissions reduction and conducted on-site inspection and evaluation on environmental protection and pollutants discharge facilities.** The Company compiled an annual working plan for energy conservation and emissions reduction and identified its overall benchmarks, consumption targets of all procedures and residual heat and power utilisation benchmarks. Besides, the Company conducted an overall evaluation on the progress of fulfilling environmental protection objectives while ensuring the normal operation of the environmental protection facilities in the New Area and the Old Area. Meanwhile, the Company also installed an online monitoring facility for the sources of sewage and exhaust gas while applying for State-graded environment-friendly enterprise and the approval of clean production. In the first half, the consolidated energy consumption per tonne of steel was 630 kg of standard coal, representing a decrease of 24 kg over the corresponding period of the previous year. Consumption of fresh water per tonne of steel was 7.4 m³, representing a drop of 0.77 m³ year-on-year. Self-generated power supply accounted for 57.92% of total power consumption.

3. RESULTS OF THE GROUP'S PRINCIPAL OPERATING ACTIVITIES FOR THE REPORTING PERIOD PREPARED UNDER PRC ACCOUNTING STANDARDS

- Operating income amounted to RMB37,725 million, up 79.36% year-on-year. Operating profit was RMB3,126 million, up 118.84% year-on-year. Net profit attributable to shareholders of the Company was RMB2,261 million, up 103.52% year-on-year. This was mainly attributable to the rise in sales prices and sales volumes of the Company's steel products during the reporting period.

It should be noted that the pricing basis of the iron ores supplied by Holding to the Company was that the price should not exceed the weighted average ex factory prices of the top three independent suppliers supplying the largest amounts of iron ore to the Company during the previous year. Prices of imported iron ore saw a significant increase during this year and thus, in the first half, the iron ore supply from Holding had considerable positive impact on the Company's cost reduction and profit gain in the first half.

- The iron and steel segment accounted for about 94.44% of the operating income, as well as approximately 86.28% of the gross operating profit (RMB million):

Business segment/ Product segment	Operating income	Operating cost	Gross profit margin (%)	Year-on-year increase/ (decrease) of operating income (%)	Year-on-year increase/ (decrease) of operating cost (%)	Year-on-year increase/(decrease) of gross profit margin (%)
Iron and steel	35,628	31,420	11.81	83.28	80.70	Up 1.26 percentage points
Product Segment						
Steel plates	17,504	15,545	11.19	144.61	140.63	Up 1.47 percentage points
Section steels	5,919	5,165	12.74	35.69	31.22	Up 2.97 percentage points
Wire rods	10,444	9,393	10.06	60.75	54.16	Up 3.84 percentage points
Train wheels and wheel rims	1,413	975	31.00	19.04	44.44	Down 12.14 percentage points

V. Report of the Directors (Continued)

The gross margins of section steels and wire rods increased compared to the corresponding period of the previous year due to the increase in sales prices of the Company's wire rod products being larger than the increase in costs during the reporting period. The gross margin of train wheels and wheel rims decreased compared to the corresponding period of the previous year, mainly attributable to the rise in external purchase prices of raw materials, fuels and materials during the reporting period.

- Geographical distribution of the Group's operating income (RMB million):

Region	Percentage (%)	Operating income	Year-on-year increase/(decrease) of operating income (%)
Anhui	39.02	14,721	85.48
Shanghai	18.30	6,904	106.39
Jiangsu	12.82	4,837	49.78
Zhejiang	10.05	3,790	120.57
Guangdong	6.91	2,607	208.38
Other PRC regions	7.77	2,932	77.37
Exports	5.13	1,934	-16.09

4. PROFIT BREAKDOWN

Changes in the Group's profit breakdown during the reporting period prepared under PRC Accounting Standards (RMB million):

Item	January to June 2008	January to December 2007
Operating cost	32,848	44,928
Taxes and surcharges	436	628
Expenses for the period	1,451	2,413
Profit before tax	3,154	2,797

Operating cost accounted for 1,041.62% of the profit before tax, down 564.84 percentage points over last year. Taxes and surcharges accounted for 13.82% of the profit before tax, down 8.64 percentage points over last year. Expenses for the period accounted for 46.02% of the profit before tax, down 40.26 percentage points over last year. These were mainly due to the relative increase in the Company's profit before tax during the reporting period.

The operating profit margin was 12.93%, an increase of 1.6 percentage points as compared to the previous year due to the increase in the Company's production scale and a higher ratio of high value-added products during the reporting period.

5. FINANCIAL POSITION AND EXCHANGE RISKS

As at 30 June 2008, the total amount of loans borrowed by the Group was RMB21,112 million, including loans for working capital of RMB4,482 million and construction loans of RMB16,630 million. Except for foreign currency loans amounting to US\$659 million, all other loans were denominated in RMB. Except for a loan of RMB9,074 million carrying interests at the People's Bank of China benchmark lending rates minus 10%, and a loan of US\$508 million carrying interests at a LIBOR plus a fixed percentage, all other loans carried interests calculated at fixed interest rates. Movements of the Group's entire loans followed the developments in production and construction projects. No overdue payments have been recorded so far.

As at 30 June 2008, in accordance with the PRC Accounting Standards, the Group's gearing ratio (total liabilities/total assets) stood at 67.18%. Under the Hong Kong Accounting Standards, the Group's gearing ratio (total liabilities/total assets) stood at 67.18%.

Presently, other than internal resources, all capital requirements for the construction of the Company's development projects under the Eleventh Five-year Plan were financed through bank loans. As at the end of the reporting period, bank commitments to provide credit facilities to the Group amounted to approximately RMB29,853 million.

As at 30 June 2008, the Group's cash and balances with financial institutions amounted to RMB8,262 million. Bills receivable amounted to RMB4,388 million (of which bank bills receivable due within three months amounted to RMB2,758 million). Deposits received for the coming month constituted a substantial part of the cash and balances with financial institutions and bank acceptance bills.

The Group's import of raw materials was mainly settled in US dollar, while import of equipment and spare parts was settled in Euro or Japanese Yen, and export of products was settled in US dollar. Given that the US dollar to RMB exchange rate continued to depreciate during the reporting period, an exchange gain was resulted from the Company's US dollar-denominated debts. Moreover, since the total amount of payments denominated in US dollar on imported iron ore of the Company is larger than that of income from export, the appreciation of RMB exchange rate is favourable to the Company. During the reporting period, due to the completion of the Company's preliminary construction works under the Eleventh Five-Year Plan, the payments denominated in Euro and Japanese Yen were less than those denominated in US dollar and the impact was not obvious. The Company has been maintaining contacts with various banks to obtain information of emerging financial products that are continuously introduced by them, so as to select products which are suitable for the Company to help the Company avoid possible exchange rate risks.

6. INVESTMENTS

During the reporting period, the Group expended a total of RMB1,415 million on construction in progress, down 74.5% from the same period last year.

- **Use of proceeds from the exercise of 馬鋼 CWB1 warrants**

In 2007, the net proceeds from the exercise of the 馬鋼 CWB1 warrants amounted to approximately RMB1,004.78 million. Upon securing the proceeds, the Company followed the stipulations under the "Management System for Specified Depositing and Utilisation of Fundraising Proceeds" to strictly enforce the specified account depositing system for fundraising proceeds, with the proceeds solely used to invest in the 5,000,000-tonne cold and hot thin-plate production project, or the repayment of the bank borrowings and incurred interests for the project, as undertaken in the fundraising prospectus. In 2007, approximately RMB307.12 million in fundraising proceeds had been used to satisfy the construction cost for the 5,000,000-tonne thin-plate project, while approximately RMB254.3 million had been used to repay the bank borrowings and interests incurred for the project. During the reporting period, approximately RMB443.36 million had been used to satisfy the construction cost for the 5,000,000-tonne thin-plate project. As at 30 June 2008, these fundraising proceeds had been used up.

• **Major Investment Projects Financed by Other than Fundraising Proceeds (RMB million)**

Project name	Total investment	Construction progress
The cold-rolled silicon steel line	1,080	Completed and commenced operation
Phase II of the capacity enhancement project of train wheel rolling system	450	In facility installation and adjustment stage
Lufenhe sewage treatment project	90	In facility and pipeline installation stage
Large-scale forged backup rolling line (Note)	287	In facility installation stage

Note: Large-scale forged backup rolling line is the focus of Magang-Union Electric Steel Roll Co., Ltd., a controlling subsidiary of the Company.

7. INTERNAL CONTROL

The Company's internal control system encompasses the whole production operation process which includes financial budgeting and accounting, production planning, purchases of materials, product sales, external investments, human resource management, internal auditing and information disclosure. The system ensures orderly conduction of various work of the Company and forms a regulated management system, giving effective control over operating risks.

The Board of Directors confirmed that the internal control systems and the risk management procedures of the Company and its subsidiaries in the first half of 2008 have been effective.

8. THE ENVIRONMENT FOR PRODUCTION OPERATION AND COPING STRATEGIES

It is expected that the global economic growth will continue to slow in the second half, and that the condition characterised by insufficient supply and continuously rising steel product prices in the international steel market may change. The PRC will continue to prioritise its control measures on maintaining steady and fast economic development and curbing the excessive growth of consumption prices. It will use a combination of policies to maintain steadily fast economic growth and tame inflation at the same time. It is expected that in the second half of 2008, the national economy will maintain healthy development with a dip in prices in the steel product market. Meanwhile, coal prices will still increase in the second half given the surge in raw material and fuel prices such as iron ores and coal in the first half. Thus, the production costs of steel products will continue to rise in the second half, leading to obvious mounting pressure on the operation of the Company as compared to the first half.

Facing the afore-mentioned environment of production operation, in the second half, the Company will continue to abide by the principle of "Swiftly changing the development mode; Significantly enhancing operating effectiveness" and adhere to its designated directions with an emphasis on balanced production, raising product quality and boosting the profitability of the New Area. In addition, the Company will endeavour to achieve impressive operating results with operational efficiency being the objective of all work.

VI. Significant Matters

1. CORPORATE GOVERNANCE

In accordance with the requirements of relevant laws and regulations, the Company has set up a check-and-balance management system consisting of the Shareholders' General Meeting, the Board of Directors, the Supervisory Committee and the General Manager, among whom the division of work and responsibilities were clear and unambiguous.

The Company has, to the best knowledge of the Board of Directors, complied with the requirements of the Code on Corporate Governance Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the reporting period, and no deviation from the code provisions was found.

2. PROFIT DISTRIBUTION PLAN AND IMPLEMENTATION

- (1) The Company's profit distribution plan and implementation for the previous year: a cash dividend of RMB0.13 per share (tax included) was declared to all shareholders on the basis of a total share capital of 6,758,551,716 shares as at the end of 2007, whereas H share dividends were distributed in Hong Kong dollar. The proposal was approved at the shareholders' general meeting held on 17 June 2008, and relevant announcements were made on 18 June 2008 both within and outside the PRC. The entitlement registration date for A shares was 9 July 2008, ex-dividend date was 10 July 2008, and dividend payment date was 18 July 2008; the register of members of H shares was closed from 16 May to 17 June 2008 (both dates inclusive) during which period no transfer of H shares was effected. Dividend cheques for H shares were posted to the respective holders of H shares on 18 July 2008.
- (2) The Company will not implement profit distribution for the first half of 2008 and no transfer to share capital from capital reserve fund will be conducted.

3. MATERIAL LITIGATIONS AND ARBITRATIONS

The Company had no material litigation and arbitration during the reporting period.



VI. Significant Matters (Continued)

4. During the reporting period, save as the shares issued by the following listed companies, the Company did not hold any equity interests in other listed companies, non-listed financial enterprises or companies that were seeking listing status (shareholding unit: share; amount: RMB):

Item no.	Securities code	Abbreviation	Number of shares held at the end of the reporting period	Initial investment amount	Book value at the end of the reporting period	Book value at the beginning of the reporting period	Item category in accounting
1	601857	PetroChina	35,000	584,500	522,900	1,083,600	Held-for-trading financial assets
2	601390	China Railway Group	33,000	158,400	171,600	379,170	Held-for-trading financial assets
3	601898	China Coal	12,000	201,960	191,760	–	Held-for-trading financial assets
4	601186	China Railway Construction Corporation Limited	20,000	181,600	187,200	–	Held-for-trading financial assets
Total			–	<u>1,126,460</u>	<u>1,073,460</u>	<u>1,462,770</u>	–

5. During the reporting period, there were no other significant acquisitions, sales or disposals of assets or mergers and acquisitions undertaken by the Company that took place during the reporting period or took place in previous periods but subsisted until the reporting period; nor did the Company or its subsidiaries repurchase, sell and redeem any listed shares of the Company.

6. CONNECTED TRANSACTIONS

(1) For the period between 1 January and 30 June 2008, all the ongoing connected transactions between the Company and Holding and its subsidiaries conducted in the normal course of business were settled in cash and had no adverse impact on the profit of the Company.

- During the reporting period, the payment made by the Company to Holding in respect of the “Sale and Purchase of Ore Agreement” between 2007 and 2009 are as follows (RMB'000):

	Amount paid	Proportion of transaction of the same category (%)
Purchase of iron ore	953,418	20.57

The price of iron ore per tonne purchased every year by the Company from Holding will be determined from time to time by both parties after negotiation, and shall not be higher than the weighted average ex factory price per tonne charged by the top three independent suppliers supplying the largest amounts of iron ore to the Company in the previous year of the contracting year for the similar type of iron ore supplied to the Company.

- During the reporting period, save for the connected transactions made pursuant to the aforementioned Sale and Purchase of Ore Agreement, amounts of other connected transactions in the ordinary course of business with Holding are as follows (RMB'000):

	Amount paid	Proportion of transaction of the same category (%)
Steel products and other products purchased by Holding from the Company	2,643	0.01
Water, electricity, telephone and other services acquired by Holding from the Company	15,376	1.73
Payment by the Company for fixed assets and construction services	115,778	7.67
Payment by the Company to Holding for other services	87,719	100.00

Those transactions adopting market prices as the pricing basis were on terms no less favourable to the Company than normal commercial terms.

VI. Significant Matters (Continued)

- Transaction on equity transfer between the Company and Holding

On 29 October 2007, the Board of Directors of the Company, taking into account of the need to develop assets into leadership positions and to capitalise on the advantage of the Company's iron and steel assets, agreed on Anhui Masteel Holly Industries Co. Ltd. ("Masteel Holly", a controlling subsidiary of the Company's acquisition of 75% equity interest in Anhui Masteel Auto-Parking Equipment with Artificial Intelligent Co., Ltd. ("Masteel Auto-Parking") held by Holding by means of cash. Huapu Certified Public Accountants and Jiangxi Zhonglei Certified Appraisal Co. Ltd. (江西中磊資產評估有限公司) were appointed by Masteel Holly to conduct financial review and asset appraisal on Masteel Auto-Parking respectively. The audited and recognised book value of net assets of Masteel Auto-Parking amounted to approximately RMB11.19 million while the assessed and recognised net asset value of Masteel Auto-Parking amounted to approximately RMB20.90 million. The net asset value of Masteel Auto-Parking was finally determined to be approximately RMB20.90 million. The total consideration for the acquisition of 75% equity interest payable by Masteel Holly was approximately RMB15.68 million. During the reporting period, Masteel Holly had completed the acquisition and the acquisition had no material effects on the operating results and financial position of the Company.

The Independent Directors consider that the terms of the above transaction are in compliance with normal commercial requirements. The terms are fair and reasonable, in line with the Company's overall development strategies and are in the interests of the Company and its shareholders as a whole.

(2) Material contracts with the controlling shareholder

Save for the "Sale and Purchase of Ore Agreement" for 2007-2009 as mentioned above, neither the Company nor any of its subsidiaries has entered into any material contract with the controlling shareholder as at 30 June 2008.

7. CAPITAL UTILISATION

As at 30 June 2008, save for ordinary business transactions and dividends payable to Holding, there was no amount due to or from the Company and connected parties, and neither the controlling shareholder nor its subsidiaries utilised the Company's capital for non-operational purposes.

8. There had been no material entrustment, contract or lease made by the Company in relation to any assets of other companies, or vice versa, that took place during the reporting period or took place in previous periods but subsisted until the reporting period. There had been no entrustment with any other parties made by the Company to implement cash assets management on its behalf that took place during the reporting period or took place in previous periods but subsisted until the reporting period.

9. GUARANTEES

- **Guarantees**

The Company was in strict compliance with the relevant requirements under the “Notice Concerning Some Issues on Regulating the Funds between Listed Companies and Connected Parties and Listed Companies’ Provision of External Guarantees to Other Parties” (《關於規範上市公司與關聯方資金往來及上市公司對外擔保若干問題的通知》)(Zheng Jian Fa [2003] No. 56) and the “Circular of China Securities Regulatory Commission and China Banking Regulatory Commission on Regulating the External Guarantees Provided by Listed Companies” (《關於規範上市公司對外擔保行為的通知》) (Zheng Jian Fa [2005] No. 120). The Company’s guarantees provided to Ma Steel International Trade and Economic Corporation, a wholly-owned subsidiary of the Company, for banking facilities amounting to RMB4,850 million and RMB150 million of tax payment security deposit, which amounts have been fully recognised; to Maanshan Iron & Steel (HK) Limited, a wholly-owned subsidiary of the Company, amounting to RMB57 million, which amount has not been recognised; and to Anhui Masteel K. Wah New Building Materials Co., Ltd., a controlled subsidiary of the Company, amounting to RMB14 million, which amount has been fully recognised.

During the reporting period, the external guarantees incurred by the Company amounted to RMB0 million, with a remaining balance of RMB5,014 million. The total guarantee amount represented 21.07% of the Company’s net assets as at the end of the reporting period. The guarantees were all guarantees with joint and several liabilities. All the guarantees were approved by the Board of Directors beforehand. The guarantees for Ma Steel International Trade and Economic Corporation and Maanshan Iron & Steel (HK) Limited were only provided for the specified import items designated by the Company, that were loans needed for the general businesses of ores, steel billets, equipment and spare parts; and guarantees of credit facilities for businesses regarding the issuing of letters of credit for import, letters of indemnity, financing for bills purchased of import and export, guarantees for taking delivery and bank acceptances; and guarantees for tax payment security deposit regarding imported ores. The guarantees for Anhui Masteel K. Wah New Building Materials Co., Ltd. were only provided for land construction and purchase of equipment. All the guarantees were not applicable for external investments, provisions of guarantees for external parties, provisions of loans to external parties, or grants to external parties.

- **Independent Directors’ opinions**

Pursuant to the provisions under Zheng Jian Fa [2003] No. 56 and Zheng Jian Fa [2005] No. 120, Mr. Wong Chun Wa, Mr. Su Yong, Mr. Hui Leung Wah and Mr. Han Yi, Independent Directors of the Company, have furnished their independent opinions in respect of the Company’s cumulative and current portion of external guarantees and their implementation status of the above-mentioned regulations as follows:

- (1) As at 30 June 2008, all the Company’s external guarantees have been approved by the Board of Directors beforehand, with the approval procedures meeting the relevant requirements.
- (2) As at 30 June 2008, no guarantee was provided by the Company either directly or indirectly for the debts of any guarantee party with gearing ratio exceeding 70%, and as to the Company’s external guarantees, no guarantees were provided to any shareholders, their actual controllers or any of their connected parties, or to any connected parties or non-legal person entities or individuals in which the Company held less than 50% interests.
- (3) As at 30 June 2008, total amount of the Company’s cumulative and current period’s external guarantees represented less than 50% of the net assets as stated in the consolidated financial statements of the latest accounting year.

VI. Significant Matters (Continued)

10. During the reporting period, Holding fully reneged on the undertakings gave in the course of the 2006 State Share Reform. Please refer to the Company's 2006 Interim Report, 2006 Annual Report, 2007 Interim Report and 2007 Annual Report for details of the undertakings.

Save for the above-mentioned undertakings, during the reporting period there was no commitment made by the Company or any shareholders interested in 5% or more of the Company's shares that took place during the reporting period or took place in previous periods but subsisted until the reporting period and might significantly affect the operating results and financial conditions of the Company, and no extension of shares lock-up undertakings was reported.

11. The Company re-appointed Ernst & Young Hua Ming and Ernst & Young respectively as the PRC and international auditors of the Company.
12. During the reporting period, none of the Company and its directors, supervisors, senior management, Company shareholder, actual controller, acquirer were investigated by authorities, imposed with mandatory measures by disciplinary authorities, handed over to the judiciary or charged with criminal liabilities, investigated by the CSRC, subjected to administrative punishment, prohibited from securities market, published reprimand or deemed an inappropriate person by the CSRC, punished by other administrative authorities, or publicly reprimanded by securities exchanges. The CSRC and its delegated institutions had not inspected or made corrective suggestions to the Company either.

13. INCOME TAX

On 16 April 2008, the Company has received the "Reply on the Relevant Issues of Corporate Income Tax for Maanshan Iron & Steel Company Limited" (Wan Di Shui Han [2008] Document No.207) issued by Local Taxation Bureau of Anhui Province and delivered through Local Taxation Bureau of Maanshan, Anhui Province. The reply requested the Company to adopt the 33% corporate income tax rate for 2007, and the Company has not made retrospective payment for the income tax differences for previous years yet. As at the reporting date, the Company had not received any documents from taxation authorities for pursuing the difference in income tax of the Company in previous years.

14. The list of the Company's ad hoc announcements during the reporting period:

No.	Announcement title	Newspaper and page number	Date of announcement
1	Announcement on Resolutions of the Board of Directors of Maanshan Iron & Steel Company Limited	Page D12, Shanghai Securities News	4 January 2008
2	Announcement on Resolutions of the Supervisory Committee of Maanshan Iron & Steel Company Limited	Page D12, Shanghai Securities News	4 January 2008
3	Notice of 2008 First Extraordinary General Meeting of Maanshan Iron & Steel Company Limited	Page D12, Shanghai Securities News	4 January 2008
4	Announcement on Resolution Passed at the 2008 First Extraordinary General Meeting of Maanshan Iron & Steel Company Limited	Page D10, Shanghai Securities News	20 February 2008
5	Announcement on Resolutions of the Supervisory Committee of Maanshan Iron & Steel Company Limited	Page D95, Shanghai Securities News	18 April 2008
6	Announcement on Resolutions of the Board of Directors of Maanshan Iron & Steel Company Limited	Page D95, Shanghai Securities News	18 April 2008
7	Announcement on Adjustment to the Applicable Income Tax Rate for 2007 of Maanshan Iron & Steel Company Limited	Page D95, Shanghai Securities News	18 April 2008
8	Announcement on Resolutions of the Board of Directors of Maanshan Iron & Steel Company Limited	Page D132, Shanghai Securities News	30 April 2008
9	Announcement on Resolutions of the Supervisory Committee of Maanshan Iron & Steel Company Limited	Page D132, Shanghai Securities News	30 April 2008
10	Notice of Annual General Meeting of Maanshan Iron & Steel Company Limited	Page D132, Shanghai Securities News	30 April 2008
11	Announcement on Resolutions Passed at the 2007 Annual General Meeting of Maanshan Iron & Steel Company Limited	Page D6, Shanghai Securities News	18 June 2008

The above announcements are all published on the websites of Shanghai Stock Exchange (<http://www.sse.com.cn>) and The Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>).



VII. Financial Statements

COMPANY BALANCE SHEET

(Prepared under PRC accounting standards)

30 June 2008

Renminbi Yuan

	Note V	30 June 2008 Unaudited	31 December 2007 Audited (restated)
ASSETS			
CURRENT ASSETS:			
Cash and balances with financial institutions		8,262,200,058	6,293,537,191
Financial assets held for trading		1,073,460	1,462,770
Bills receivable		4,387,834,189	4,194,297,474
Trade receivables	1	863,610,003	1,037,224,713
Prepayments		1,601,526,942	1,672,835,435
Other receivables	2	470,104,020	257,539,176
Inventories	3	13,204,072,064	9,629,944,412
Total current assets		28,790,420,736	23,086,841,171
NON-CURRENT ASSETS:			
Held-to-maturity investments		5,598,870	5,598,870
Long term equity investments		868,957,576	781,448,790
Investment properties		1,205,850	1,240,303
Fixed assets	4	41,091,160,173	41,328,227,114
Construction materials		394,254,366	512,588,681
Construction in progress	5	2,996,398,190	3,510,765,654
Intangible assets		1,677,767,700	1,640,550,796
Deferred tax assets		256,313,328	258,762,170
Total non-current assets		47,291,656,053	48,039,182,378
TOTAL ASSETS		76,082,076,789	71,126,023,549

The accompanying notes from page 37 to page 81 form an integral part of the financial statements

COMPANY BALANCE SHEET (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2008

Renminbi Yuan

	Note V	30 June 2008 Unaudited	31 December 2007 Audited (restated)
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short term loans		2,481,977,337	1,284,495,217
Bills payable		2,162,679,018	1,790,845,160
Short term commercial papers		2,000,000,000	2,000,000,000
Accounts payable	7	9,576,464,979	7,688,764,859
Deposits received		8,413,414,559	6,633,408,854
Payroll and benefits payable		248,333,391	341,871,394
Taxes payable		1,190,756,667	609,863,471
Interests payable		132,950,660	80,563,315
Dividends payable	8	1,685,729,586	1,303,757,138
Other payables		920,039,339	933,429,649
Non-current liabilities due within one year		1,971,926,119	2,817,346,333
Total current liabilities		30,784,271,655	25,484,345,390
NON-CURRENT LIABILITIES:			
Long term loans		14,707,140,027	16,577,951,605
Bonds payable	9	4,900,174,072	4,828,761,588
Deferred income		560,082,881	590,425,767
Deferred tax liabilities		150,136,449	168,275,911
Other non-current liabilities		12,485,032	12,485,032
Total non-current liabilities		20,330,018,461	22,177,899,903
Total liabilities		51,114,290,116	47,662,245,293

The accompanying notes from page 37 to page 81 form an integral part of the financial statements

COMPANY BALANCE SHEET (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2008

Renminbi Yuan

	Note V	30 June 2008 Unaudited	31 December 2007 Audited (restated)
LIABILITIES AND SHAREHOLDERS' EQUITY			
SHAREHOLDERS' EQUITY:			
Share capital	10	6,758,551,716	6,758,551,716
Capital reserve		6,056,692,904	6,056,692,904
Surplus reserves		2,901,562,765	2,901,562,765
Retained profits		8,665,200,050	7,290,826,476
including: cash dividend proposed by directors		—	878,611,723
Exchange fluctuation reserve		16,566,734	9,629,706
Equity attributable to equity holders of the parent		24,398,574,169	23,017,263,567
Minority interests		569,212,504	446,514,689
Total shareholder's equity		24,967,786,673	23,463,778,256
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		76,082,076,789	71,126,023,549

The accompanying notes from page 37 to page 81 form an integral part of the financial statements

The financial statements from page 22 to page 81 are signed by persons below

Company Representative:

Gu Jianguo

14 August 2008

Chief Accountant:

Su Jiangan

14 August 2008

Head of Accounting Department:

Guan Yagang

14 August 2008

Maanshan Iron & Steel Company Limited

CONSOLIDATED INCOME STATEMENT

(Prepared under China Accounting Standards)

For the six months ended 30 June 2008

Renminbi Yuan

		For the six months ended 30 June	
	Note V	2008 Unaudited	2007 Unaudited (restated)
Revenue	11	37,724,831,378	21,032,815,585
Less: Cost of sales		32,847,608,925	18,598,005,494
Taxes and surcharges		435,903,573	168,118,163
Selling expenses		171,013,705	124,390,324
Administrative expenses		507,235,769	443,883,144
Financial expenses	12	772,907,568	307,842,394
Assets impairment losses/(reversal)	13	(9,795,364)	–
Add: Gain/(loss) on fair value changes		(772,870)	–
Investment income	14	126,768,138	37,865,269
including: share of profits of associates and a jointly controlled entity		126,574,628	37,865,269
Operating profit		3,125,952,470	1,428,441,335
Add: Non-operating income		34,309,792	29,276,168
Less: Non-operating expenses		6,752,254	96,689,524
including: loss on disposal of non-current assets		575,278	94,304,468
Profit before tax		3,153,510,008	1,361,027,979
Less: Income tax	15	822,143,276	215,902,529
Net profit		2,331,366,732	1,145,125,450
including: Net profit from entity being combined prior to the business combination involving entities under common control		–	–
Attributable to equity holders of the parent		2,261,278,381	1,111,094,947
Minority interests		70,088,351	34,030,503
EARNINGS PER SHARE	16		
Basic		33.46 cents	17.21 cents
Diluted		30.88 cents	15.55 cents

The accompanying notes from page 37 to page 81 form an integral part of the financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Prepared under China Accounting Standards)

For the six months ended 30 June 2008

Renminbi Yuan

30 June 2008

	Attributable to equity holders of the parent						Minority interests	Total shareholders' equity
	Share capital (Note V.10)	Capital reserve	Surplus reserves	Retained profits	Exchange fluctuation reserve	Sub-total		
1. At 1 January 2008	6,758,551,716	6,056,692,904	2,901,562,765	7,282,533,393	9,629,706	23,008,970,484	446,514,689	23,455,485,173
Adjustment on business combination involving entities under common control	-	-	-	8,293,083	-	8,293,083	-	8,293,083
At 1 January 2008 (restated)	6,758,551,716	6,056,692,904	2,901,562,765	7,290,826,476	9,629,706	23,017,263,567	446,514,689	23,463,778,256
2. Increase/(decrease) during the period								
1) Net profit	-	-	-	2,261,278,380	-	2,261,278,380	70,088,351	2,331,366,731
2) Gains or losses recognised in equity								
1. Exchange fluctuation reserve	-	-	-	-	6,937,028	6,937,028	-	6,937,028
2. Adjustment on business combination involving entities under common control	-	-	-	(8,293,083)	-	(8,293,083)	-	(8,293,083)
Sub-total	-	-	-	2,252,985,297	6,937,028	2,259,922,325	70,088,351	2,330,010,676
3) Capital contribution and withdrawal by shareholders								
1. Capital contribution by shareholders	-	-	-	-	-	-	101,194,034	101,194,034
4) Profits appropriation								
1. Transfer to surplus reserves	-	-	-	-	-	-	-	-
2. Dividend declared	-	-	-	(878,611,723)	-	(878,611,723)	(48,584,570)	(927,196,293)
5) Transfers within shareholders' equity	-	-	-	-	-	-	-	-
3. At 30 June 2008	<u>6,758,551,716</u>	<u>6,056,692,904</u>	<u>2,901,562,765</u>	<u>8,665,200,050</u>	<u>16,566,734</u>	<u>24,398,574,169</u>	<u>569,212,504</u>	<u>24,967,786,673</u>

The accompanying notes from page 37 to page 81 form an integral part of the financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

(Prepared under China Accounting Standards)

For the six months ended 30 June 2008

Renminbi Yuan

30 June 2007 (restated)

	Attributable to equity holders of the parent					Sub-total	Minority interests	Total shareholders' equity
	Share capital	Capital reserve	Surplus reserves	Retained profits	Exchange fluctuation reserve			
1. At 1 January 2007	6,455,300,000	5,450,438,794	2,637,160,200	5,918,872,526	-	20,461,771,520	310,497,169	20,772,268,689
Adjustment on business combination involving entities under common control	-	-	-	8,293,083	-	8,293,083	-	8,293,083
At 1 January 2007 (restated)	6,455,300,000	5,450,438,794	2,637,160,200	5,927,165,609	-	20,470,064,603	310,497,169	20,780,561,772
2. Increase/(decrease) during the period								
1) Net profit	-	-	-	1,111,094,947	-	1,111,094,947	34,030,503	1,145,125,450
2) Gains or losses recognised in equity								
1. Exchange fluctuation reserve	-	-	-	-	-	-	-	-
Sub-total	-	-	-	1,111,094,947	-	1,111,094,947	34,030,503	1,145,125,450
3) Capital contribution and withdrawal by shareholders								
1. Capital contribution by shareholders	-	-	-	-	-	-	27,818,021	27,818,021
4) Profits appropriation								
1. Transfer to surplus reserves	-	-	-	-	-	-	-	-
2. Dividend declared	-	-	-	(839,189,000)	-	(839,189,000)	(25,253,333)	(864,442,333)
5) Transfers within shareholders' equity	-	-	-	-	-	-	-	-
3. At 30 June 2007	<u>6,455,300,000</u>	<u>5,450,438,794</u>	<u>2,637,160,200</u>	<u>6,199,071,556</u>	<u>-</u>	<u>20,741,970,550</u>	<u>347,092,360</u>	<u>21,089,062,910</u>

The accompanying notes from page 37 to page 81 form an integral part of the financial statements

CONSOLIDATED CASH FLOW STATEMENT

(Prepared under China Accounting Standards)

For the six months ended 30 June 2008

Renminbi Yuan

	Note V	For the six months ended 30 June	
		2008 Unaudited	2007 Unaudited (restated)
1. Cash flows from operating activities:			
Cash received from sale of goods or rendering of services		48,165,840,192	22,936,292,236
Cash received relating to other operating activities		1,366,906	5,258,361
		<u>48,167,207,098</u>	<u>22,941,550,597</u>
Sub-total of cash inflows			
Cash paid for goods and services		(37,009,473,798)	(21,044,122,314)
Cash paid to and on behalf of employees		(1,502,482,763)	(1,254,235,275)
Cash paid for all taxes		(2,872,471,355)	(1,818,483,929)
Cash paid relating to other operating activities		(244,860,140)	(153,007,715)
		<u>(41,629,288,056)</u>	<u>(24,269,849,233)</u>
Sub-total of cash outflows			
Net cash flows from operating activities	17	<u>6,537,919,042</u>	<u>(1,328,298,636)</u>
2. Cash flows from investing activities:			
Cash received from disposal of investments		410,653	–
Cash received from returns on investments		76,474,733	36,561,848
Net cash received from disposal of fixed assets, intangible assets and other long term assets		7,740,636	20,928,159
Cash received relating to other investing activities		2,600,000	3,081,492
		<u>87,226,022</u>	<u>60,571,499</u>
Sub-total of cash inflows			
Cash paid for acquisitions of fixed assets, intangible assets and other long term assets		(1,678,345,236)	(3,465,018,610)
Cash paid for investments		(690,757)	(2,700,000)
Cash paid due to increase in pledged deposits, net		(117,553,927)	(327,565,312)
		<u>(1,796,589,920)</u>	<u>(3,795,283,922)</u>
Sub-total of cash outflows			
Net cash flows from investing activities		<u>(1,709,363,898)</u>	<u>(3,734,712,423)</u>

The accompanying notes from page 37 to page 81 form an integral part of the financial statements

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(Prepared under China Accounting Standards)

For the six months ended 30 June 2008

Renminbi Yuan

	For the six months ended 30 June	
	2008 Unaudited	2007 Unaudited (restated)
3. Cash flows from financing activities:		
Cash received from capital contribution including: capital contribution by minority shareholders received by subsidiaries	101,194,034	27,818,021
Cash received from borrowings	101,194,034	27,818,021
	7,524,553,579	11,645,760,852
Sub-total of cash inflows	7,625,747,613	11,673,578,873
Cash repayments of borrowings	(8,915,294,381)	(6,804,344,125)
Cash paid for distribution of dividend or profits and for interest expenses including: dividend paid to minority shareholders by subsidiaries	(1,671,517,824)	(585,392,819)
	(45,301,670)	(25,266,667)
Sub-total of cash outflows	(10,586,812,205)	(7,389,736,944)
Net cash flows from financing activities	(2,961,064,592)	4,283,841,929
4. Effect of foreign exchange rate changes on cash	(15,935,452)	(10,602,004)
5. Net increase/(decrease) in cash and cash equivalents	1,851,555,100	(789,771,134)
Add: Balance of cash and cash equivalents at beginning of period	5,525,455,966	3,631,147,737
6. Balance of cash and cash equivalents at end of period	7,377,011,066	2,841,376,603

The accompanying notes from page 37 to page 81 form an integral part of the financial statements

COMPANY BALANCE SHEET

(Prepared under China Accounting Standards)

30 June 2008

Renminbi Yuan

	Note XIII	30 June 2008 Unaudited	31 December 2007 Audited
ASSETS			
CURRENT ASSETS:			
Cash and balances with financial institutions		5,240,700,396	3,665,369,814
Financial assets held for trading		1,073,460	1,462,770
Bills receivable		3,646,660,638	3,667,209,079
Trade receivables	1	1,405,820,855	1,554,054,832
Prepayments		1,475,550,183	1,576,389,197
Dividends receivable		12,456,100	–
Other receivables	2	27,791,648	63,496,847
Inventories		11,273,920,031	8,314,475,335
Total current assets		23,083,973,311	18,842,457,874
NON-CURRENT ASSETS:			
Held-to-maturity investments		5,598,870	5,598,870
Long term equity investments		1,975,682,275	1,667,922,886
Investment properties		18,994,431	19,214,182
Fixed assets		39,413,107,459	39,741,473,656
Construction materials		338,016,160	432,590,795
Construction in progress		2,768,623,515	3,360,315,305
Intangible assets		1,239,471,942	1,214,768,182
Deferred tax assets		255,876,059	258,324,901
Total non-current assets		46,015,370,711	46,700,208,777
TOTAL ASSETS		69,099,344,022	65,542,666,651

The accompanying notes from page 37 to page 81 form an integral part of the financial statements

COMPANY BALANCE SHEET (CONTINUED)

(Prepared under China Accounting Standards)

30 June 2008

Renminbi Yuan

	30 June 2008 Unaudited	31 December 2007 Audited
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short term loans	1,104,730,288	200,000,000
Bills payable	–	63,000,000
Short term commercial papers	2,000,000,000	2,000,000,000
Accounts payable	8,867,426,927	7,633,708,228
Deposits received	7,058,899,402	5,456,620,794
Payroll and benefits payable	183,641,658	297,925,673
Taxes payable	1,155,510,229	529,786,745
Interests payable	132,671,801	80,432,389
Dividends payable	1,682,446,686	1,303,757,138
Other payables	832,245,163	730,183,167
Non-current liabilities due within one year	1,964,304,444	2,809,660,000
Total current liabilities	<u>24,981,876,598</u>	<u>21,105,074,134</u>
NON-CURRENT LIABILITIES:		
Long term loans	14,693,045,161	16,563,408,200
Bonds payable	4,900,174,072	4,828,761,588
Deferred income	560,082,881	590,425,767
Deferred tax liabilities	150,136,449	167,989,571
Other non-current liabilities	12,485,033	12,485,033
Total non-current liabilities	<u>20,315,923,596</u>	<u>22,163,070,159</u>
Total liabilities	<u>45,297,800,194</u>	<u>43,268,144,293</u>
SHAREHOLDERS' EQUITY:		
Share capital	6,758,551,716	6,758,551,716
Capital reserve	6,056,692,904	6,056,692,904
Surplus reserves	2,777,851,769	2,777,851,769
Retained profits	8,208,447,439	6,681,425,969
including: cash dividend proposed by directors	–	878,611,723
Total shareholders' equity	<u>23,801,543,828</u>	<u>22,274,522,358</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>69,099,344,022</u>	<u>65,542,666,651</u>

The accompanying notes from page 37 to page 81 form an integral part of the financial statements

COMPANY INCOME STATEMENT

(Prepared under China Accounting Standards)

For the six months ended 30 June 2008

Renminbi Yuan

		For the six months ended 30 June	
	Note XIII	2008 Unaudited	2007 Unaudited (restated)
Revenue	4	40,879,352,914	21,538,496,170
Less: Cost of sales		36,359,061,217	19,439,198,630
Taxes and surcharges		417,783,025	154,655,370
Selling expenses		162,120,186	116,552,176
Administrative expenses		381,733,047	361,645,382
Financial expenses		650,798,118	274,518,431
Assets impairment losses/(reversal)	5	(9,795,364)	–
Add: Gain/(loss) on fair value changes		(772,870)	–
Investment income	6	237,981,083	93,249,998
including: share of profits of associates and a jointly controlled entity		128,031,350	38,159,847
Operating profit		3,154,860,898	1,285,176,179
Add: Non-operating income		33,629,886	26,170,578
Less: Non-operating expenses		4,784,021	96,015,028
including: net (gain)/loss on disposal of non-current assets		(289,400)	94,295,000
Profit before tax		3,183,706,763	1,215,331,729
Less: Income tax		778,073,570	170,573,258
Net profit		2,405,633,193	1,044,758,471
EARNINGS PER SHARE			
Basic		35.59 cents	16.18 cents
Diluted		32.85 cents	14.62 cents

The accompanying notes from page 37 to page 81 form an integral part of the financial statements

COMPANY STATEMENT OF CHANGES IN EQUITY

(Prepared under China Accounting Standards)

For the six months ended 30 June 2008

Renminbi Yuan

	30 June 2008				Total shareholders' equity
	Share capital	Capital reserve	Surplus reserves	Retained profits	
1. At 1 January 2008	6,758,551,716	6,056,692,904	2,777,851,769	6,681,425,969	22,274,522,358
2. Increase/(decrease) during the period					
1) Net profit	-	-	-	2,405,633,193	2,405,633,193
2) Gains or losses recognised in equity	-	-	-	-	-
Sub-total	-	-	-	2,405,633,193	2,405,633,193
3) Capital contribution and withdrawal by shareholders	-	-	-	-	-
4) Profits appropriation					
1. Transfer to surplus reserves	-	-	-	-	-
2. Dividend declared	-	-	-	(878,611,723)	(878,611,723)
5) Transfers within shareholders' equity	-	-	-	-	-
3. At 30 June 2008	<u>6,758,551,716</u>	<u>6,056,692,904</u>	<u>2,777,851,769</u>	<u>8,208,447,439</u>	<u>23,801,543,828</u>

The accompanying notes from page 37 to page 81 form an integral part of the financial statements

COMPANY STATEMENT OF CHANGES IN EQUITY (CONTINUED)

(Prepared under China Accounting Standards)

For the six months ended 30 June 2008

Renminbi Yuan

	30 June 2007 (restated)					Total shareholders' equity
	Share capital	Capital reserve	Surplus reserves	Retained profits		
1. At 1 January 2007	6,455,300,000	5,450,438,794	2,564,661,890	5,601,906,055	20,072,306,739	
2. Increase/(decrease) during the period						
1) Net profit	—	—	—	1,044,758,471	1,044,758,471	
2) Gains or losses recognised in equity	—	—	—	—	—	
Sub-total	—	—	—	1,044,758,471	1,044,758,471	
3) Capital contribution and withdrawal by shareholders	—	—	—	—	—	
4) Profits appropriation						
1. Transfer to surplus reserves	—	—	—	—	—	
2. Dividend declared	—	—	—	(839,189,000)	(839,189,000)	
5) Transfers within shareholders' equity	—	—	—	—	—	
3. At 30 June 2007	<u>6,455,300,000</u>	<u>5,450,438,794</u>	<u>2,564,661,890</u>	<u>5,807,475,526</u>	<u>20,277,876,210</u>	

The accompanying notes from page 37 to page 81 form an integral part of the financial statements

COMPANY CASH FLOW STATEMENT

(Prepared under China Accounting Standards)

For the six months ended 30 June 2008

Renminbi Yuan

	Note XIII	For the six months ended 30 June	
		2008 Unaudited	2007 Unaudited
1. Cash flows from operating activities:			
Cash received from sale of goods or rendering of services		49,153,913,895	22,033,160,336
Cash received relating to other operating activities		397,600	858,478
Sub-total of cash inflows		49,154,311,495	22,034,018,814
Cash paid for goods and services		(39,109,685,042)	(21,139,145,562)
Cash paid to and on behalf of employees		(1,342,047,713)	(1,075,432,921)
Cash paid for all taxes		(2,618,667,003)	(1,652,922,591)
Cash paid relating to other operating activities		(176,938,741)	(133,970,132)
Sub-total of cash outflows		(43,247,338,499)	(24,001,471,206)
Net cash flows from operating activities	7	5,906,972,996	(1,967,452,392)
2. Cash flows from investing activities:			
Cash received from disposal of investments		410,653	-
Cash received from returns on investments		159,804,554	69,078,838
Net cash received from disposal of fixed assets, intangible assets and other long term assets		8,138,312	20,916,119
Cash received relating to other investing activities		2,600,000	-
Sub-total of cash inflows		170,953,519	89,994,957
Cash paid for acquisitions of fixed assets, intangible assets and other long term assets		(1,514,165,804)	(2,828,993,173)
Cash paid for investments		(219,484,637)	(57,511,290)
Cash paid due to increase in pledged deposits, net		-	(9,000,000)
Sub-total of cash outflows		(1,733,650,441)	(2,895,504,463)
Net cash flows from investing activities		(1,562,696,922)	(2,805,509,506)

The accompanying notes from page 37 to page 81 form an integral part of the financial statements

COMPANY CASH FLOW STATEMENT (CONTINUED)

(Prepared under China Accounting Standards)

For the six months ended 30 June 2008

Renminbi Yuan

	For the six months ended 30 June	
	2008 Unaudited	2007 Unaudited
3. Cash flows from financing activities:		
Cash received from borrowings	<u>6,191,306,530</u>	<u>10,779,374,000</u>
Sub-total of cash inflows	<u>6,191,306,530</u>	<u>10,779,374,000</u>
Cash repayments of borrowings	<u>(7,889,323,000)</u>	(6,520,128,044)
Cash paid for distribution of dividend or profits and for interest expenses	<u>(1,071,403,256)</u>	<u>(528,478,007)</u>
Sub-total of cash outflows	<u>(8,960,726,256)</u>	<u>(7,048,606,051)</u>
Net cash flows from financing activities	<u>(2,769,419,726)</u>	<u>3,730,767,949</u>
4. Effect of foreign exchange rate changes on cash	<u>474,234</u>	(15,531,429)
5. Net increase/(decrease) in cash and cash equivalents	<u>1,575,330,582</u>	<u>(1,057,725,378)</u>
Add: Balance of cash and cash equivalents at beginning of period	<u>3,665,369,814</u>	<u>2,808,993,288</u>
6. Balance of cash and cash equivalents at end of period	<u>5,240,700,396</u>	<u>1,751,267,910</u>

The accompanying notes from page 37 to page 81 form an integral part of the financial statements

NOTES TO INTERIM FINANCIAL STATEMENTS

(Prepared under China Accounting Standards)

30 June 2008

Renminbi Yuan

I. GENERAL INFORMATION OF THE GROUP

Maanshan Iron & Steel Company Limited (the "Company"), a joint stock limited liability company incorporated after the reorganisation of a state-owned enterprise known as Maanshan Iron and Steel Company (the "Original Magang", now named as Magang (Group) Holding Company Limited), was incorporated in Maanshan City, Anhui Province, the People's Republic of China (the "PRC") on 1 September 1993. The registration number of the Company's business licence is Qi Gu Wan Zong Zi No. 000970. Headquarter of the Company is located at No. 8 Hong Qi Zhong Road, Maanshan City, Anhui Province, the PRC. The Company's A shares and H shares were issued and listed in Shanghai Stock Exchange and Hong Kong Stock Exchange respectively. The Company together with its subsidiaries (the "Group") are principally engaged in the manufacture and sale of iron and steel products and related by-products.

Up to 30 June 2008, the Company had issued 6,758.55 million shares in total, including 3,830.56 million state-owned shares, 1,195.06 million ordinary A shares and 1,732.93 million ordinary H shares. The nominal value of each share is RMB1.

The Company's principal activities include: metallurgy and extended processing of ferrous metals; production and sale of coke, coke chemical products, thermostatic materials and power supply; dock operation, storage, transportation, trading and other iron & steel related business; extended processing of iron and steel products, production and sales of metallic products; steel framework, equipment production and related services; maintenance of vehicles, recycle and processing of discarded vehicles (limited to the internal discarded vehicles); provision of construction and related services; decoration services (activities within qualification certificate); rendering of technological services and consultancy services.

The parent is Magang (Group) Holding Company Limited (the "Holding"), which is incorporated in the PRC.

II. BASIS OF PREPARATION AND STATEMENT OF ADOPTION OF ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

This financial report is prepared in accordance with China Accounting Standards for Business Enterprises (the "CAS") No. 32 "Interim Financial Reporting". The accounting policies and basis of preparation used in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2007.

The interim financial statements have been prepared in accordance with the CAS, and present truly and completely, the financial position of the Company and the Group as of 30 June 2008, and the results of their operations and their cash flows for the six months ended 30 June 2008.

The financial statements are prepared on an ongoing basis.

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

(Prepared under China Accounting Standards)

30 June 2008

Renminbi Yuan

III. TAX

The principal kinds of taxes and the related rates are as follows:

(1) Value-added tax (“VAT”)

The output VAT rate of the domestic sale is 17%. VAT payable is the net difference between output VAT and deductible input VAT.

According to national tax regulation, the Company adopted the “Exempt, Offset, Refund” arrangements for VAT in export sales with the refunds rates of 8% – 13%. Since April 2007, tax refunds for export of certain products were cancelled and the refunds rates for other products were adjusted to 5% – 13%. A subsidiary of the Company adopted the “Levy first, refund afterwards” arrangements for VAT in its own export sales.

(2) Business tax

Payable based on 3% – 5% of the taxable income.

(3) City construction and maintenance tax

Payable based on 7% of the net VAT and business tax to be paid.

(4) Education surcharge

Payable based on 3% of the net VAT and business tax to be paid.

(5) Local education surcharge

Payable based on 1% of the net VAT and business tax to be paid.

(6) Flood prevention fund

Payable based on 0.06% of last year’s taxable income.

(7) Real estate tax

Payable based on certain percentage of the cost of real estate with legal title in accordance with relevant regulations.

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

(Prepared under China Accounting Standards)

30 June 2008

Renminbi Yuan

III. TAX (CONTINUED)

(8) Corporate income tax

The corporate income tax of the Company and its subsidiaries is calculated at 17.5% to 30%, on their estimated assessable profits for the period based on existing legislation, interpretations and practice in respect thereof. Certain subsidiaries of the Company are foreign investment enterprises and their corporate income taxes have been provided at the rate of 25% and are entitled to enjoy "Two years exempted and subsequent three years with 50% reduction" tax holidays. Profits tax of overseas and Hong Kong subsidiaries have been provided at the rate of 17.5% – 30% on their estimated assessable profits which were earned in or derived from overseas and Hong Kong during the period.

The State Administration of Taxation ("SAT") issued a tax circular "Enterprise Income Tax Issues relating to Nine Companies Listed Overseas" ("Circular No. 664") in June 2007 which requested the relevant local tax authorities to rectify, immediately, the expired concessionary tax policy for the nine listed companies authorised by the State Council to issue shares in Hong Kong in 1993 which, at the time of writing, was still being applied. The notice stated that the difference in corporate income tax ("CIT") arising from the expired preferential rate and the applicable rate should be settled according to the provisions of "Law on the Administration of Tax Collection".

The Company is one of the nine listed companies mentioned above and applied the preferential CIT rate of 15% in prior years. Having understood the above, the Company thoroughly communicated with the relevant tax authority and was informed by the relevant tax authority that the Company applies the CIT tax rate of 33% for 2007. The Company has not been requested to pay the CIT Differences in respect of any prior years.

In response to the notice issued by relevant tax authority and communication with the relevant tax authority, the directors of the Company consider that it is uncertain whether the relevant tax authorities will retrospectively claim additional CIT from the Company and that it is not possible to reliably estimate the eventual outcome of this matter. Consequently, no provision has been made in these financial statements in respect of the CIT differences arising from prior years.

(9) Others

In accordance with tax laws and relevant regulations.

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

(Prepared under China Accounting Standards)

30 June 2008

Renminbi Yuan

IV. SUBSIDIARIES, JOINTLY-CONTROLLED ENTITY AND ASSOCIATES

Name of investee	Place of incorporation and registration	Registered capital 2008.6.30	Investment cost 2008.6.30 RMB Equivalent	Percentage of equity held%				Percentage of vote right% 2008.6.30	Principal activities	Note
				2008.6.30		2007.12.31				
				directly	indirectly	directly	indirectly			
Subsidiaries										
Ma Steel International Trade and Economic Corporation ("Ma Steel International Trade Corp.")	Anhui, PRC	RMB50,000,000	50,000,000	100	-	100	-	100	Import of machinery and raw materials and export of steel products	(i)
Design & Research Institute of Maanshan Iron & Steel Company Limited ("Design & Research Institute")	Anhui, PRC	RMB80,000,000	8,500,000	58.96	7.86	58.96	7.86	66.82	Planning and design of metallurgical, construction and environmental protection projects, construction supervision and contract service	(ii)
MG Control Technique Company Limited ("MG Control Technique")	Anhui, PRC	RMB8,000,000	8,000,000	93.75	6.25	93.75	6.25	100	Design of automation systems; purchase, installation and repairs of automation, computers and communication systems	(i)
Anhui Masteel K. Wah New Building Materials Co., Ltd. ("Anhui Masteel K. Wah")	Anhui, PRC	USD4,290,000	24,854,930	70	-	70	-	70	Production, sale and transportation of slag products and provision of related consultation services	(i)
Ma Steel (Wuhu) Processing and Distribution Co., Ltd. ("Ma Steel (Wuhu)")	Anhui, PRC	RMB35,000,000	10,333,358	70	30	70	30	100	Processing and sale of metallic products; processing of motor vehicle spare parts and sale of construction materials and chemical products (except dangerous products)	(i)
Ma Steel (Cihu) Processing and Distribution Co., Ltd. ("Ma Steel (Cihu)")	Anhui, PRC	RMB30,000,000	27,600,000	-	92	-	92	92	Production, processing and sale of steel plates, steel wires and steel sections; and provision of storage and after-sale services	(i)
Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. ("Ma Steel (Guangzhou)")	Guangdong, PRC	RMB120,000,000	80,000,000	66.67	-	66.67	-	66.67	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sale services	(i)

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

(Prepared under China Accounting Standards)

30 June 2008

Renminbi Yuan

IV. SUBSIDIARIES, JOINTLY-CONTROLLED ENTITY AND ASSOCIATES (CONTINUED)

Name of investee	Place of incorporation and registration	Registered capital 2008.6.30	Investment cost 2008.6.30 RMB Equivalent	Percentage of equity held%				Percentage of vote right% 2008.6.30	Principal activities	Note
				2008.6.30		2007.12.31				
				directly	indirectly	directly	indirectly			
Subsidiaries (continued)										
Maanshan Iron & Steel (HK) Limited ("Ma Steel (HK)")	Hong Kong, PRC	HKD4,800,000	5,124,920	80	20	80	20	100	Trading of steel and iron ores, and provision of steel trading agency services and transportation services	(i)
Anhui Masteel Holly Industrial Co., Ltd. ("Holly Industrial")	Anhui, PRC	RMB30,000,000	21,478,316	71	-	71	-	71	Production and sale of packing materials for steel and other products; provision of on-site packing service; research, development, production and sale of vehicle spare parts, electronic engineering products, and macromolecular compound materials; processing and sale of metallic products	(i)
Maanshan Masteel Huayang Equipment Inspection & Engineering Co., Ltd ("Huayang Equipment")	Anhui, PRC	RMB1,000,000	900,000	90	-	90	-	90	Provision of equipment inspection technique consultancy services, equipment services and equipment inspection work	(i)
Ma Steel (Jinhua) Processing and Distribution Co., Ltd. ("Ma Steel (Jinhua)")	Zhejiang, PRC	RMB120,000,000	90,000,000	75	-	75	-	75	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sale services	(i)
MG Trading and Development GmbH ("MG Trading")	Germany	EUR153,388	1,573,766	100	-	100	-	100	Trading of equipment, iron and steel products and provision of technology services	(i)
Maanshan Iron & Steel (Australia) Proprietary Limited ("Ma Steel (Australia))	Australia	AUD21,737,900	126,312,415	100	-	100	-	100	Production and sales of iron ores through an unincorporated joint venture	(i)

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

(Prepared under China Accounting Standards)

30 June 2008

Renminbi Yuan

IV. SUBSIDIARIES, JOINTLY-CONTROLLED ENTITY AND ASSOCIATES (CONTINUED)

Name of investee	Place of incorporation and registration	Registered capital 2008.6.30	Investment cost 2008.6.30 RMB Equivalent	Percentage of equity held%		Percentage of vote right%		Principal activities	Note	
				2008.6.30		2007.12.31				
				directly	indirectly	directly	indirectly			
Subsidiaries (continued)										
Ma Steel (Hefei) Processing and Distribution Co., Ltd. ("MS (Hefei) Processing")	Anhui, PRC	RMB120,000,000	106,800,000	61	28	61	28	89	Processing and sale of hot rolled and cold rolled steel thin plate for vehicles, home appliances and engineering industries, and construction steel framework products; provision of storage and transportation services	(i)
Ma Steel (Hefei) Iron & Steel Co., Ltd. ("Ma Steel (Hefei)")	Anhui, PRC	RMB500,000,000	355,000,000	71	–	71	–	71	Smelting and processing of ferrous metals and sale of the products and by-products; production and sale of coke, coke chemical products and power supply; processing of iron and steel products and production and sales of metallic products; iron and steel technological services and related businesses; dock operation, storage, transportation, construction services; leasing properties, and provision of construction services and repair and maintenance of used equipments	(iii)
Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. ("MS (Yangzhou) Processing")	Jiangsu, PRC	USD20,000,000	116,462,300	71	–	71	–	71	Production, processing and sale of steel plates, steel wires and steel sections; provision of after-sale and storage services (except of dangerous chemical products)	(i)
Ma Steel (Wuhu) Material Technique Co. Ltd ("Wuhu Technique")	Anhui, PRC	RMB150,000,000	106,500,000	71	–	71	–	71	Provision of storage and transportation services of automobiles related metal components, trading and processing steel products, provision of related consultancy services	(iv)

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

(Prepared under China Accounting Standards)

30 June 2008

Renminbi Yuan

IV. SUBSIDIARIES, JOINTLY-CONTROLLED ENTITY AND ASSOCIATES (CONTINUED)

Name of investee	Place of incorporation and registration	Registered capital 2008.6.30	Investment cost 2008.6.30 RMB Equivalent	Percentage of equity held%				Percentage of vote right% 2008.6.30	Principal activities	Note
				2008.6.30		2007.12.31				
				directly	indirectly	directly	indirectly			
Subsidiaries (continued)										
Ma Steel United Electric Steel Roller Co. Ltd ("Ma Steel Roller")	Anhui, PRC	USD30,000,000	44,134,686	51	-	51	-	51	Developing, processing manufacturing and sale of steel roller, provision after-sale services and technical consultancy services	(v)
Maanshan Used Vehicle Trading Centre Co. Ltd ("Used Vehicle Trading")	Anhui, PRC	RMB500,000	500,000	100	-	100	-	100	Trading of used automobiles, sales of automobiles and accessories, provision of after-sale services and leasing properties	(i)
安徽馬鋼立體智能停車設備有限公司 ("Masteel Auto-Parking")	Anhui, PRC	USD2,500,000	20,177,600	-	100	-	100	100	Development, production, and sales of vehicle automatic transmission product and related spare parts; provision of related design technique, equipment production and transportation services	(vi)
Associates										
濟源市金馬焦化有限公司 ("濟源市金馬焦化")	Henan, PRC	RMB222,220,000	80,000,000	36	-	40	-	36	Production and sale of coke, tar, benzene and coal gas	(vii)
滕州盛隆煤焦化有限公司 ("滕州盛隆煤焦化")	Shandong, PRC	RMB208,800,000	66,776,000	32	-	32	-	32	Production and sale of coke, tar, coal gas and coke chemical products; provision of logistics services	
上海大宗鋼鐵電子交易中心有限公司 ("上海鋼鐵電子")	Shanghai, PRC	RMB20,000,000	4,000,000	20	-	20	-	20	Set-up of iron & steel e-commerce and related services; provision of iron & steel e-commerce technology and information services	

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

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IV. SUBSIDIARIES, JOINTLY-CONTROLLED ENTITY AND ASSOCIATES (CONTINUED)

Name of investee	Place of incorporation and registration	Registered capital 2008.6.30	Investment cost 2008.6.30	Percentage of equity held%				Percentage of vote right%	Principal activities	Note
				2008.6.30		2007.12.31				
				RMB Equivalent	directly	indirectly	directly			
Associates (continued)										
馬鞍山港口(集團)有限責任公司 ("馬鞍山港口公司")	Anhui, PRC	RMB250,000,000	112,500,000	45	-	45	-	45	Loading/unloading, cargo forwarding agency service, storage, transmitting of cargo and division or merge of cargo in containers; provision of general services to ships, repairing and manufacturing of spare parts	
安徽奧馬特汽車變速系統有限公司 ("奧馬特變速系統")	Anhui, PRC	RMB50,000,000	13,500,000	-	45	-	45	45	Development, production, and sales of vehicle automatic transmission product and related spare parts; provision of related design technique, equipment production and transportation services	
Jointly-controlled entity ("JCE")										
Ma' anshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel")	Anhui, PRC	RMB468,000,000	234,000,000	50	-	50	-	50	Manufacture and sale of air products (hydrogen, oxygen, argon and other gases) in gas and liquid states and other industrial gases, provision of products related sales and supply work and technical services and other related services	

Note:

- (i) These companies are the subsidiaries of the Group. The voting power owned is consistent with the percentage of equity held by the Group. These subsidiaries are included in consolidation, and both their financial positions and operating results are reflected in the consolidated financial statements. During the reporting period, the Group's initial investment cost is not adjusted.

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

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IV. SUBSIDIARIES, JOINTLY-CONTROLLED ENTITY AND ASSOCIATES (CONTINUED)

Note: (continued)

- (ii) During the reporting period, the registered capital of Design & Research Institute was increased from RMB50,000,000 to RMB80,000,000 by converting retained profits of RMB28,300,000 and surplus reserve of RMB1,700,000. The change of registered capital has been examined by 安徽興永會計師事務所, which stated that the percentage of equity held by the Company remained the same.
- (iii) During the reporting period, the 2nd installment of registered capital was paid up by the Company of RMB117,505,000, and together with the other venturer, Hefei Industrial Investment Holding Company, in accordance with the Venturer's Agreement and the Articles of Association. The paid up capital contributed by the venturers has been examined by 中磊會計師事務所 before 30 June 2008.
- (iv) During the reporting period, the 2nd installment of registered capital was paid up by the Company of RMB79,875,000, and together with other venturers, 奇瑞汽車有限公司 and 佛山市順德區順豐物資供應有限公司, in accordance with the Venturer's Agreement and the Articles of Association. The paid up capital contributed by the venturers has been examined by 安徽華審會計師事務所 before 30 June 2008.
- (v) During the reporting period, the 2nd installment of registered capital was paid up by the Company of US\$3,060,000 (equaled to RMB21,413,880), and together with the other venturer, 聯合電鋼(香港)有限公司, in accordance with the Venturer's Agreement and the Articles of Association. The paid up capital contributed by the venturers has been examined by 安徽永達信會計師事務所 before 30 June 2008.
- (vi) The subsidiary was acquired through business combination involving entities under common control. For further details, please refer to Note V.18 to the interim financial statements.
- (vii) During the reporting period, the registered capital of 濟源市金馬焦化 was increased by 濟源市金馬興業投資公司 of RMB22,220,000 after agreement with all shareholders. The paid up capital contributed by 濟源市金馬興業投資公司 has been examined by 濟源市陽光會計師事務所 before 30 June 2008. The percentage of shares held by the Company decreased from 40% to 36% after the capital injection.

Except of item (vi), the extent of consolidation is consistent with that used in the annual financial statement of previous year.

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Trade receivables

The Group's credit terms are usually 30 to 90 days. And trade receivables are interest free.

The ageing of trade receivables is analysed below:

	30 June 2008 Unaudited	31 December 2007 Audited (restated)
Within one year	852,784,512	1,024,264,885
One to two years	9,780,750	12,967,994
Two to three years	3,911,958	1,108,762
Over three years	16,096,699	17,243,068
	882,573,919	1,055,584,709
Less: Provisions for bad debts	18,963,916	18,359,996
Total	863,610,003	1,037,224,713

Trade receivables balance is analysed as follows:

	30 June 2008 Unaudited				31 December 2007 Audited (restated)			
	Balance	Ratio	Provision for bad debts	Ratio	Balance	Ratio	Provision for bad debts	Ratio
Individually significant	792,953,209	90%	(14,184,569)	2%	978,735,818	93%	(14,184,569)	1%
Other insignificant	89,620,710	10%	(4,779,347)	5%	76,848,891	7%	(4,175,427)	5%
Total	882,573,919	100%	(18,963,916)		1,055,584,709	100%	(18,359,996)	

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

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

1. Trade receivables (Continued)

An analysis of the amount of bad debts provisions written off in the current period:

Reason	For the six months ended 30 June	
	2008 Unaudited	2007 Unaudited
Amount received after written off	603,920	4,302,112

As at 30 June 2008 and 31 December 2007, the balance of trade receivables did not contain any amount due from either shareholders who hold 5% or above of the Company's equity interests or other related parties. Further details of the balance due from related parties are stated in Note VII.5 to the interim financial statements.

The movement of bad debts provisions for trade receivables for the six months ended 30 June 2008 is disclosed in Note 6.

2. Other receivables

The ageing of other receivables is analysed below:

	30 June 2008 Unaudited	31 December 2007 Audited (restated)
Within one year	467,781,438	255,030,829
One to two years	1,634,598	3,012,683
Two to three years	277,853	83,380
Over three years	7,571,777	6,573,930
	477,265,666	264,700,822
Less: Provisions for bad debts	7,161,646	7,161,646
Total	470,104,020	257,539,176

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

(Prepared under China Accounting Standards)

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

2. Other receivables (Continued)

Other receivables balance is analysed as follows:

	30 June 2008 Unaudited				31 December 2007 Audited (restated)			
	Balance	Ratio	Provision for bad debts	Ratio	Balance	Ratio	Provision for bad debts	Ratio
Individually significant	441,179,200	92%	(3,688,268)	1%	184,050,439	70%	(3,688,268)	2%
Other insignificant	36,086,466	8%	(3,473,378)	10%	80,650,383	30%	(3,473,378)	4%
Total	<u>477,265,666</u>	<u>100%</u>	<u>(7,161,646)</u>		<u>264,700,822</u>	<u>100%</u>	<u>(7,161,646)</u>	

An analysis of the amount of bad debts provisions written off in the current period:

Reason	For the six months ended 30 June	
	2008 Unaudited	2007 Unaudited
Debtors with age over 3 years and demonstrated by sufficient evidence that they were irrecoverable	<u>—</u>	<u>5,493,751</u>

As at 30 June 2008 and 31 December 2007, the balance of other receivables did not contain any amount due from either shareholders who hold 5% or above of the Company's equity interests or other related parties.

The movement of bad debts provisions for other receivables for the six months ended 30 June 2008 is disclosed in Note 6.

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

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Renminbi Yuan

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

3. Inventories

	30 June 2008 Unaudited	31 December 2007 Audited (restated)
Raw materials	7,730,150,181	4,870,532,171
Work in progress	1,367,719,727	738,364,782
Construction contract	127,351,450	75,688,341
Finished goods	1,597,536,067	1,694,504,749
Spare parts	<u>2,503,622,667</u>	<u>2,382,957,761</u>
	13,326,380,092	9,762,047,804
Less: Provisions for inventories	<u>122,308,028</u>	<u>132,103,392</u>
Total	<u><u>13,204,072,064</u></u>	<u><u>9,629,944,412</u></u>

The movement of impairment provision against inventories for the six months ended 30 June 2008 is disclosed in Note 6.

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

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

4. Fixed assets

30 June 2008

	Buildings and structures Unaudited	Plant, machinery and equipment Unaudited	Transportation vehicles and equipment Unaudited	Total Unaudited
Cost				
At 1 January 2008 (restated)	18,694,226,788	36,843,272,020	425,513,996	55,963,012,804
Additions	19,302,963	68,369,169	3,907,092	91,579,224
Transferred from constructions in progress (Note 5)	677,885,293	1,236,419,349	11,513,316	1,925,817,958
Reclassifications	103,097,396	(99,507,105)	(3,590,291)	-
Disposal	(46,703)	(3,942,433)	(6,339,088)	(10,328,224)
At 30 June 2008	<u>19,494,465,737</u>	<u>38,044,611,000</u>	<u>431,005,025</u>	<u>57,970,081,762</u>
Accumulated depreciation				
At 1 January 2008 (restated)	4,112,003,551	10,150,581,840	281,524,655	14,544,110,046
Provided during the period	532,097,094	1,695,118,274	25,687,361	2,252,902,729
Reclassifications	18,087,909	(17,261,964)	(825,945)	-
Disposal	(10,823)	(3,284,960)	(5,471,047)	(8,766,830)
At 30 June 2008	<u>4,662,177,731</u>	<u>11,825,153,190</u>	<u>300,915,024</u>	<u>16,788,245,945</u>
Impairment				
At 1 January 2008 and 30 June 2008	<u>5,252,400</u>	<u>85,423,244</u>	-	<u>90,675,644</u>
Net carrying amount				
At 30 June 2008	<u>14,827,035,606</u>	<u>26,134,034,566</u>	<u>130,090,001</u>	<u>41,091,160,173</u>
At 1 January 2008 (restated)	<u>14,576,970,837</u>	<u>26,607,266,936</u>	<u>143,989,341</u>	<u>41,328,227,114</u>

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

(Prepared under China Accounting Standards)

30 June 2008

Renminbi Yuan

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

4. Fixed assets (Continued)

30 June 2007 (restated)

	Buildings and structures Unaudited	Plant, machinery and equipment Unaudited	Transportation vehicles and equipment Unaudited	Total Unaudited
Cost				
At 1 January 2007	9,406,742,804	20,559,486,081	395,389,360	30,361,618,245
Additions	5,961,469	37,910,311	6,830,030	50,701,810
Transferred from constructions in progress (Note 5)	3,049,266,330	6,438,313,339	4,999,836	9,492,579,505
Reclassifications	(150,323,430)	150,919,048	(595,618)	–
Disposal	(1,255,988)	(184,762,353)	(1,751,753)	(187,770,094)
At 30 June 2007	<u>12,310,391,185</u>	<u>27,001,866,426</u>	<u>404,871,855</u>	<u>39,717,129,466</u>
Accumulated depreciation				
At 1 January 2007	3,282,724,260	7,974,453,737	248,573,625	11,505,751,622
Provided during the period	278,548,240	1,021,665,755	22,919,948	1,323,133,943
Reclassifications	(15,186,524)	15,415,974	(229,450)	–
Disposal	(737,897)	(70,148,287)	(1,651,283)	(72,537,467)
At 30 June 2007	<u>3,545,348,079</u>	<u>8,941,387,179</u>	<u>269,612,840</u>	<u>12,756,348,098</u>
Impairment				
At 1 January 2007 and 30 June 2007	<u>5,252,400</u>	<u>85,423,244</u>	<u>–</u>	<u>90,675,644</u>
Net carrying amount				
At 30 June 2007	<u>8,759,790,706</u>	<u>17,975,056,003</u>	<u>135,259,015</u>	<u>26,870,105,724</u>
At 1 January 2007	<u>6,118,766,144</u>	<u>12,499,609,100</u>	<u>146,815,735</u>	<u>18,765,190,979</u>

The movement of impairment provision against fixed assets for the six months ended 30 June 2008 is disclosed in Note 6

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

(Prepared under China Accounting Standards)

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Renminbi Yuan

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

5. Construction in progress

30 June 2008

Name of projects	Budget cost RMB'000	Opening balance RMB (restated)	Additions during the period RMB	Transferred to fixed assets (Note 4) RMB	Closing balance RMB	Source of fund	Percentage of completion %
1. Blast Furnaces Project	2,097,056	101,810,775	55,795,400	(53,900,000)	103,706,175	Internally generated funds	72-100
2. Converters Project	2,757,561	33,827,370	2,639,108	-	36,466,478	Internally generated funds	39-100
3. Wheel Line Project	366,762	205,883,581	131,794,917	-	337,678,498	Internally generated funds	63-97
4. Construction Steel Lines Project	11,734,684	1,356,424,137	486,126,537	(1,172,100,000)	670,450,674	Internally generated funds	38-100
5. Coking Stoves Project	1,776,207	387,931,918	202,527,007	(15,500,000)	574,958,925	Internally generated funds	60-100
6. Public Auxiliary Utilities Project <i>Including: borrowing costs capitalised</i>	3,884,282	715,860,478 2,061,270	128,288,438 -	(554,230,000) -	289,918,916 2,061,270	Internally generated funds and loans from financial institution	46-100
7. Energy-saving and Environment Protection Project	347,810	145,676,572	14,805,972	-	160,482,544	Internally generated funds	44-100
8. Other Projects	N/A	563,350,823	389,473,115	(130,087,958)	822,735,980	Internally generated funds	N/A
		3,510,765,654	1,411,450,494	(1,925,817,958)	2,996,398,190		
Less: Impairment		-	-	-	-		
Total		<u>3,510,765,654</u>	<u>1,411,450,494</u>	<u>(1,925,817,958)</u>	<u>2,996,398,190</u>		

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

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30 June 2008

Renminbi Yuan

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

5. Construction in progress (continued)

30 June 2007 (restated)

Name of projects	Budget cost RMB'000	Opening balance RMB	Additions during the period RMB	Transferred to fixed assets (Note 4) RMB	Closing balance RMB	Source of fund	Percentage of completion %
1. Blast Furnaces Project <i>Including: borrowing costs capitalised</i>	6,872,100	3,573,884,000 117,801,524	1,543,192,355 61,585,506	(4,554,070,000) (177,892,355)	563,006,355 1,494,675	Internally generated funds and loans from financial institution	37-100
2. Converters Project <i>Including: borrowing costs capitalised</i>	4,431,870	2,843,102,096 57,061,560	744,093,132 44,576,623	(1,320,000,000) (33,879,395)	2,267,195,228 67,758,788	Internally generated funds and loans from financial institution	85-100
3. Wheel Line Project	506,420	25,178,233	8,729,038	-	33,907,271	Internally generated funds	86-100
4. Construction Steel Lines Project <i>Including: borrowing costs capitalised</i>	17,132,820	6,784,526,616 221,631,632	1,611,491,321 160,271,036	(1,400,000,000) -	6,996,017,937 381,902,668	Internally generated funds and loans from financial institution	13-100
5. Coking Stoves Project <i>Including: borrowing costs capitalised</i>	2,807,350	1,528,778,171 69,523,740	429,957,627 45,482,288	(950,000,000) -	1,008,735,798 115,006,028	Internally generated funds and loans from financial institution	48-100
6. Public Auxiliary Utilities Project <i>Including: borrowing costs capitalised</i>	4,847,189	3,405,924,218 55,736,895	574,261,275 31,737,840	(902,854,510) (30,000,000)	3,077,330,983 57,474,735	Internally generated funds and loans from financial institution	22-100
7. Energy-saving and Environment	107,730	37,559,790	21,186,189	-	58,745,979	Internally generated funds	74-100
8. Other Projects <i>Including: borrowing costs capitalised</i>	N/A	533,968,025 15,108,480	598,390,875 -	(365,654,995) -	766,703,905 15,108,480	Internally generated funds and loans from financial institution	N/A
		18,732,921,149	5,531,301,812	(9,492,579,505)	14,771,643,456		
Less: Impairment		-	-	-	-		
Total		18,732,921,149	5,531,301,812	(9,492,579,505)	14,771,643,456		

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

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

6. Assets impairment provisions

	For the six months ended 30 June 2008				Closing balance Unaudited
	Opening balance Audited	Increase during the period Unaudited	Decrease during the period		
			Reversal Unaudited	Write-off Unaudited	
Provisions for bad debts	25,521,642	603,920	-	-	26,125,562
including: Trade receivables	18,359,996	603,920	-	-	18,963,916
Other receivables	7,161,646	-	-	-	7,161,646
Provisions for inventories	132,103,392	-	(9,795,364)	-	122,308,028
including: Finished goods	9,795,364	-	(9,795,364)	-	-
Spare parts	122,308,028	-	-	-	122,308,028
Impairment of fixed assets	90,675,644	-	-	-	90,675,644
including: Buildings and structures	5,252,400	-	-	-	5,252,400
Plant, machinery and equipment	85,423,244	-	-	-	85,423,244
Total	248,300,678	603,920	(9,795,364)	-	239,109,234

	For the six months ended 30 June 2007 (restated)				Closing balance Unaudited
	Opening balance Audited	Increase during the period Unaudited	Decrease during the period		
			Reversal Unaudited	Write-off Unaudited	
Provisions for bad debts	68,256,421	4,302,112	-	(5,493,751)	67,064,782
including: Trade receivables	41,944,090	4,302,112	-	-	46,246,202
Other receivables	26,312,331	-	-	(5,493,751)	20,818,580
Provisions for inventories	91,769,889	-	-	(4,840,000)	86,929,889
including: Finished goods	4,840,000	-	-	(4,840,000)	-
Spare parts	86,929,889	-	-	-	86,929,889
Impairment of fixed assets	90,675,644	-	-	-	90,675,644
including: Buildings and structures	5,252,400	-	-	-	5,252,400
Plant, machinery and equipment	85,423,244	-	-	-	85,423,244
Total	250,701,954	4,302,112	-	(10,333,751)	244,670,315

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

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Renminbi Yuan

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

7. Accounts payable

The accounts payable are interest free and are normally settled within three months.

As at 30 June 2008, certain of the Group's accounts payable amounting to RMB108,204,887 aged over one year, as a result of retention with settlement term over 1 year.

As at 30 June 2008 and 31 December 2007, the amount due to either shareholders who hold 5% or above of the Company's equity interests or other related parties among the balance of accounts payable are stated in Note VII.5 to the interim financial statements.

8. Dividends payable

	30 June 2008 Unaudited	Reason	31 December 2007 Audited
Dividends of shares with selling restriction	1,295,969,925	Unpaid	1,297,972,800
Dividends of shares without selling restriction	386,476,761	Unpaid	5,784,338
Dividends due to minority shareholders of subsidiaries	3,282,900	Unpaid	—
Total	<u>1,685,729,586</u>		<u>1,303,757,138</u>

The 2007 profit appropriation plan of the Company has been approved at 2007 annual general meeting held at 17 June 2008.

As at 30 June 2008 and 31 December 2007, the amount due to either shareholders who hold 5% or above of the Company's equity interests or other related parties among the balance of dividends payable are stated in Note VII.5 to the interim financial statements.

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

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Renminbi Yuan

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

9. Bonds payable

	For the six months ended 30 June	
	2008 Unaudited	2007 Unaudited
Opening balance	4,828,761,588	4,672,376,376
Interest expense	120,606,928	116,692,595
Less: Portion classified as current liability	49,194,444	48,980,556
	<u>4,900,174,072</u>	<u>4,740,088,415</u>
Closing balance	<u>4,900,174,072</u>	<u>4,740,088,415</u>

On 13 November 2006, the Company issued 55,000,000 bonds with warrants with a nominal value of RMB100 each, amounting to RMB5.5 billion in total. The bonds and warrants are listed on the Shanghai Stock Exchange. The bonds with warrants are guaranteed by Holding and have a 5-year life from the date of issuance, and will be fully repaid in November 2011. The subscribers of each bond have been entitled to receive 23 warrants at nil consideration, and in aggregate, 1,265,000,000 warrants have been issued. Every warrant can be converted into one A share. The warrants have a life of 24 months from the date of listing. The holders of the warrants are entitled to exercise the warrants 10 trading days prior to the 12-month and 24-month of the listing of the warrants. The original conversion price is RMB3.40 each. Since dividends declared in 2007 and 2008, the conversion price has been deducted to RMB3.26 each.

A total of 303,251,716 warrants were exercised by certain holders in exchange for the Company's A share at a conversion price of RMB3.33 during the first exercise period of the warrants (15 November 2007 to 28 November 2007).

The bonds with warrants are interest-bearing at a rate of 1.4% per annum payable in arrears on 12 November each year. When the bonds with warrants were issued, the prevailing market interest rate for similar bonds without the attached purchase warrants was higher than the interest rate at which the bonds were issued.

The fair value of the liability component was estimated at the issue date using an equivalent market interest rate for a similar bond without the attached purchase warrants.

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

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

9. Bonds payable (continued)

The carrying amount of the liability component of the bonds with warrants at the issue date is arrived at as follows:

Nominal value of bonds with warrants	5,500,000,000
Equity component (net of deferred tax)	(604,228,899)
Deferred tax liability	(128,790,000)
Direct transaction costs attributable to the liability component	<u>(125,584,500)</u>
Liability component at the issue date	<u><u>4,641,396,601</u></u>

10. Share capital

Up to 30 June 2008, the Company had issued and fully paid share capital amounting to RMB6,758,551,716, with each share having a face value of RMB1. The types and structure of share capital are as follows:

	At 1 January 2008 Audited		Increase/ (decrease) during the period Unaudited	At 30 June 2008 Unaudited	
	RMB	Percentage		RMB	RMB
a. Shares with selling restriction					
1. State-owned shares	3,830,560,000	56.68%	-	<u>3,830,560,000</u>	<u>56.68%</u>
2. Other domestically owned shares	-	-	-	-	-
Sub-total	<u>3,830,560,000</u>	<u>56.68%</u>	<u>-</u>	<u>3,830,560,000</u>	<u>56.68%</u>
b. Shares without selling restriction					
1. Ordinary A shares	1,195,061,716	17.68%	-	<u>1,195,061,716</u>	<u>17.68%</u>
2. Ordinary H shares	1,732,930,000	25.64%	-	<u>1,732,930,000</u>	<u>25.64%</u>
Sub-total	<u>2,927,991,716</u>	<u>43.32%</u>	<u>-</u>	<u>2,927,991,716</u>	<u>43.32%</u>
c. Total	<u><u>6,758,551,716</u></u>	<u><u>100.00%</u></u>	<u><u>-</u></u>	<u><u>6,758,551,716</u></u>	<u><u>100.00%</u></u>

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

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

11. Revenue and cost of sales

Revenue is stated as follows:

	For the six months ended 30 June	
	2008 Unaudited	2007 Unaudited (restated)
Principle operating income	37,042,227,897	20,756,208,527
Other operating income	<u>682,601,481</u>	<u>276,607,058</u>
Total revenue	<u><u>37,724,829,378</u></u>	<u><u>21,032,815,585</u></u>

Principle operating income and principal cost of sales are stated as follows:

	For the six months ended 30 June 2008 Unaudited		For the six months ended 30 June 2007 Unaudited (restated)	
	Principle operating income	Principle cost of sales	Principle operating income	Principle cost of sales
Sale of steel products	35,279,763,055	31,078,319,630	19,202,252,746	17,164,413,612
Sale of steel billets	346,531,918	341,095,254	236,065,209	223,036,212
Sale of coke by-products	398,223,723	237,152,016	242,967,551	162,904,894
Others	<u>1,017,709,201</u>	<u>582,840,741</u>	<u>1,074,923,021</u>	<u>799,994,858</u>
Total	<u><u>37,042,227,897</u></u>	<u><u>32,239,407,641</u></u>	<u><u>20,756,208,527</u></u>	<u><u>18,350,349,576</u></u>

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

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

12. Financial expenses

	For the six months ended 30 June	
	2008 Unaudited	2007 Unaudited (restated)
Interest expenses	952,515,323	668,861,095
Less: Interest capitalisation	—	362,973,293
	952,515,323	305,887,802
Less: Interest income	37,299,405	20,234,887
Exchange gain or loss, net	(159,199,518)	(9,457,404)
Less: Capitalisation of exchange gain or loss	—	19,320,000
	(159,199,518)	9,862,596
Others	16,891,168	12,326,883
Total	772,907,568	307,842,394

13. Assets impairment loss

	For the six months ended 30 June	
	2008 Unaudited	2007 Unaudited
Provision/(reversal of provisions) for inventories	(9,795,364)	—

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

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

14. Investment income

	For the six months ended 30 June	
	2008 Unaudited	2007 Unaudited
Long term equity investments income under equity method	126,574,628	37,865,269
Long term equity investments income under cost method	104,000	–
Other equity investment income	89,510	–
Total	<u>126,768,138</u>	<u>37,865,269</u>

15. Income tax

	For the six months ended 30 June	
	2008 Unaudited	2007 Unaudited
Current income tax expense	837,833,896	218,469,529
Deferred tax income	(15,690,620)	(2,567,000)
Total	<u>822,143,276</u>	<u>215,902,529</u>

16. Earnings per share

Basic earnings per share shall be calculated by dividing income statement attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period. Shares are usually included in the weighted average number of shares from the date of their issue.

For the purpose of calculating diluted earnings per share, an entity shall adjust income statement attributable to ordinary equity holders of the parent entity by: (1) any interest recognised in the period related to dilutive potential ordinary shares; (2) any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares; and (3) the tax effect.

For the purpose of calculating diluted earnings per share, the number of ordinary shares shall be (1) the weighted average number of ordinary shares; plus (2) the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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

16. Earnings per share (continued)

For the purpose of calculating the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares, dilutive potential ordinary shares shall be deemed to have been converted into ordinary shares at the beginning of the period or, if later, the date of the issue of the potential ordinary shares.

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

	For the six months ended 30 June	
	2008 Unaudited	2007 Unaudited (restated)
Profit attributable to ordinary equity holders of the parent as used in the basic/diluted earnings per share calculation	<u>2,261,278,381</u>	<u>1,111,094,947</u>
	Number of shares	Number of shares
Shares		
Weighted average number of ordinary shares in issue during the period as used in the basic earnings per share calculation	6,758,551,716	6,455,300,000
Effect of dilution – weighted average number of ordinary shares:		
Warrants attached to bonds	<u>565,376,678</u>	<u>692,296,937</u>
Weighted average number of ordinary shares in issue after adjustment	<u>7,323,928,394</u>	<u>7,147,596,937</u>

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

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

17. Cash flows from operating activities:

	For the six months ended 30 June	
	2008 Unaudited	2007 Unaudited (restated)
Net profit	2,261,278,381	1,111,094,947
Add: Minority interests	70,088,351	34,030,503
Provision/(reversal of provision) for inventories	(9,795,364)	–
Depreciation of fixed assets	2,252,902,729	1,323,133,943
Amortisation of investment properties	34,453	17,225
Amortisation of intangible assets	22,428,642	21,200,649
Amortisation of deferred income	(32,942,886)	(25,012,100)
Loss on disposal of non-current assets	575,278	94,304,468
Financial expenses	667,570,235	295,515,511
Investment income	(126,768,137)	(37,865,269)
Fair value gains	772,870	–
Deferred tax income	(15,690,620)	(2,567,000)
Increase in inventories	(3,556,947,772)	(2,172,132,532)
Increase in receivables from operating activities	(265,590,904)	(4,856,366,259)
Increase in payables from operating activities	5,270,003,786	2,886,347,278
	<u>6,537,919,042</u>	<u>(1,328,298,636)</u>
Net cash flows from operating activities	<u>6,537,919,042</u>	<u>(1,328,298,636)</u>

18. Business combination involving entities under common control

On 4 May 2008, Holly Industrial, a subsidiary of the Company, acquired a 75% of equity interests in Masteel Auto-Parking from Holding at a cash consideration of RMB15,677,600. Masteel Auto-Parking is mainly engaged in manufacture and sale of parking equipment. The business combination, in which both Holly Industrial and Masteel Auto-Parking are ultimately controlled by Holding before and after, and that control is not transitory, is referred to business combination involving entities under common control. The assets and liabilities obtained are measured at the carrying amounts as recorded by the entity being combined at the combination date.

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

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

18. Business combination involving entities under common control (Continued)

The carrying amounts of the assets and liabilities held by Masteel Auto-Parking as at the combination date and the balance sheet date of prior accounting period were as follow:

	Combination date	31 December 2007
Cash and balances with financial institutions	1,579,683	1,579,683
Trade receivables	17,898,637	21,848,559
Prepayments	1,021,788	778,466
Other receivables	563,912	1,100,813
Inventories	10,082,173	3,775,512
Fixed assets	12,655,533	12,869,688
Construction in progress	260,016	120,570
Intangible assets	3,548,059	3,573,403
Short term loans	(20,000,000)	(20,000,000)
Accounts payable	(2,073,731)	(7,058,955)
Deposits received	(4,588,401)	(3,768,445)
Payroll and benefits payable	(143,907)	(26,429)
Taxes payable	23,055	(174,977)
Interests payable	(36,450)	(40,095)
Other payables	113,100	(3,520,349)
	<hr/>	<hr/>
Total net assets	20,903,467	11,057,444
Share of net assets through business combination involving entities under common control	15,677,600	<u>8,293,083</u>
The difference arose from business combination involving entities under common control	<hr/> —	
Combination cost	<u>15,677,600</u>	

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

18. Business combination involving entities under common control (Continued)

The operating results and cash flows of Masteel Auto-Parking for the period from 1 January 2008 to 4 May 2008 are as follows:

	For the period from 1 January 2008 to 4 May 2008
Revenue	3,686,039
Net profit	—
Net cash flows	—

An analysis of the net inflow of cash and cash equivalents in respect of the aforesaid combination is as follows:

	For the six months ended 30 June 2008
Cash consideration	15,677,600
Less: Unpaid portion of cash consideration	15,677,600
Cash and balances with financial institutions	1,579,683
Net inflow of cash and cash equivalents in respect of the aforesaid combination	1,579,683

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

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VI. SEGMENT INFORMATION

As over 90% of the Group's revenue is derived from one business segment, which is the manufacture and sale of iron and steel products and related by-products, no business segmental analysis is presented.

The analysis of the Group's secondary segment information, geographical segment, is presented based on the geographical location of customers. The Group's assets and liabilities are almost entirely situated in the PRC and accordingly, no information on segment assets and capital expenditure is provided.

For the six months ended 30 June

	2008			2007 (restated)		
	PRC Unaudited RMB'000	Overseas Unaudited RMB'000	Combined Unaudited RMB'000	PRC Unaudited RMB'000	Overseas Unaudited RMB'000	Combined Unaudited RMB'000
Principle operating income	35,108,232	1,933,998	37,042,230	18,466,611	2,289,598	20,756,209

VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Recognition criteria of related party

Parties are considered to be related if one party has the ability to control or jointly control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

Parties are considered to be related if one party is:

- 1) the parent of the Group;
- 2) the subsidiaries of the Group;
- 3) the fellow subsidiaries of the Group;
- 4) able to jointly control the Group;
- 5) able to exercise significant influence over the Group;
- 6) jointly-controlled entities of the Group;
- 7) associates of the Group;
- 8) major individual investors of the Group and a close member of his/her family;
- 9) a member of key management personnel of the Group or the parent and a close member of his/her family;
- 10) the entities controlled, jointly controlled or significantly influenced by major individual investors of the Group, key management personnel of the Group or the parent and a close member of his/her family.

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

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VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

1. Recognition criteria of related party (Continued)

The entities without relationships other than being under common control of the nation with the Group are not considered as related parties.

The related party transactions disclosed in the financial statements are those carried out between the Group and the related parties beyond the consolidation scope, not including the transactions carried out within the Group.

2. Parent company and subsidiary company

Name of parent company	Registered place	Business nature	Share of equity interests	Share of voting rights	Registered capital RMB
Holding	Anhui, PRC	Manufacturing	56.68%	56.68%	6,298,290,000

As at the balance sheet date, the registered and paid-in capital of the parent remained unchanged.

The details of the subsidiaries of the Group are stated in Note IV to the interim financial statements.

3. Other related parties who carried out transactions with the Group

Name	Relationship with the Company
馬鋼(集團)控股有限公司桃沖礦業公司	Controlled by Holding
馬鋼(集團)控股有限公司再就業勞務分公司	Controlled by Holding
馬鋼(集團)控股有限公司有線電視中心	Controlled by Holding
馬鋼(集團)控股有限公司通訊技術服務部	Controlled by Holding
馬鋼(集團)控股有限公司馬鋼日報社	Controlled by Holding
馬鋼(集團)控股有限公司安冶機械廠	Controlled by Holding
馬鋼(集團)控股有限公司測繪大隊	Controlled by Holding
馬鋼(集團)控股有限公司塑鋼廠	Controlled by Holding
馬鋼集團建設有限責任公司	Controlled by Holding
馬鋼集團建設有限責任公司建築安裝分公司	Controlled by Holding
馬鋼集團建設有限責任公司設備租賃分公司	Controlled by Holding
馬鋼集團建設有限責任公司小汽車修理廠	Controlled by Holding
馬鋼集團建築路橋有限責任公司	Controlled by Holding
馬鋼集團建築路橋有限責任公司建築裝飾分公司	Controlled by Holding
馬鋼集團南山礦業有限責任公司	Controlled by Holding
馬鋼集團姑山礦業有限責任公司	Controlled by Holding
馬鋼集團設計研究院有限責任公司	Controlled by Holding
馬鋼礦山岩土工程勘察聯合公司	Controlled by Holding

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

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VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Other related parties who carried out transactions with the Group (Continued)

Name	Relationship with the Company
馬鋼集團康泰置地發展有限公司	Controlled by Holding
馬鋼集團康泰物業有限責任公司	Controlled by Holding
馬鋼集團康泰建安實業有限責任公司	Controlled by Holding
馬鋼集團力生有限責任公司	Controlled by Holding
馬鋼集團力生有限責任公司暖通設備工程分公司	Controlled by Holding
馬鋼集團力生有限責任公司園林綠化工程分公司	Controlled by Holding
馬鋼集團力生有限責任公司汽車修理廠	Controlled by Holding
馬鋼集團楚江假日國際旅遊有限責任公司	Controlled by Holding
馬鋼集團實業發展有限責任公司	Controlled by Holding
馬鋼集團實業發展有限責任公司潤滑油分公司	Controlled by Holding
馬鋼集團實業發展有限責任公司報業印務分公司	Controlled by Holding
馬鋼集團實業發展有限責任公司環保防腐分公司	Controlled by Holding
馬鋼集團實業發展有限責任公司建安分公司	Controlled by Holding
黃山太白山莊	Controlled by Holding
馬鋼神馬冶金有限責任公司	Controlled by Holding
馬鋼集團鋼渣綜合利用有限責任公司	Controlled by Holding
馬鋼實業生興爐料加工有限責任公司	Controlled by Holding
安徽馬鋼比亞西焊網有限公司	Controlled by Holding
馬鞍山市聯營乙炔廠	Controlled by Holding
馬鞍山馬鋼永固螺絲製品有限公司	Controlled by Holding
馬鋼集團動力機電安裝有限責任公司	Controlled by Holding
馬鞍山馬鋼嘉華商品混凝土有限公司	Controlled by Holding
馬鞍山市華鑫軋鋼廠	Controlled by Holding
深圳粵海馬鋼實業有限公司	Controlled by Holding
馬鞍山博力建設監理有限公司	Controlled by Holding
安徽馬鋼技師學院	Controlled by Holding
巢湖市馬鋼五頂山礦業有限公司	Controlled by Holding
馬鞍山實發冶金工貿有限責任公司	Controlled by Holding
安徽冶金科技職業學院	Controlled by Holding
安徽馬鋼羅河礦業有限公司	Controlled by Holding
濟源市金馬焦化	Associate of the Group
滕州盛隆煤焦化	Associate of the Group
馬鞍山港口公司	Associate of the Group
奧馬特變速系統	Associate of the Group
BOC-Ma Steel	JCE of the Group

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VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. (1) The following is a summary of the significant transactions carried out between the Group and its related parties during the period:

	Notes	For the six months ended 30 June			
		2008		2007	
		Unaudited		Unaudited	
		Amount	%	Amount	%
Transactions with Holding and its subsidiaries:					
Purchases of iron ore	(i)	953,418,284	21	830,368,272	22
Fees paid for welfare, support services and other services	(ii), (iii)	87,718,913	100	79,726,061	100
Rental expenses	(iii)	18,125,000	100	18,125,000	100
Agency fee paid	(iii)	1,258,500	100	2,391,585	100
Purchases of fixed assets and construction services	(iii)	115,777,986	8	118,086,811	2
Fees received for the supply of utilities, services and other consumable goods	(iii)	15,376,415	2	21,888,691	14
Sale of steel products and related by products	(iii)	2,643,466	-	2,372,621	-
Acquisition of a subsidiary	(iv)	15,677,600	100	-	-
Transactions with associates of the Group:					
Purchases of coke	(v)	319,436,931	18	311,132,915	40
Loading expenses	(v)	79,748,772	23	59,836,335	25
Transactions with a JCE of the Group:					
Rental income	(vi)	625,000	42	625,000	90
Construction fee income	(vi)	-	-	200,000	-
Fee received for the supply of electricity	(vi)	103,349,388	56	29,463,248	11
Purchase of gas products	(vi)	212,694,906	100	65,699,145	99

- (i) The terms for the purchases of iron ore from Holding were conducted in accordance with an agreement dated 18 October 2006 entered into between the Company and Holding.
- (ii) The terms for the provision of certain services, including on-the-job training, food and sanitary services, environmental and hygiene services, maintenance of roads and landscaping services were conducted in accordance with a services agreement dated 15 February 2007 entered into between the Company and Holding.
- (iii) These transactions with Holding and its subsidiaries were conducted on terms mutually agreed between the Company and the related parties.

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VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. (1) The following is a summary of the significant transactions carried out between the Group and its related parties during the period: (continued)
- (iv) On 4 May 2008, Holly Industrial, a subsidiary of the Company, acquired a 75% of equity interests in Mastel Auto-Parking from Holding at a cash consideration of RMB15,677,600. For more details, please refer to Note V.18.
 - (v) These transactions were made between the Group and 濟源市金馬焦化, 滕州盛隆煤焦化, 馬鞍山港口公司 and were conducted in accordance with the terms mutually agreed between the parties.
 - (vi) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms mutually agreed between them.

Except of (iv), the above transactions were carried out in the normal course of business of the Group.

- (2) At 30 June 2008, Holding has guaranteed certain bank loans of the Group and bonds with warrants amounting to RMB14.3 billion (31 December 2007: approximately RMB15.6 billion) as at the balance sheet date at nil consideration.
- (3) Further details on balances with Holding and its subsidiaries, and the Group's associates are set out in Note VII.5 to the financial statement. These balances are unsecured, interest-free and have no fixed terms of repayment.

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VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Receivable from/payable to related parties

	30 June 2008 Unaudited	31 December 2007 Audited
<u>Prepayments:</u>		
Holding and its subsidiaries		
馬鞍山神馬冶金有限責任公司	–	27,596,420
馬鋼集團建設有限責任公司	4,167,121	–
Others entities controlled by Holding	22,138	484,263
	<hr/> 4,189,259 <hr/>	<hr/> 28,080,683 <hr/>
Total	4,189,259	28,080,683
Percentage to the balance of the Group	0.3%	1.7%
Associates and a JCE of the Group		
BOC-Ma Steel	–	104,167
濟源市金馬焦化	121,527,376	–
	<hr/> 121,527,376 <hr/>	<hr/> 104,167 <hr/>
Total	121,527,376	104,167
Percentage to the balance of the Group	7.6%	–

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

(Prepared under China Accounting Standards)

30 June 2008

Renminbi Yuan

VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Receivable from/payable to related parties (continued)

	30 June 2008 Unaudited	31 December 2007 Audited
<u>Accounts payable:</u>		
Holding and its subsidiaries		
Holding	16,421,852	504,395
馬鋼集團建設有限責任公司	10,469,183	61,077,554
馬鋼集團建築路橋有限責任公司	4,119,757	15,957,440
Others entities controlled by Holding	11,063,387	17,457,898
	<hr/> 42,074,179 <hr/>	<hr/> 94,997,287 <hr/>
Total	42,074,179	94,997,287
Percentage to the balance of the Group	0.3%	1.2%
Associates and a JCE of the Group		
BOC-Ma Steel	19,191,522	54,513,048
馬鞍山港口公司	13,280,258	17,172,371
滕州盛隆煤焦化	54,972	2,080,065
濟源市金馬焦化	-	127,204,676
	<hr/> 32,526,752 <hr/>	<hr/> 200,970,160 <hr/>
Total	32,526,752	200,970,160
Percentage to the balance of the Group	0.3%	2.6%

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

(Prepared under China Accounting Standards)

30 June 2008

Renminbi Yuan

VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Receivable from/payable to related parties (continued)

	30 June 2008 Unaudited	31 December 2007 Audited
<u>Trade receivables:</u>		
Holding and its subsidiaries		
馬鋼集團康泰置地發展有限公司	–	1,149,811
馬鋼集團建設有限責任公司	562,075	5,551,142
馬鋼嘉華商品混凝土有限公司	3,828,480	–
Others entities controlled by Holding	142,318	3,072,321
Total	4,532,873	9,773,274
Percentage to the balance of the Group	0.5%	1.0%
 Associates and a JCE of the Group		
BOC-Ma Steel	36,317,546	19,404,958
奧馬特變速系統	540,000	–
Total	36,857,546	19,404,958
Percentage to the balance of the Group	4.2%	1.9%

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

(Prepared under China Accounting Standards)

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Renminbi Yuan

VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Receivable from/payable to related parties (continued)

	30 June 2008 Unaudited	31 December 2007 Audited
<u>Deposits received:</u>		
Holding and its subsidiaries		
Holding	98,998,026	59,653,996
馬鋼集團建設有限責任公司	–	318,578
馬鋼集團建築路橋有限責任公司	64,864,883	–
馬鋼集團姑山礦業有限責任公司	–	48,005,461
Others entities controlled by Holding	124,678	19,850,363
Total	163,987,587	127,828,398
Percentage to the balance of the Group	1.9%	1.9%
Associates of the Group		
奧馬特變速系統	7,966,239	–
Percentage to the balance of the Group	–	–
<u>Dividends payable:</u>		
Holding	1,295,969,925	1,297,972,800
Percentage to the balance of the Group	76.9%	99.6%

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

(Prepared under China Accounting Standards)

30 June 2008

Renminbi Yuan

VIII. CONTINGENT LIABILITIES

1. Guarantee

As at 30 June 2008, the Company had granted guarantees amounting to approximately RMB5,014 million (31 December 2007: approximately RMB5,305 million) to banks for trading facilities granted to its subsidiaries.

2. Difference of corporate income tax

As detailed in Note III.8 to the financial statements, the Group still has potential risks on corporate income tax in prior years to be determined. The directors of the Company consider that it is not possible to reliably estimate whether the relevant tax authorities will retrospectively claim additional CIT from the Company and that it is not possible to reliably estimate the eventual outcome of this matter. Consequently, no provision or adjustment has been made in these financial statements in respect of the extra tax and related tax concessions, deferred tax, penalty and interests (if applicable).

IX. LEASE ARRANGEMENTS

Significant operating lease:

The Group leases its investment properties under operating lease arrangement to BOC-Ma Steel for 18 years. The rent is fixed during the operating lease period.

	30 June 2008 Unaudited	31 December 2007 Audited
Remaining lease period		
Within 1 year, inclusive	1,250,000	1,305,500
1 to 2 years, inclusive	1,250,000	1,250,000
2 to 3 years, inclusive	1,250,000	1,250,000
Over 3 years	14,532,534	15,157,534
	<hr/> 18,282,534 <hr/>	<hr/> 18,907,534 <hr/>
Total	18,282,534	18,907,534

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

(Prepared under China Accounting Standards)

30 June 2008

Renminbi Yuan

X. COMMITMENTS

1. The commitments of the Group as at the balance sheet date were as follows:

	30 June 2008 Unaudited RMB'000	31 December 2007 Audited RMB'000
Capital commitments		
Authorised, but not contracted for	2,423,301	3,157,701
Contracted, but not provided for	897,712	556,524
Total	3,321,013	3,714,225
Investment commitments		
Contracted, but not fully contributed	9,000	9,000

2. Share of the commitments of the JCE by the Group (not included in Note 1 above) as at the balance sheet date were as follows:

	30 June 2008 Unaudited RMB'000	31 December 2007 Audited RMB'000
Capital commitments		
Authorised, but not contracted for	-	778
Contracted, but not provided for	-	-
Total	-	778
Other commitments		
Contracted, but not provided for	4,250	4,500

XI. POST BALANCE SHEET EVENTS

Up to reporting date, no significant post balance sheet event was noted.

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

(Prepared under China Accounting Standards)

30 June 2008

Renminbi Yuan

XII. COMPARATIVE AMOUNTS

Certain comparative amounts have been restated to comply with presentation requirements.

XIII. MAJOR NOTES TO INTERIM COMPANY FINANCIAL STATEMENTS

1. Trade receivables

The Company's credit terms are usually 30 to 90 days. And trade receivables are interest free.

The ageing of trade receivables is analysed below:

	30 June 2008 Unaudited	31 December 2007 Audited
Within one year	1,398,442,969	1,542,092,337
One to two years	5,596,144	10,925,223
Two to three years	2,712,563	920,542
Over three years	16,081,510	16,525,141
	1,422,833,186	1,570,463,243
Less: Provisions for bad debts	17,012,331	16,408,411
Total	1,405,820,855	1,554,054,832

Trade receivables balance is analysed as follows:

	30 June 2008 Unaudited				31 December 2007 Audited			
	Balance	Ratio	Provision for bad debts	Ratio	Balance	Ratio	Provision for bad debts	Ratio
Individually significant	1,382,108,314	97%	(14,184,569)	1%	1,530,563,390	97%	(14,184,569)	1%
Other insignificant	40,724,872	3%	(2,827,762)	7%	39,899,853	3%	(2,223,842)	6%
Total	1,422,833,186	100%	(17,012,331)		1,570,463,243	100%	(16,408,411)	

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

(Prepared under China Accounting Standards)

30 June 2008

Renminbi Yuan

XIII. MAJOR NOTES TO INTERIM COMPANY FINANCIAL STATEMENTS (CONTINUED)

1. Trade receivables (continued)

An analysis of the amount of bad debts provisions written off in the current period:

Reason	For the six months ended 30 June	
	2008 Unaudited	2007 Unaudited
Amount received after written-off	603,920	4,302,112

The movement of bad debts provisions for trade receivables for the six months ended 30 June 2008 is disclosed in Note 3.

2. Other receivables

The ageing of other receivables is analysed below:

	30 June 2008 Unaudited	31 December 2007 Audited
Within one year	26,825,847	63,453,239
One to two years	300,881	338,748
Two to three years	74,988	80,988
Over three years	7,520,845	6,554,785
	34,722,561	70,427,760
Less: Provisions for bad debts	6,930,913	6,930,913
Total	27,791,648	63,496,847

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

(Prepared under China Accounting Standards)

30 June 2008

Renminbi Yuan

XIII. MAJOR NOTES TO INTERIM COMPANY FINANCIAL STATEMENTS (CONTINUED)**2. Other receivables (continued)**

Other receivables balance is analysed as follows:

	30 June 2008 Unaudited				31 December 2007 Audited			
	Balance	Ratio	Provision for bad debts	Ratio	Balance	Ratio	Provision for bad debts	Ratio
Individually significant	6,187,008	18%	(3,688,268)	60%	23,822,132	34%	(3,688,268)	15%
Other insignificant	28,535,553	82%	(3,242,645)	11%	46,605,628	66%	(3,242,645)	7%
Total	<u>34,722,561</u>	<u>100%</u>	<u>(6,930,913)</u>		<u>70,427,760</u>	<u>100%</u>	<u>(6,930,913)</u>	

An analysis of the amount of bad debts provisions written off in the current period:

Reason	For the six months ended 30 June	
	2008 Unaudited	2007 Unaudited
Debtors with age over 3 years and demonstrated by sufficient evidence that they were irrecoverable	<u>—</u>	<u>5,493,751</u>

The movement of bad debts provisions for other receivables for the six months ended 30 June 2008 is disclosed in Note 3.

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

(Prepared under China Accounting Standards)

30 June 2008

Renminbi Yuan

XIII. MAJOR NOTES TO INTERIM COMPANY FINANCIAL STATEMENTS (CONTINUED)

3. Assets impairment provisions

	For the six months ended 30 June 2008				Closing balance Unaudited
	Opening balance Audited	Increase during the period Unaudited	Decrease during the period		
			Reversal Unaudited	Write-off Unaudited	
Provisions for bad debts	23,339,324	603,920	-	-	23,943,244
including: Trade receivables	16,408,411	603,920	-	-	17,012,331
Other receivables	6,930,913	-	-	-	6,930,913
Provisions for inventories	132,103,392	-	(9,795,364)	-	122,308,028
including: Finished goods	9,795,364	-	(9,795,364)	-	-
Spare parts	122,308,028	-	-	-	122,308,028
Impairment of fixed assets	90,675,644	-	-	-	90,675,644
including: Buildings and structures	5,252,400	-	-	-	5,252,400
Plant, machinery and equipment	85,423,244	-	-	-	85,423,244
Total	246,118,360	603,920	(9,795,364)	-	236,926,916

	For the six months ended 30 June 2007				Closing balance Unaudited
	Opening balance Audited	Increase during the period Unaudited	Decrease during the period		
			Reversal Unaudited	Write-off Unaudited	
Provisions for bad debts	66,612,770	4,302,112	-	(5,493,751)	65,421,131
including: Trade receivables	40,440,023	4,302,112	-	-	44,742,135
Other receivables	26,172,747	-	-	(5,493,751)	20,678,996
Provisions for inventories	91,769,889	-	-	(4,840,000)	86,929,889
including: Finished goods	4,840,000	-	-	(4,840,000)	-
Spare parts	86,929,889	-	-	-	86,929,889
Impairment of fixed assets	90,675,644	-	-	-	90,675,644
including: Buildings and structures	5,252,400	-	-	-	5,252,400
Plant, machinery and equipment	85,423,244	-	-	-	85,423,244
Total	249,058,303	4,302,112	-	(10,333,751)	243,026,664

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

(Prepared under China Accounting Standards)

30 June 2008

Renminbi Yuan

XIII. MAJOR NOTES TO INTERIM COMPANY FINANCIAL STATEMENTS (CONTINUED)**4. Revenue and cost of sales**

Revenue is stated as follows:

	2008 Unaudited	2007 Unaudited
Principle operating income	38,006,263,670	21,183,925,441
Other operating income	2,873,087,244	354,570,729
Total revenue	40,879,350,914	21,538,496,170

Principle operating income and cost of sales are stated as follows:

	For the six months ended 30 June 2008 Unaudited		For the six months ended 30 June 2007 Unaudited	
	Principle operating income	Principle cost of sales	Principle operating income	Principle cost of sales
Sale of steel products	35,467,931,506	31,437,906,491	19,517,688,312	17,644,238,345
Sale of steel billets	346,531,918	341,095,254	236,065,209	228,046,846
Sale of coke by-products	398,223,723	237,152,016	242,967,551	164,133,267
Others	1,793,576,523	1,530,451,314	1,187,204,369	1,060,829,900
Total	38,006,263,670	33,546,605,075	21,183,925,441	19,097,248,358

5. Assets impairment losses

	2008 Unaudited	2007 Unaudited
Provision/(reversal of provisions) for inventories	(9,795,364)	—

NOTES TO INTERIM FINANCIAL STATEMENTS (CONTINUED)

(Prepared under China Accounting Standards)

30 June 2008

Renminbi Yuan

XIII. MAJOR NOTES TO INTERIM COMPANY FINANCIAL STATEMENTS (CONTINUED)

6. Investment income

	For the six months ended 30 June	
	2008 Unaudited	2007 Unaudited
Long term equity investments income under equity method	128,031,350	38,159,847
Long term equity investments income under cost method	109,860,223	55,090,151
Other equity investment income	89,510	–
Total	237,981,083	93,249,998

7. Cash flows from operating activities:

	For the six months ended 30 June	
	2008 Unaudited	2007 Unaudited (restated)
Net profit	2,405,633,193	1,044,758,471
Add: Provision/(reversal of provision) for inventories	(9,795,364)	–
Depreciation of fixed assets	2,175,857,326	1,264,810,084
Amortisation of investment properties	219,751	202,524
Amortisation of intangible assets	15,296,240	14,697,961
Amortisation of deferred income	(32,942,886)	(25,012,100)
Loss on disposal of non-current assets	(289,400)	94,295,000
Financial expenses	558,357,803	267,647,569
Investment income	(237,981,083)	(93,249,998)
Fair value gains	772,870	–
Deferred tax income	(15,404,280)	(2,567,000)
Decrease/(increase) in inventories	(2,949,649,332)	(1,606,419,308)
Decrease/(increase) in receivables from operating activities	199,092,104	(4,602,713,483)
Increase in payables from operating activities	3,797,806,054	1,676,097,888
Net cash flows from operating activities	5,906,972,996	(1,967,452,392)

XIV. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These interim financial statements were approved by the board of directors on 14 August 2008.

APPENDIX SUPPLEMENTARY INFORMATION

30 June 2008

1. DIFFERENCES IN INTERIM FINANCIAL STATEMENTS PREPARED UNDER CAS AND HKFRS

Nil difference exists on net profits and shareholders' equity recorded in the consolidated financial statements prepared under the CAS and Hong Kong Financial Reporting Standards (the "HKFRS").

2. RETURN ON NET ASSETS AND EARNINGS PER SHARE

For the six months ended 30 June 2008

	Return on net assets (%)		Earnings per share (RMB)	
	Fully Diluted	Weighted Average	Basic	Diluted
Net profit attributable to equity holders of the parent	9.27	10.34	0.335	0.309
Net profit attributable to equity holders of the parent excluding non-recurring gains or losses	<u>9.15</u>	<u>10.21</u>	<u>0.330</u>	<u>0.305</u>

For the six months ended 30 June 2007 (restated)

	Return on net assets (%)		Earnings per share (RMB)	
	Fully Diluted	Weighted Average	Basic	Diluted
Net profit attributable to equity holders of the parent	5.36	5.28	0.172	0.156
Net profit attributable to equity holders of the parent excluding non-recurring gains or losses	<u>5.62</u>	<u>5.54</u>	<u>0.181</u>	<u>0.163</u>

Return on net assets and earnings per share are calculated based on the formula stipulated in the "Regulation for the preparation of information disclosure by listed securities companies No. 9 – Calculation and disclosure of return on net assets and earnings per share (2007 revised)" (Zheng Jian Kuai Ji Zi No. 9 [2007]) issued by CSRC.

APPENDIX SUPPLEMENTARY INFORMATION (CONTINUED)

30 June 2008

2. RETURN ON NET ASSETS AND EARNINGS PER SHARE (continued)

	For the six months ended 30 June	
	2008 Unaudited	2007 Unaudited (restated)
<u>Non-recurring gains or losses items</u>		
Loss on disposal of non-current assets	(575,278)	(94,304,468)
Subsidies income	1,067,600	4,132,284
Amortisation of deferred income	32,942,886	25,012,100
Other non-operating income and expense items	(5,877,670)	(2,253,272)
	27,557,538	(67,413,356)
Less: Income tax effect	(1,313,779)	(13,416,661)
Non-recurring gains or losses attributable to minority shareholders	(212,759)	438,382
Net effect of non-recurring gains or losses	29,084,076	(54,435,077)
<u>Net profit attributable to equity holders of the parent excluding non-recurring gains or losses</u>		
Net profit attributable to ordinary equity holders of the parent	2,261,278,381	1,111,094,947
Less: Net effect of non-recurring gains or losses	29,084,076	(54,435,077)
Net profit attributable to equity holders of the parent excluding non-recurring gains or losses	2,232,194,305	1,165,530,024

The calculation of non-recurring gains or losses is in accordance with "Questions and answers on information disclosure standards of listed securities companies No.1 – Non-recurring Gains or Losses (2007 revised)" (Zheng Jian Kuai Ji Zi No. No.9 [2007]) issued by CSRC.

APPENDIX SUPPLEMENTARY INFORMATION (CONTINUED)

30 June 2008

3. VARIANCE ANALYSIS

Analysis on items with fluctuation more than 30% (inclusive) in interim consolidated financial statements is as follows:

- (1) The Group's cash and balances with financial institutions amounted to RMB8,262,200,058, an increase of 31% over the previous year-end, which was mainly attributable to the increase in revenue.
- (2) The Group's other receivables amounted to RMB470,104,020, an increase of 83% over the previous year-end, which was mainly attributable to the increase in prepayments for import customs and taxes.
- (3) The Group's inventories amounted to RMB13,204,072,064, an increase of 37% over the previous year-end, which was mainly attributable to the increase in purchase of raw materials.
- (4) The Group's short term loan amounted to RMB2,481,977,337, an increase of 36% over the previous year-end, which was mainly attributable to the increase balance of liquid asset borrowing.
- (5) The Group's taxes payable amounted to RMB1,190,756,667, an increase of 95% over the previous year-end, which was mainly attributable to the increase of unpaid VAT payable.
- (6) The Group's interests payable amounted to RMB132,950,660, an increase of 65% over the previous year-end, which was mainly attributable to the accrual interest of short term commercial papers.
- (7) The Group's non-current liabilities due within one year amounted to RMB1,971,926,119, an decrease of 30% over the previous year-end, which was mainly attributable to the decrease in long term borrowings due within one year.
- (8) The Group's revenue and cost of sales amounted to RMB37,724,831,378 and RMB32,847,608,925 respectively, an increase of 79% and 77% over the previous comparative period respectively, which was mainly attributable to the increase in production scale and the purchase cost of raw materials.
- (9) The Group's taxes and surcharges amounted to RMB435,903,573, an increase of 159% over the previous comparative period, which was mainly attributable to the increase in revenue and export duty charges.
- (10) The Group's selling expense amounted to RMB171,013,705, an increase of 37% over the previous comparative period, which was mainly attributable to the increase in overseas freight charges.
- (11) The Group's financial expenses amounted to RMB 772,907,568, an increase of 151% over the previous comparative period, which was mainly attributable to the decrease in interest capitalization.

APPENDIX SUPPLEMENTARY INFORMATION (CONTINUED)

30 June 2008

3. VARIANCE ANALYSIS (continued)

- (12) The Group's investment income amounted to RMB126,768,138, an increase of 235% over the previous comparative period, which was mainly attributable to the increase in the share of profits of a jointly-controlled entity and associates.
- (13) The Group's non-operating expenses amounted to RMB6,752,254, an decrease of 93% over the previous comparative period, which was mainly attributable to the decrease in loss on the disposal of fixed assets.
- (14) The Group's income tax amounted to RMB822,143,276, an increase of 281% over the previous comparative period, which was mainly attributable to the arising of the income tax rate.

CONDENSED CONSOLIDATED INCOME STATEMENT

(Prepared under Hong Kong Financial Reporting Standards)

For the six months ended 30 June 2008

		For the six months ended 30 June	
	Notes	2008 Unaudited RMB'000	2007 Unaudited RMB'000
REVENUE	3, 4	37,042,230	20,750,105
Cost of sales		<u>(32,229,612)</u>	<u>(18,345,992)</u>
Gross profit		4,812,618	2,404,113
Other income and gains	4	304,630	78,462
Selling and distribution costs		(606,917)	(291,805)
Administrative expenses		(529,855)	(466,963)
Other operating expenses, net		(1,024)	(94,756)
Finance costs	5	(952,516)	(305,888)
Share of profits and losses of:			
A jointly-controlled entity		27,323	(5,552)
Associates		99,251	43,417
PROFIT BEFORE TAX	6	3,153,510	1,361,028
Tax	7	<u>(822,143)</u>	<u>(215,903)</u>
PROFIT FOR THE PERIOD		<u>2,331,367</u>	<u>1,145,125</u>
Attributable to:			
Equity holders of the parent		2,261,279	1,111,095
Minority interests		70,088	34,030
		<u>2,331,367</u>	<u>1,145,125</u>
DIVIDEND	8	<u>Nil</u>	<u>Nil</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		<u>33.46 cents</u>	<u>17.21 cents</u>
Diluted		<u>30.88 cents</u>	<u>15.55 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

(Prepared under Hong Kong Financial Reporting Standards)

30 June 2008

	Notes	As at 30 June 2008 Unaudited RMB'000	As at 31 December 2007 Audited RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	41,091,160	41,315,357
Construction in progress	11	3,390,653	4,021,499
Investment properties		1,206	1,240
Prepaid land premiums		1,555,638	1,516,155
Other intangible asset		122,130	120,822
Investment in a jointly-controlled entity		295,629	268,306
Investments in associates		470,411	414,725
Available-for-sale equity investments		102,917	102,917
Held-to-maturity investments		5,599	5,599
Deferred tax assets		106,177	90,486
Total non-current assets		47,141,520	47,857,106
CURRENT ASSETS			
Inventories	12	13,076,721	9,550,481
Construction contracts	13	127,351	75,688
Trade and bills receivables	14	5,251,444	5,209,674
Prepayments, deposits and other receivables	15	2,071,631	1,928,496
Equity investments at fair value through profit or loss		1,074	1,463
Pledged deposits		885,189	768,081
Cash and cash equivalents		7,377,011	5,523,876
Total current assets		28,790,421	23,057,759
CURRENT LIABILITIES			
Trade and bills payables	16	11,739,144	9,472,551
Other payables and accruals		12,111,286	9,742,997
Interest-bearing bank and other borrowings		6,453,903	6,081,841
Tax payable		450,514	111,819
Provisions		29,424	40,546
Total current liabilities		30,784,271	25,449,754
NET CURRENT LIABILITIES		(1,993,850)	(2,391,995)
TOTAL ASSETS LESS CURRENT LIABILITIES		45,147,670	45,465,111

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)

30 June 2008

	Notes	As at 30 June 2008 Unaudited RMB'000	As at 31 December 2007 Audited RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		45,147,670	45,465,111
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		14,707,140	16,577,952
Bonds with warrants	17	4,900,174	4,828,762
Deferred income		560,083	590,426
Provisions		12,485	12,485
Total non-current liabilities		20,179,882	22,009,625
Net assets		24,967,788	23,455,486
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	18	6,758,552	6,758,552
Equity component of bonds with warrants		372,679	372,679
Reserves		17,267,344	14,999,128
Proposed final dividend		–	878,612
		24,398,575	23,008,971
Minority interests		569,213	446,515
Total equity		24,967,788	23,455,486

Gu Jianguo

Director

Su Jianguang

Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Prepared under Hong Kong Financial Reporting Standards)

For the six months ended 30 June 2008

	Attributable to equity holders of the parent											
	Issued share capital	Capital reserve account	Equity component of bonds with warrants	Statutory reserve	Enterprise Reserve fund	Exchange fluctuation fund	Retained profits	Proposed final dividend	Total	Minority interests	Total equity	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008	6,758,552	5,684,014	372,679	2,837,343	36,642	27,577	9,630	6,403,922	878,612	23,008,971	446,515	23,455,486
Profit for the period	-	-	-	-	-	-	-	2,261,279	-	2,261,279	70,088	2,331,367
Final 2007 dividend declared	-	-	-	-	-	-	-	-	(878,612)	(878,612)	-	(878,612)
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	-	(48,584)	(48,584)
Capital contribution by minority shareholders	-	-	-	-	-	-	-	-	-	-	101,194	101,194
Exchange realignment	-	-	-	-	-	-	6,937	-	-	6,937	-	6,937
At 30 June 2008	6,758,552	5,684,014	372,679	2,837,343	36,642	27,577	16,567	8,665,201	-	24,398,575	569,213	24,967,788
At 1 January 2007	6,455,300	4,864,976	585,463	2,595,774	23,047	18,339	-	5,079,683	839,189	20,461,771	310,497	20,772,268
Profit for the period	-	-	-	-	-	-	-	1,111,095	-	1,111,095	34,030	1,145,125
Final 2006 dividend declared	-	-	-	-	-	-	-	-	(839,189)	(839,189)	-	(839,189)
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	-	(25,253)	(25,253)
Capital contribution by minority shareholders	-	-	-	-	-	-	-	-	-	-	27,818	27,818
At 30 June 2007	6,455,300	4,864,976	585,463	2,595,774	23,047	18,339	-	6,190,778	-	20,733,677	347,092	21,080,769

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Prepared under Hong Kong Financial Reporting Standards)

For the six months ended 30 June 2008

	For the six months ended 30 June	
	2008 Unaudited RMB'000	2007 Unaudited RMB'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	6,537,919	(1,329,560)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(1,707,784)	(3,718,590)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	(2,961,065)	4,268,981
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	1,869,070	(779,169)
Cash and cash equivalents at beginning of period	5,523,876	3,629,568
Effect of foreign exchange rate changes, net	(15,935)	(10,602)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>7,377,011</u>	<u>2,839,797</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<u>7,377,011</u>	<u>2,839,797</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Prepared under Hong Kong Financial Reporting Standards)

30 June 2008

1. CORPORATE INFORMATION

Maanshan Iron & Steel Company Limited (the “Company”) is a joint stock company incorporated in the People’s Republic of China (the “PRC”). The registered office of the Company is located at No. 8 Hong Qi Zhong Road, Maanshan City, Anhui Province, the PRC.

During the period, the Company and its subsidiaries (the “Group”) were principally engaged in the manufacture and sale of iron and steel products and related by-products.

In the opinion of the directors, the parent and the ultimate holding company of the Group is Magang (Group) Holding Company Limited (“Holding”), which is incorporated in the PRC.

2. ACCOUNTING POLICIES

The interim condensed consolidated financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and basis of preparation used in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2007 except in relation to the following new Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that affect the Group and are adopted the first time for the current period’s financial statements:

HK (IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK (IFRIC) – Int 12	Service Concession Arrangements
HK (IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the above new HKFRSs has no material impact on the accounting policies of the Group and the methods of computation in the Group’s condensed consolidated financial statements.

3. SEGMENT INFORMATION

No business segment information is presented as over 90% of the Group’s revenue is derived from one business segment, which is the manufacture and sale of iron and steel products and related by-products.

The analysis of the Group’s secondary segment information, geographical segment, is presented based on the geographical location of customers. The Group’s assets and liabilities are almost entirely situated in the PRC and accordingly, no information on segment assets and capital expenditure is provided.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)

30 June 2008

3. SEGMENT INFORMATION (CONTINUED)

	For the six months ended 30 June					
	2008			2007		
	PRC Unaudited RMB'000	Overseas Unaudited RMB'000	Total Unaudited RMB'000	PRC Unaudited RMB'000	Overseas Unaudited RMB'000	Total Unaudited RMB'000
Segment revenue	<u>35,108,232</u>	<u>1,933,998</u>	<u>37,042,230</u>	<u>18,460,507</u>	<u>2,289,598</u>	<u>20,750,105</u>

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowance for returns and trade discounts, and excludes sales taxes and intra-group transactions.

An analysis of revenue, other income and gains is as follows:

	For the six months ended 30 June	
	2008 Unaudited RMB'000	2007 Unaudited RMB'000
Revenue		
Sale of goods	<u>37,042,230</u>	<u>20,750,105</u>
Other income and gains		
Bank interest income	37,299	20,235
Trading of iron ores	43,376	16,331
Dividend income from an available-for-sale equity investment	104	–
Recognition of deferred income	32,943	25,012
Net rental income	625	625
Foreign exchange gains	159,200	–
Others	<u>31,083</u>	<u>16,259</u>
	<u>304,630</u>	<u>78,462</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)

30 June 2008

5. FINANCE COSTS

	For the six months ended 30 June	
	2008 Unaudited RMB'000	2007 Unaudited RMB'000
Interest on bank loans, other loans and bonds with warrants wholly repayable within five years	952,516	668,861
Less: Interest capitalised in construction in progress	–	(362,973)
	952,516	305,888

6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2008 Unaudited RMB'000	2007 Unaudited RMB'000
Cost of inventories sold (note i)	32,229,612	18,345,882
Depreciation of property, plant and equipment	2,252,671	1,322,824
Depreciation of investment properties	34	17
Recognition of prepaid land premiums	19,663	18,872
Amortisation of a mine participation right (note ii)	2,766	2,291
Auditors' remuneration	3,007	3,004
Staff costs:		
Wages and salaries	916,691	793,964
Welfare and benefits	280,222	313,768
Pension scheme contributions	207,929	190,986
	1,404,842	1,298,718
Contingent rents under operating leases in respect of land and buildings	18,125	18,125
Foreign exchange differences:		
Foreign exchange gains, net	(159,200)	(9,457)
Less: Foreign exchange gains capitalised in construction in progress	–	19,320
	(159,200)	9,863

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)

30 June 2008

6. PROFIT BEFORE TAX (CONTINUED)

	For the six months ended 30 June	
	2008 Unaudited RMB'000	2007 Unaudited RMB'000
Loss on disposal of items of property, plant and equipment, net	575	94,304
Net rental income	(625)	(625)
Bank interest income	(37,299)	(20,235)
Dividend income from an available-for-sale equity investment	(104)	–
Recognition of deferred income (note iii)	(32,943)	(25,012)
	<u>(32,943)</u>	<u>(25,012)</u>

Notes:

- (i) Included in the cost of inventories sold for the six months ended 30 June 2008 is a reversal of provision against inventories of RMB 9,795,000 (2007: nil).
- (ii) The amortization of a mine participation right is included in "Cost of sales" on the face of the condensed consolidated income statement.
- (iii) Various government grants have been received for the construction of specific projects and included in deferred income in the balance sheet. Upon completion of the construction of specific projects and the transfers to property, plant and equipment, the relevant government grants would be amortised and recorded as other revenue over the estimated useful lives of the property, plant and equipment. There are no unfulfilled conditions or contingencies relating to these grants.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)

30 June 2008

7. TAX

	For the six months ended 30 June	
Group:	2008 Unaudited RMB'000	2007 Unaudited RMB'000
Current – Mainland China	828,317	208,004
Current – Elsewhere	9,517	10,466
Deferred	(15,691)	(2,567)
Total tax charge for the period	822,143	215,903

The income tax for the Company and its subsidiaries in the mainland of the PRC (the "Mainland China") is calculated at rates ranging from 18% to 25% on their estimated assessable profits for the period based on existing legislation, interpretations and practices in respect thereof. Certain of the Company's subsidiaries are foreign investment enterprises and after obtaining the authorisation from the respective tax authorities, these subsidiaries are subject to a full foreign enterprise income tax exemption for the first two years and a 50% reduction in the succeeding three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years.

Profits tax for a subsidiary in Hong Kong has been provided at the rate of 17.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the period.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The State Administration of Taxation (the "SAT") issued a tax circular "Enterprise Income Tax Issues relating to Nine Companies Listed Overseas ("Circular No. 664")" in June 2007 which requested the relevant local tax authorities to rectify, immediately, the expired concessionary tax policy for the nine listed companies authorised by the State Council to issue shares in Hong Kong in 1993 which, at the time of writing, was still being applied. The Circular stated that the difference in corporate income tax ("CIT") arising from the expired preferential CIT rate and the applicable CIT rate (the "CIT Differences") should be settled according to the provisions of "Law on the Administration of Tax Collection".

The Company is one of the nine listed companies mentioned above and applied the preferential CIT rate of 15% in prior years. Having understood the above, the Company thoroughly communicated with the relevant tax authority and was informed by the relevant tax authority that the Company applies the CIT tax rate of 33% for 2007. The Company has not been requested to pay the CIT Differences in respect of any prior years.

Based on a notice from the relevant tax authority and communication with the relevant tax authority, the directors of the Company consider that, at this stage, it is uncertain whether the relevant tax authority will claim the CIT Differences from the Company in respect of any prior years and could not reliably estimate the eventual outcome of this matter. Consequently, no provision has been made in these financial statements for the CIT Differences in respect of any prior years.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)

30 June 2008

8. DIVIDEND

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2008 (2007: Nil).

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the period.

The calculation of diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

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

	For the six months ended 30 June	
	2008 Unaudited RMB'000	2007 Unaudited RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	2,261,279	1,111,095
	Number of shares	Number of shares
Shares		
Weighted average number of ordinary shares in issue during the period as used in the basic earnings per share calculation	6,758,551,716	6,455,300,000
Effect of dilution – weighted average number of ordinary shares: Warrants attached to bonds	565,376,678	692,296,937
	7,323,928,394	7,147,596,937

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)

30 June 2008

10. PROPERTY, PLANT AND EQUIPMENT

	Buildings and structures Unaudited RMB'000	Plant, machinery and equipment Unaudited RMB'000	Transportation vehicles and equipment Unaudited RMB'000	Total Unaudited RMB'000
30 June 2008				
At 1 January 2008:				
Cost	18,684,265	36,839,150	425,256	55,948,671
Accumulated depreciation and impairment	<u>(4,116,693)</u>	<u>(10,235,224)</u>	<u>(281,397)</u>	<u>(14,633,314)</u>
Net carrying amount	<u>14,567,572</u>	<u>26,603,926</u>	<u>143,859</u>	<u>41,315,357</u>
At 1 January 2008, net of accumulated depreciation and impairment	14,567,572	26,603,926	143,859	41,315,357
Additions	19,303	68,351	3,907	91,561
Acquisition of a subsidiary (note 19)	9,308	3,236	112	12,656
Transfer from construction in progress (note 11)	677,886	1,236,419	11,513	1,925,818
Reclassification	85,009	(82,245)	(2,764)	–
Depreciation provided during the period	(532,006)	(1,694,995)	(25,670)	(2,252,671)
Disposals/write-off	<u>(36)</u>	<u>(657)</u>	<u>(868)</u>	<u>(1,561)</u>
At 30 June 2008, net of accumulated depreciation and impairment	<u>14,827,036</u>	<u>26,134,035</u>	<u>130,089</u>	<u>41,091,160</u>
At 30 June 2008:				
Cost	19,494,466	38,044,611	431,005	57,970,082
Accumulated depreciation and impairment	<u>(4,667,430)</u>	<u>(11,910,576)</u>	<u>(300,916)</u>	<u>(16,878,922)</u>
Net carrying amount	<u>14,827,036</u>	<u>26,134,035</u>	<u>130,089</u>	<u>41,091,160</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)

30 June 2008

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings and structures Unaudited	Plant, machinery and equipment Unaudited	Transportation vehicles and equipment Unaudited	Total Unaudited
	RMB'000	RMB'000	RMB'000	RMB'000
30 June 2007				
At 1 January 2007:				
Cost	9,396,798	20,556,252	395,132	30,348,182
Accumulated depreciation and impairment	<u>(3,287,668)</u>	<u>(8,059,426)</u>	<u>(248,493)</u>	<u>(11,595,587)</u>
Net carrying amount	<u>6,109,130</u>	<u>12,496,826</u>	<u>146,639</u>	<u>18,752,595</u>
At 1 January 2007, net of accumulated depreciation and impairment	6,109,130	12,496,826	146,639	18,752,595
Additions	5,962	37,562	6,830	50,354
Transfer from construction in progress (note 11)	3,049,266	6,438,313	5,000	9,492,579
Reclassification	(135,136)	135,503	(367)	–
Depreciation provided during the period	(278,422)	(1,021,505)	(22,897)	(1,322,824)
Disposals/write-off	<u>(518)</u>	<u>(114,614)</u>	<u>(100)</u>	<u>(115,232)</u>
At 30 June 2007, net of accumulated depreciation and impairment	<u>8,750,282</u>	<u>17,972,085</u>	<u>135,105</u>	<u>26,857,472</u>
At 30 June 2007:				
Cost	12,300,446	26,998,285	404,614	39,703,345
Accumulated depreciation and impairment	<u>(3,550,164)</u>	<u>(9,026,200)</u>	<u>(269,509)</u>	<u>(12,845,873)</u>
Net carrying amount	<u>8,750,282</u>	<u>17,972,085</u>	<u>135,105</u>	<u>26,857,472</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)

30 June 2008

11. CONSTRUCTION IN PROGRESS

	Unaudited RMB'000
30 June 2008	
Cost:	
At 1 January 2008	4,021,499
Additions	1,294,712
Acquisition of a subsidiary (note 19)	260
Transfers to property, plant and equipment (note 10)	<u>(1,925,818)</u>
At 30 June 2008	<u>3,390,653</u>
Accumulated impairment:	
At 1 January 2008 and 30 June 2008	<u>—</u>
At 30 June 2008, net of accumulated impairment	<u><u>3,390,653</u></u>
30 June 2007	
Cost:	
At 1 January 2007	21,066,978
Additions	5,294,951
Transfers to property, plant and equipment (note 10)	<u>(9,492,579)</u>
At 30 June 2007	<u>16,869,350</u>
Accumulated impairment:	
At 1 January 2007 and 30 June 2007	<u>—</u>
At 30 June 2007, net of accumulated impairment	<u><u>16,869,350</u></u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)

30 June 2008

12. INVENTORIES

	As at 30 June 2008 Unaudited RMB'000	As at 31 December 2007 Audited RMB'000
Raw materials	7,730,150	4,866,757
Work in progress	1,367,720	738,365
Finished goods	1,597,536	1,684,709
Spare parts	2,381,315	2,260,650
	13,076,721	9,550,481

13. CONSTRUCTION CONTRACTS

	As at 30 June 2008 Unaudited RMB'000	As at 31 December 2007 Audited RMB'000
Gross amount due from contract customers	127,351	75,688
Contract costs incurred to date plus recognised profits less recognised losses	543,448	490,435
Less: Progress billings	(416,097)	(414,747)
	127,351	75,688

At 30 June 2008, retentions held by customers for contract works included in the Group's trade receivables amounted to RMB5 million (31 December 2007: RMB7 million).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)

30 June 2008

14. TRADE AND BILLS RECEIVABLES

	As at 30 June 2008 Unaudited RMB'000	As at 31 December 2007 Audited RMB'000
Trade receivables	881,569	1,032,731
Bills receivable	4,387,834	4,194,298
	5,269,403	5,227,029
Impairment	(17,959)	(17,355)
	5,251,444	5,209,674

The Group's credit periods offered to selected customers are generally 30 to 90 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group's trade receivables relate to a few major customers and there is a concentration of credit risk with a maximum exposure equal to the carrying amounts of the trade receivables. Trade receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	As at 30 June 2008 Unaudited RMB'000	As at 31 December 2007 Audited RMB'000
Trade receivables:		
Within three months	707,723	946,862
Four to six months	82,904	12,770
Seven to twelve months	62,157	41,895
One to two years	9,448	12,852
Two to three years	1,289	539
Over 3 years	89	458
	863,610	1,015,376
Bills receivable	4,387,834	4,194,298
	5,251,444	5,209,674

Bills receivable will mature within one year.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)

30 June 2008

14. TRADE AND BILLS RECEIVABLES (CONTINUED)

The movements in provision for impairment of trade and bills receivables are as follows:

	For the six months ended 30 June	
	2008 Unaudited RMB'000	2007 Unaudited RMB'000
Opening balance	17,355	40,939
Amount received after written off	604	4,302
Closing balance	17,959	45,241

The above provision for impairment of the Group's trade and bills receivables is a provision for individually impaired trade receivables, with a carrying amount of RMB80,044,000 (31 December 2007: RMB70,390,000). The individually impaired trade receivables relate to customers that were in financial difficulties or the customers were in default or delinquency in principal payments and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	As at 30 June 2008 Unaudited RMB'000	As at 31 December 2007 Audited RMB'000
Neither overdue nor impaired	5,190,365	5,156,639
Overdue less than six months	23,588	52,100
Overdue over six months	37,491	935
	5,251,444	5,209,674

Receivables that were neither overdue nor impaired relate to a number of customers for whom there was no recent history of default.

Receivables that were overdue but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered recoverable.

Included in the Group's trade and bills receivables are amounts due from Holding and its subsidiaries, the Group's jointly-controlled entity and associates of RMB4,533,000 (31 December 2007: RMB9,773,000), RMB36,318,000 (31 December 2007: RMB19,405,000) and RMB540,000 (31 December 2007: nil), respectively. Such balances principally arose from normal trading activities.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)

30 June 2008

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 30 June 2008 Unaudited RMB'000	As at 31 December 2007 Audited RMB'000
Prepayments	1,601,527	1,672,057
Deposits and receivables	477,126	263,461
	2,078,653	1,935,518
Impairment	(7,022)	(7,022)
	2,071,631	1,928,496

The above impairment was made for deposits and receivables and the movements are as follows:

	For the six months ended 30 June 2008 Unaudited RMB'000	2007 Unaudited RMB'000
Opening balance	7,022	26,173
Amount written off as uncollectible	-	(5,494)
Closing balance	7,022	20,679

The aged analysis of the deposits and receivables that are not considered to be impaired is as follows:

	As at 30 June 2008 Unaudited RMB'000	As at 31 December 2007 Audited RMB'000
Neither overdue nor impaired	433,207	246,536
Overdue less than six months	1,826	8,495
Overdue over six months	35,071	1,408
	470,104	256,439

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)

30 June 2008

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

Deposits and receivables that were neither overdue nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Included in the Group's prepayments, deposits and other receivables are amount due from Holding and its subsidiaries, the Group's jointly-controlled entity and associates of RMB4,189,000 (31 December 2007: RMB28,081,000), nil (31 December 2007: RMB104,000) and RMB121,527,000 (31 December 2007: Nil), respectively. Such balances were mainly for the purchase of construction services.

16. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	As at 30 June 2008 Unaudited RMB'000	As at 31 December 2007 Audited RMB'000
Within one year	11,630,939	9,111,984
One to two years	54,810	353,317
Two to three years	46,666	5,911
Over three years	6,729	1,339
	<u>11,739,144</u>	<u>9,472,551</u>

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

Included in the Group's trade payables are amounts due to Holding and its subsidiaries, and the Group's jointly-controlled entity and associates of RMB42,074,000 (31 December 2007: RMB94,997,000), RMB19,192,000 (31 December 2007: RMB54,513,000), and RMB13,335,000 (31 December 2007: RMB146,457,000), respectively. Such balances principally arose from normal trading activities.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)

30 June 2008

17. BONDS WITH WARRANTS

	For the six months ended 30 June	
	2008 Unaudited RMB'000	2007 Unaudited RMB'000
Opening balance	4,828,762	4,672,376
Interest expense	120,606	116,693
Interest paid	—	—
	<hr/>	<hr/>
Closing balance	4,949,368	4,789,069
Less: Portion classified as current liability	(49,194)	(48,981)
	<hr/>	<hr/>
Non-current portion	4,900,174	4,740,088

On 13 November 2006, the Company issued 55,000,000 bonds with warrants with a nominal value of RMB100 each, amounting to RMB5.5 billion in total. The bonds and warrants are listed on the Shanghai Stock Exchange. The bonds with warrants are guaranteed by Holding and have a 5-year life from the date of issuance, and will be fully repaid in November 2011. The subscribers of each bond have been entitled to receive 23 warrants at nil consideration, and in aggregate, 1,265,000,000 warrants have been issued. Every warrant can be converted into one A share. The warrants have a life of 24 months from the date of listing. The holders of the warrants are entitled to exercise the warrants 10 trading days prior to the 12-month and 24-month of the listing of the warrants. The original conversion price is RMB3.40 each. Since the declaration of dividends in 2007 and 2008, the conversion price has been adjusted to RMB3.26 each.

A total of 303,251,716 warrants were exercised by certain holders in exchange for the Company's A share at a conversion price of RMB3.33 during the first exercise period of the warrants (15 November 2007 to 28 November 2007).

The bonds with warrants are interest-bearing at a rate of 1.4% per annum payable in arrears on 12 November each year. When the bonds with warrants were issued, the prevailing market interest rate for similar bonds without the attached purchase warrants was higher than the interest rate at which the bonds were issued.

The fair value of the liability component was estimated at the issue date using an equivalent market interest rate for a similar bond without the attached purchase warrants. The residual amount is assigned as the equity component and is included in shareholders' equity.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)

30 June 2008

17. BONDS WITH WARRANTS (CONTINUED)

The carrying amount of the liability component of the bonds with warrants as at 30 June 2008 is arrived at as follows:

	Unaudited RMB'000
Nominal value of bonds with warrants	5,500,000
Equity component (net of deferred tax)	(604,229)
Deferred tax liability	(128,790)
Direct transaction costs attributable to the liability component	<u>(125,584)</u>
Liability component at the issue date	4,641,397
For the period from the issue date to 30 June 2007:	
Interest expenses	116,693
For the period from 1 July 2007 to 30 June 2008	
Interest expenses	268,278
Less: Interest paid	<u>(77,000)</u>
	<u><u>4,949,368</u></u>

18. SHARE CAPITAL

	As at 30 June 2008 Unaudited RMB'000	As at 31 December 2007 Audited RMB'000
Issued and fully paid:		
State owned shares	3,830,560	3,830,560
Legal person A shares	—	—
Individual A shares of RMB1.00 each	1,195,062	1,195,062
H shares of RMB1.00 each	1,732,930	<u>1,732,930</u>
	<u>6,758,552</u>	<u>6,758,552</u>

Except for dividends for H shares which are payable in Hong Kong dollars, all of the A shares and H shares rank pari passu with each other in respect of dividends and voting rights.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)

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19. BUSINESS COMBINATIONS

On 4 May 2008, Anhui Masteel Holly Industrial Co., Ltd. ("Holly Industrial"), a subsidiary of the Company, acquired a 75% of equity interests in 安徽馬鋼立體智能停車設備有限公司, 25% owned associate of the Group, ("Masteel Auto-Parking") from Holding at a cash consideration of RMB15,677,600. Masteel Auto-Parking is mainly engaged in manufacture and sale of parking equipment in the Mainland China.

The fair values of the identifiable assets and liabilities as at the date of the acquisition were as follow:

	Notes	Unaudited RMB'000
Property, plant and equipment, net	10	12,656
Construction in progress	11	260
Prepaid land premiums		3,548
Inventories		10,082
Trade and bills receivables		17,898
Prepayments, deposits and other receivables		1,586
Cash and cash equivalents		1,580
Trade payables		(2,074)
Interest-bearing bank and other borrowings		(20,000)
Other payables and accruals		(4,655)
Tax payable		23
		<hr/>
Net assets		20,904
Less: Reclassification of interest in an associate		(5,226)
		<hr/>
		15,678
		<hr/>
Satisfied by cash (note)		15,678
		<hr/>

An analysis of the net inflow of cash and cash equivalents in respect of the aforesaid acquisitions is as follows:

	RMB'000
Cash payment (note)	—
Cash and cash equivalents acquired	1,580
	<hr/>
Net inflow of cash and cash equivalents in respect of the aforesaid acquisitions	1,580
	<hr/>

Note: The cash consideration for the acquisition has not yet been paid and has been included in other payables as at 30 June 2008.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)

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19. BUSINESS COMBINATIONS (CONTINUED)

Masteel Auto-Parking's contributions to the Group's consolidated revenue and consolidated profit attributable to equity holders of the parent for the six months ended 30 June 2007 were not significant.

Had the aforesaid acquisition taken place at the beginning of the year 2008 the Group's consolidated revenue and consolidated profit attributable to equity holders of the parent would have been RMB37,042 million and RMB2,261 million for the six months ended 30 June 2008.

20. CONTINGENT LIABILITIES

- (a) As at 30 June 2008, the Company had granted guarantees amounting to approximately RMB5,014 million (31 December 2007: approximately RMB5,305 million) to banks in connection with facilities granted to its subsidiaries. On that date, such banking facilities were utilised to the extent RMB1,102,247,000 (31 December 2007: RMB814,495,000)
- (b) As detailed in note 7 to the financial statements, the Group has potential risk on CIT in prior years. The directors of the Company, at this stage, consider that it is uncertain whether the relevant tax authority will claim the CIT Differences from the Company in respect of any prior years and could not reliably estimate the eventual outcome of this matter. Consequently, no provision has been made in these financial statements for the CIT Differences and the related tax concessions, deferred tax, penalty and interest (if applicable).

21. COMMITMENTS

- (a) The Group's commitments for capital expenditure for buildings and structures, plant and equipment at the balance sheet date were as follows:

	As at 30 June 2008 Unaudited RMB'000	As at 31 December 2007 Audited RMB'000
Authorised, but not contracted for	2,423,301	3,157,701
Contracted, but not provided for	897,712	556,524
	3,321,013	3,714,225

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)

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21. COMMITMENTS (CONTINUED)

- (b) The Group's commitments for capital contributions at the balance sheet date were as follows:

	As at 30 June 2008 Unaudited RMB'000	As at 31 December 2007 Audited RMB'000
Contracted, but not provided for	9,000	9,000

- (c) The Group's share of the capital commitments of the jointly-controlled entity, which is not included in note (a) above, in respect of capital expenditure for buildings and structures, plant and equipment at the balance sheet date were as follows:

	As at 30 June 2008 Unaudited RMB'000	As at 31 December 2007 Audited RMB'000
Authorised, but not contracted for	–	778
Contracted, but not provided for	–	–
	–	778

- (d) The Group's share of other commitments of the jointly-controlled entity, which was not included in notes (a) and (c) above at the balance sheet date was as follows:

	As at 30 June 2008 Unaudited RMB'000	As at 31 December 2007 Audited RMB'000
Contracted, but not provided for	4,250	4,500

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)

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22. RELATED PARTY TRANSACTIONS

- (a) Transactions carried out between the Group and its related parties during the period

The following is a summary of the significant transactions carried out between the Group and its related parties during the period:

	Notes	For the six months ended 30 June	
		2008 Unaudited RMB'000	2007 Unaudited RMB'000
Transactions with Holding and its subsidiaries:			
Purchases of iron ore	(i)	953,418	830,368
Fees paid for welfare, support services and other services	(ii), (iii)	87,719	79,726
Rental expenses	(iii)	18,125	18,125
Agency fee paid	(iii)	1,259	2,392
Purchases of property, plant and equipment and construction services	(iii)	115,778	118,087
Fees received for the supply of utilities, services and other consumable goods	(iii)	(15,376)	(21,889)
Sale of steel and other by-products	(iii)	(2,643)	(2,373)
Acquisition of a subsidiary	(iv)	(15,678)	–
Transactions with associates of the Company:			
Purchases of coke	(v)	319,437	311,133
Loading expenses	(v)	79,749	59,836
Transactions with a jointly-controlled entity of the Company:			
Rental income	(vi)	(625)	(625)
Construction fees income	(vi)	–	(200)
Fees received for the supply of electricity	(vi)	(103,349)	(29,463)
Purchases of gas products	(vi)	212,695	65,699

Notes:

- (i) The terms for the purchases of iron ore from Holding were conducted in accordance with an agreement dated 18 October 2006 entered into between the Company and Holding.
- (ii) The terms for the provision of certain services, including on-the-job training, food and sanitary services, environmental and hygiene services, maintenance of roads and landscaping services were conducted in accordance with a services agreement dated 15 February 2007 entered into between the Company and Holding.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)

30 June 2008

22. RELATED PARTY TRANSACTIONS (CONTINUED)

- (a) Transactions carried out between the Group and its related parties during the period (continued)

Notes: (continued)

- (iii) These transactions with Holding and its subsidiaries were conducted on terms mutually agreed between the Company and the related parties.
- (iv) On 4 May 2008, Holly Industrial, a subsidiary of the Company, acquired a 75% of equity interest in Masteel Auto-Parking from Holding at a cash consideration of RMB15,677,600. For further details, please refer to note 19 to the condensed consolidated financial statement.
- (v) These transactions were made between the Group and 濟源市金馬焦化有限公司, 滕州盛隆煤焦化有限公司, 馬鞍山市港口(集團)有限責任公司 and were conducted in accordance with the terms mutually agreed between the parties.
- (vi) These transactions were made between the Group and Maanshan BOC-Ma Steel Gases Company Limited and were conducted in accordance with the terms mutually agreed between them.
- (b) Holding has guaranteed certain bank loans of the Group and bonds with warrants amounting to RMB14.3 billion (31 December 2007: approximately RMB15.6 billion) as at the balance sheet date at nil consideration.
- (c) Outstanding balances with related parties:
- (i) Included in the Group's other payables and accruals are amounts due to Holding and its subsidiaries, and the Group's associate, amounting to approximately RMB1,467,924,000 (31 December 2007: approximately RMB1,425,801,000).
- (ii) Further details of balances of the Group with Holding and its subsidiaries are set out in notes 14, 15 and 16 to the condensed consolidated financial statements.

In the opinion of the directors, the transactions set out in items (a) (i), (ii), (iii), (v), (vi) above were carried out in the normal course of business of the Group.

The related party transactions in respect of items (a) (i) – (iv) above also constitute disclosable connected transactions or continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

23. APPROVAL OF THE INTERIM FINANCIAL STATEMENT

These interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 14 August 2008.

VIII. Documents Available for Inspection

1. Interim report signed by Chairman of the Company;
2. Financial reports signed and stamped by the Company's legal representative, chief accountant and head of Accounting Department;
3. Original copies of all documents and announcements of the Company disclosed in newspapers designated by the CSRC during the reporting period;
4. The Company's Articles of Association;
5. Interim report disclosed in other securities market;
6. Other related information.

Maanshan Iron & Steel Company Limited
Gu Jianguo
Chairman

14 August 2008
Maanshan City, Anhui Province, the PRC