2009 Interim Report

ANGANG STEEL COMPANY LIMITED*

(Stock Code: 0347)

ANGANG STEEL 鞍鋼

* *For identification purposes only*

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

The Board of the Company is pleased to announce the unaudited results of the Company and subsidiaries under its control (collectively referred to as the "Group") for the six months ended 30 June 2009 together with the comparative figures as stated herein.

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

"Angang Holding"	shall mean Anshan Iron and Steel Group Complex*
"ANSI"	shall mean Angang New Steel and Iron Company Limited*
"CSRC"	shall mean China Securities Regulatory Commission
"IFRSs"	shall mean the International Financial Reporting Standards
"Hong Kong Listing Rules"	shall mean the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Hong Kong Stock Exchange"	shall mean The Stock Exchange of Hong Kong Limited
"PRC"	shall mean the People's Republic of China
"PRC Accounting Standards"	shall mean the PRC Accounting Standards for Business Enterprises
"SFO"	shall mean the Securities and Futures Ordinance (cap.571, Laws of Hong Kong)

I. COMPANY PROFILE

1.	Legal Name of the Company		
	(in Chinese)	:	鞍鋼股份有限公司
	(in English)	:	ANGANG STEEL COMPANY LIMITED
2.	Registered and Business Address of the Company	:	Production Area of Angang Steel, Tie Xi District, Anshan City, Liaoning Province, the PRC
	Postal Code	:	114021
	Website	:	http://www.ansteel.com.cn
	E-mail	:	ansteel@ansteel.com.cn
3.	Legal Representative of the Company	:	Mr. Zhang Xiaogang
4.	Secretary to the Board of the Company	:	Mr. Fu Jihui
	Correspondence Address	:	1 Qianshan Road West, Qianshan District, Anshan City, Liaoning Province, the PRC
	Telephone	:	(86) 412-8419192/8417273
	Fax	:	(86) 412-6727772
	E-mail	:	ansteel@ansteel.com.cn

5.	Company's Designated PRC Newspapers for Disclosure of Information	:	China Securities Journal, Securities Times
	Website for Publication of Interim Report designated by CSRC	:	http://www.cninfo.com.cn
	Website for Disclosure of the Company's Information in Hong Kong	:	http://www.hkex.com.hk and http://angang.wspr.com.hk
	Company's Interim Report Available at	:	1 Qianshan Road West, Qianshan District, Anshan City, Liaoning Province, the PRC
6.	Stock Exchange Listings	:	A shares: Shenzhen Stock Exchange H shares: The Hong Kong Stock Exchange
7.	Abbreviation of the Company's stock name and Stock Code	:	A shares: Angang Steel 000898 H shares: Angang Steel 0347
8.	The subsidiaries under the Company's control	:	As at 30 June 2009, the Company controlled one subsidiary, namely Angang Steel Logistics (Wuhan) Company Limited*.

II. MAJOR FINANCIAL DATA AND INDICES (UNAUDITED)

1. Major financial data

Prepared under the IFRSs

Unit: RMB million

Items	For the six months ended 30 June 2009	2008
(Loss)/profit attributable to owners of the Company	**(1,547)**	5,992
(Loss)/earnings per share (basic) (RMB)	**(0.214)**	0.828
Return on net assets (weighted average)	**(2.96%)**	10.50%

Items	30 June 2009	31 December 2008
Total assets	**95,071**	94,826
Equity attributable to owners of the Company	**49,972**	52,971
Liabilities to assets ratio	**47.44%**	44.14%
Net assets per share (RMB)	**6.91**	7.32

Prepared under the PRC Accounting Standards

Unit: RMB million

Items	For the six months ended 30 June 2009	2008
Turnover	**30,042**	40,168
Operating profit	**(1,811)**	7,542
Total profit	**(1,755)**	7,525
Net profit	**(1,563)**	5,980
Net profit less extraordinary items	**(1,605)**	5,993
Basic earnings per share (RMB)	**(0.216)**	0.827
Diluted earnings per share (RMB)	**(0.216)**	0.827
Return on net assets (fully diluted)	**(3.12%)**	10.66%
Net cash flow from operating activities	**1,415**	6,914
Net cash flow per share from operating activities (RMB)	**0.196**	0.956

Items	30 June 2009	31 December 2008
Total assets	**92,187**	92,184
Owners' equity (or shareholders' equity)	**50,112**	53,108
Net assets per share (RMB)	**6.93**	7.34

Extraordinary items:

Unit: RMB million

Extraordinary items	**Amount**	**Note (where applicable)**
Gains or losses from disposal of non-current assets	15	
Government subsidies (except for government subsidies which are closely related to the Company's ordinary business, in conformity with the national policies and continuously entitled for standard amount or quantities) attributable to gains or losses for the period	2	
Other non-operating income and expenses apart from those stated above	39	
Effect of income tax	(14)	
Total	42	

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

Unit: RMB million

	Net profit attributable to shareholders of the Company		Owners' equity attributable to shareholders of the Company	
	In the period	In the previous period	Closing balance	Opening balance
Under the IFRSs	(1,547)	5,992	49,972	52,971
Under PRC Accounting Standards	(1,563)	5,980	50,112	53,108
Items and total amount as adjusted under the IFRSs:				
Revaluation of land use rights	2	2	(174)	(176)
Write-off of provision for safety expenses	19	15	—	—
Deferred income tax assets	(5)	(5)	34	39
Total for the differences between the PRC Accounting Standards and the IFRSs	16	12	(140)	(137)

3. **Return on net assets and earnings per share for the profit in the interim period of 2009 as calculated in accordance with the "Regulations for Preparation and Reporting of Information Disclosed by Listed Companies (No. 9)" issued by CSRC (Prepared in accordance with the PRC Accounting Standards):**

	Return on net assets *(%)*		**Earnings per share** *(RMB/share)*	
Profit for the reporting period	**Fully diluted**	**Weighted average**	**Basic earnings per share**	**Diluted earnings per share**
Net profit attributable to ordinary shareholders of the Company	(3.12)	(2.99)	(0.216)	(0.216)
Net profit less extraordinary items attributable to ordinary shareholders of the Company	(3.20)	(3.07)	(0.222)	(0.222)

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

III. CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF MAJOR SHAREHOLDERS

1. Share capital structure

During the six months ended 30 June 2009, changes in the share capital structure of the Company were as follows:

Unit: share

	Before the change during the period		Increase/decrease during the period (+ -)					After the change during the period	
	Number	Percentage (%)	Issue of new shares	Bonus issue	Shares converted from capital reserve	Others	Subtotal	Number	Percentage (%)
I. Shares subject to trading moratorium	4,340,905,343	60.00	–	–	–	–	–	4,340,905,343	60.00
1. State-owned shares	4,340,884,709	60.00	–	–	–	–	–	4,340,884,709	60.00
2. State-owned legal person shares	–	–	–	–	–	–	–	–	–
3. Other domestic shares	20,634	0.00	–	–	–	–	–	20,634	0.00
Including: shares held by domestic legal persons	–	–	–	–	–	–	–	–	–
shares held by domestic natural persons	20,634	0.00	–	–	–	–	–	20,634	0.00
4. Foreign investment shares	–	–	–	–	–	–	–	–	–
Including: shares held by overseas legal persons	–	–	–	–	–	–	–	–	–
shares held by overseas natural persons	–	–	–	–	–	–	–	–	–
II. Shares not subject to trading moratorium	2,893,902,504	40.00	–	–	–	–	–	2,893,902,504	40.00
1. Renminbi ordinary shares	1,808,102,504	24.99	–	–	–	–	–	1,808,102,504	24.99
2. Domestically listed foreign investment shares	–	–	–	–	–	–	–	–	–
3. Overseas listed foreign investment shares	1,085,800,000	15.01	–	–	–	–	–	1,085,800,000	15.01
4. Others	–	–	–	–	–	–	–	–	–
III. Total shares	7,234,807,847	100.00	–	–	–	–	–	7,234,807,847	100.00

2. Particulars of Shareholding

(1) As at 30 June 2009, the Company had a total of 132,575 shareholders, of which 551 were holders of H shares.

(2) Shareholdings of major shareholders

As at 30 June 2009, the top 10 shareholders and the top 10 shareholders not subject to trading moratorium of the Company and their respective shareholdings listed on the register were as follows:

Details of shareholdings of the top 10 shareholders

Name of shareholder	Nature of shareholder	Percentage of shareholding *(%)*	Total number of shares held *(share)*	Number of shares held subject to trading moratorium *(share)*	Number of shares pledged/ frozen
Anshan Iron and Steel Group Complex	Holder of state-owned shares	67.30	4,868,680,330	4,340,884,709	–
HKSCC (Nominees) Limited	Holder of H shares	14.81	1,071,418,310	–	Unknown
Bank of Communications — Bosera Emerging Growth Securities Investment Fund (交通銀行－博時新興成長股票型證券投資基金)	Others	0.71	51,110,361	–	Unknown
China Construction Bank — ChinaAMC Dividend Mixed Open-end Securities Investment Fund (中國建設銀行－華夏紅利混合型開放式證券投資基金)	Others	0.63	45,309,080	–	Unknown
Bank of China — ChinaAMC Industry Select Fund (LOF) (中國銀行－華夏行業精選股票型證券投資基金(LOF))	Others	0.42	30,537,550	–	Unknown

Name of shareholder	Nature of shareholder	Percentage of shareholding (%)	Total number of shares held (share)	Number of shares held subject to trading moratorium (share)	Number of shares pledged/ frozen
China Construction Bank — Great Wall Brand Prime Equity Securities Investment Fund (中國建設銀行－長城品牌優選股票型證券投資基金)	Others	0.35	25,196,034	—	Unknown
China Life Insurance Company Ltd. — Bonus — Individual Bonus— 005L-FH002 Shen (中國人壽保險股份有限公司－分紅－個人分紅－005L-FH002深)	Others	0.28	20,517,617	—	Unknown
Industrial and Commercial Bank of China — South Selective Stock Investment Fund (中國工商銀行－南方成份精選股票型證券投資基金)	Others	0.28	20,022,396	—	Unknown
National Social Insurance Fund 104 Portfolio (全國社保基金－零四組合)	Others	0.28	19,999,354	—	Unknown
Industrial and Commercial Bank of China — China Southern Risk — Resistant Value-added Fund (中國工商銀行－南方避險增值基金)	Others	0.27	19,408,999	—	Unknown

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

Name of shareholder	Number of shares held not subject to trading moratorium *(share)*	Class of Shares
HKSCC (Nominees) Limited	1,071,418,310	Overseas listed foreign shares
Bank of Communications — Bosera Emerging Growth Securities Investment Fund (交通銀行－博時新興成長股票型證券投資基金)	51,110,361	Renminbi ordinary shares
China Construction Bank — ChinaAMC Dividend Mixed Open-end Securities Investment Fund (中國建設銀行－華夏紅利混合型開放式證券投資基金)	45,309,080	Renminbi ordinary shares
Bank of China — ChinaAMC Industry Select Fund (LOF) (中國銀行－華夏行業精選股票型證券投資基金(LOF))	30,537,550	Renminbi ordinary shares
China Construction Bank — Great Wall Brand Prime Equity Securities Investment Fund (中國建設銀行－長城品牌優選股票型證券投資基金)	25,196,034	Renminbi ordinary shares
China Life Insurance Company Ltd. — Bonus—Individual Bonus — 005L-FH002 Shen (中國人壽保險股份有限公司－分紅－個人分紅－005L-FH002深)	20,517,617	Renminbi ordinary shares
Industrial and Commercial Bank of China — South Selective Stock Investment Fund (中國工商銀行－南方成份精選股票型證券投資基金)	20,022,396	Renminbi ordinary shares

Name of shareholder	Number of shares held not subject to trading moratorium *(share)*	Class of Shares
National Social Insurance Fund 104 Portfolio (全國社保基金一零四組合)	19,999,354	Renminbi ordinary shares
Industrial and Commercial Bank of China — China Southern Risk — Resistant Value-added Fund (中國工商銀行－南方避險增值基金)	19,408,999	Renminbi ordinary shares
National Social Insurance Fund 101 Portfolio (全國社保基金一零一組合)	17,474,676	Renminbi ordinary shares

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

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

(3) Details of the controlling shareholder of the Company

The controlling shareholder of the Company is Anshan Iron and Steel Group Complex

Legal representative:	Zhang Xiaogang
Year of incorporation:	1948
Scope of operation:	Production of steel products, metal products (non-franchise), cast iron tubes, metal structures, metal wire and products, sintering and coking products, cement, power generation, metallurgical machinery equipment and parts, electrical machinery, electricity transmission and supply and control equipment and meters, mining and separation of iron and manganese ores, refractory earth and stone extraction.
Principal products:	Steel pressing products and metal products
Registered capital:	RMB10,794 million
Shareholding structure:	Wholly-owned by the PRC

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

Save for disclosed below, as at 30 June 2009, no other person (other than the Company's directors, supervisors and senior management) had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Interests in ordinary shares of the Company

Name of shareholder	Number and class of shares held *(share)*	Percentage in total share capital *(%)*	Percentage in total issued H shares *(%)*	Percentage in total issued domestic shares *(%)*	Capacity
Anshan Iron and Steel Group Complex	4,868,680,330 State-owned Shares	67.30	—	79.18	Beneficial owner
HKSCC (Nominees) Limited	1,071,418,310 H Shares	14.81	98.68	—	Nominee

IV. DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Shareholdings of Directors, Supervisors and senior management

As at 30 June 2009, the actual number of shares in the Company's issued share capital held by directors, supervisors and senior management were as follows:

Name	Position	Number of shares held at the beginning of the period	Increase in number of shares held during the period	Decrease in number of shares held during the period	Number of shares held at the end of the period	Reason for change
Zhang Xiaogang	Chairman	0	—	—	0	—
Yang Hua	Vice Chairman	0	—	—	0	—
Chen Ming	Vice Chairman, Acting General Manager	610	—	—	610	—
Yu Wanyuan	Director	16,317	—	—	16,317	—
Fu Jihui	Director, Secretary to the Board	8,540	—	—	8,540	—
Ma Guoqiang	Independent Non-executive Director	0	—	—	0	—
Liu Wei	Independent Non-executive Director	0	—	—	0	—
Li Shijun	Independent Non-executive Director	0	—	—	0	—
Wen Baoman	Chairman of the Supervisory Committee	0	—	—	0	—
Shan Mingyi	Supervisor	5,124	—	—	5,124	—
Xing Guibin	Supervisor	0	—	—	0	—
Fu Wei	Deputy General Manager	15,372	—	—	15,372	—
Ma Lianyong	Chief Accountant	0	—	—	0	—

All of the shares held by the persons mentioned above are A shares of the Company. Such shares were held by the persons mentioned above in the capacity of individual beneficial owners, except for Mr. Yu Wanyuan, Mr. Chen Ming and Mr. Shan Mingyi who held such shares in the capacity of family interests (as held by their spouses).

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

Save as disclosed above, as at 30 June 2009, none of the directors, supervisors or senior management of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO of Hong Kong) which were recorded in the register required to be kept under Section 352 of the SFO of Hong Kong, or which were notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") set out in Appendix 10 of the Hong Kong Listing Rules.

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

The 2008 AGM of the Company was held on 12 June 2009, at which Zhang Xiaogang, Tang Fuping, Yang Hua, Yu Wanyuan, Chen Ming, Fu Jihui, Ma Guoqiang, Liu Wei and Li Shijun were elected as directors of the fifth session of the Board of the Company, and Wen Baoman, Shan Mingyi and Xing Guibin were elected as supervisors of the fifth session of Supervisory Committee of the Company.

The 1st meeting of the fifth Board was held on 26 June 2009, at which the following resolutions were passed:

(1) to elect Mr. Zhang Xiaogang as the Chairman of the fifth session of the Board of the Company.

(2) to elect Mr. Yang Hua and Mr. Chen Ming as the Vice Chairman of the fifth session of the Board of the Company.

(3) to appoint Mr. Fu Jihui as the Secretary to the fifth session of the Board of the Company.

(4) to approve Mr. Tang Fuping to resign from the positions of General Manager, Vice Chairman and Director of the Company.

(5) to approve Mr. Chen Ming, the Deputy General Manager of the Company, to serve as Acting General Manager.

The 1st meeting of the fifth session of Supervisory Committee was held on 26 June 2009, at which Mr. Wen Baoman was elected as the Chairman of the fifth session of Supervisory Committee.

V. MANAGEMENT DISCUSSION AND ANALYSIS

1. Business Review:

Under the IFRSs, the Company recorded a loss attributable to shareholders of the Company of RMB1,547 million for the six months ended 30 June 2009, representing a decrease by 125.82% as compared with the profit of RMB5,992 million for the same period of the previous year. The basic loss per share was RMB0.214. In accordance with the PRC Accounting Standards, the Company recorded a net loss of RMB1,563 million for the six months ended 30 June 2009, representing a decrease by 126.14% as compared with the net profit of RMB5,980 million for the same period of the previous year. The basic loss per share was RMB0.216.

In the first half of 2009, in adherence to the principles for business development, namely keeping the business scale moderate and minimizing the costs, the Company adopted a series of measures in response to the global financial crisis so as to ensure the steady recovery of its production and operation.

(1) Increase in output of major products

During the first half of 2009, the Company produced 9,274,600 tonnes of iron, 9,101,700 tonnes of steel and 8,521,600 tonnes of steel products, representing an increase of 14.34%, 11.18% and 10.78%, respectively, as compared with the same period of the previous year; the Company sold 8,304,200 tonnes of steel products, representing an increase of 8.17% as compared with the same period last year and a production-to-sales ratio of steel products of 97.45%.

(2) Significant improvement in the product quality by total quality management.

In the first half of 2009, through the implementation of the total quality management, 25 out of 28 quality indices of the Company achieved the targets and a total of 23 quality indices were improved as compared to the same period of the previous year. Approximately 67.77% of the Company's products achieved the internationally recognized quality standards, representing an increase of 3.35 percentage points; the passing rate and finishing rate for the original variety of the key products were 98.87% and 94.15%, exceeding the targets by 0.72 percentage points and 1.43 percentage points, respectively.

(3) *Enhancement of technical innovation and independent R&D capability by implementing scientific research projects.*

In the first half of 2009, a total of 69 projects were accepted upon inspection. Technical development for the laboratory preparation and large scale trial production of oriented silicon steel were completed, and acceptances in phases were accomplished on schedule. Applications for 180 patents were accepted and a total of 145 patents were granted by the State. A total of 1,942,400 tonnes of newly developed products were produced, representing an increase of 280,700 tonnes as compared with the same period of the previous year. The percentage of new products reached 22.78%, representing an increase of 1.04 percentage points as compared with the same period of the previous year. Revenue from the sales of new products was RMB7.6 billion.

(4) *Material breakthrough in environmental protection by implementation of emission reduction measures*

During the first half of 2009, the environmental air indexes including those for sulfur dioxide, nitrogen dioxide, inhalable particulates and carbon monoxide were in compliance with the State's standards while dust-fall amount remained basically unchanged as compared with the same period of the previous year. In the first half of 2009, the passing rate of the atmospheric pollution emission reached 99.7%, representing an increase of 2.1 percentage points as compared with same period of the previous year. Solid wastes were effectively utilised and properly disposed of. The recovery rate of dangerous waste, ordinary waste and abandoned materials reached 100%. The internal utilisation rate of iron-bearing dust reached 95.3%, representing an increase of 1.8 percentage points as compared with same period of the previous year.

(5) *Proactive implementation of target cost control*

In accordance with the market conditions, the Company calculated the production costs of working processes required to ensure targeted profits, carefully verified target costs and expenses indicators of all units and departments, ratified such results as rigid target for all units through monthly budget and strictly implemented assessment and evaluation analysis system. Through target cost management, the cost reduction and efficiency improvement measures formulated by the units have achieved sound effects.

(6) Actively adjusting the marketing policy to orderly progress with product marketing

Affected by the global financial crisis, export and domestic steel market demand had shrunk severely. The Company has timely adjusted the marketing policy based on its expectations and estimations for future market conditions. On one hand, with the weakened export and demand for specialized steel, the Company expanded the supply of products which has a better liquidity, such as plain carbon steel and low alloy steel, to the market in order to accelerate the turnover of the capital from the customers; on the other hand, the Company stepped up development of its downstream enterprises. The Company has made timely and appropriate adjustments to prices based on accurate and precise market analysis and judgements so as to increase the confidence of the customers.

(7) Further implementing management benchmark for performance excellence. The Company identified the shortcomings, tapped potentials and improved the indicators to resist market risks through benchmarking internally and externally

First, the Company benchmarked the actual operation costs of Anshan and Yingkou. Second, the Company benchmarked the procedure standard cost of the same (similar) production lines in the Company. Third, it benchmarked internal procedure standard cost in production factories. Lastly, it carried out external benchmarking with advanced domestic enterprises in the PRC. Through technical innovation, benchmarking and potential exploration, the major technical and economic indicators of the Company continued to improve, nine of which have obtained the best performance as compared to all of their previous performances.

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

Principal business of the Group by industry and products

Unit: RMB million

	Operating revenue	Operating cost	Gross profit margin *(%)*	Increase/ decrease in operating revenue compared with the same period last year *(%)*	Increase/ decrease in operating cost compared with the same period last year *(%)*	Increase/ decrease in gross profit margin as compared with the same period of the previous year *(percentage points)*
Principal activities by industry						
Steel pressing and processing	28,956	27,662	4.47	(25.16)	(0.72)	(23.51)
Including: connected transactions	1,996	1,971	1.25	(11.64)	22.65	(27.61)
Principal activities by products						
Hot rolled sheets	12,079	11,730	2.89	(6.31)	30.28	(27.27)
Cold rolled sheets	6,181	6,072	1.76	(29.21)	(3.82)	(25.93)
Including: connected transactions	1,554	1,544	0.64	(3.36)	36.40	(28.96)

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

Note: The connected transactions for sales of products and provision of comprehensive services by the Company to Angang Holding, its controlling shareholder, and its subsidiaries amounted to RMB2,314 million during the reporting period.

Explanations:

The decrease in operating revenue and gross profit margin as compared with the same period of the previous year was primarily due to the decrease in the product prices as a result of the global financial crisis.

The increase in operating costs of hot rolled sheets and connected transactions was primarily due to the increase in sales volume.

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

Unit: RMB million

	Operating revenue for the reporting period	Operating revenue for the same period of last year	Increase/ (decrease) in operating revenue compared with the same period last year *(%)*
Northeast China	10,016	13,834	(27.60)
North China	4,864	5,706	(14.76)
East China	8,114	7,846	3.42
South China	4,976	5,274	(5.65)
Central south China	789	819	(3.66)
Northwest China	292	534	(45.32)
Southwest China	221	210	5.24
Export sales	770	5,945	(87.05)
Total	30,042	40,168	(25.21)

3. Problems and difficulties in the operation

In the first half of 2009, as affected by the global financial crisis, both domestic and overseas steel industry saw oversupply and plunging product prices. Accordingly, the Company's profit decreased significantly and as a result, the Company recorded a loss for the first half of the year. In this situation, the Company tapped its inherent potentials and strived for resumption of normal growth through measures including reasonable resource allocation and enhancement of cost control.

4. Investment of the Company

(1) External Investment

The 35th meeting of the fourth session of Board of the Company was held on 14 April 2009, at which the Proposal in Relation to the Execution of the Agreement between Longmei Holding Group* and Angang Steel Company Limited for Transfer of Equity in Heilongjiang Longmei Mining Group Co., Ltd.* ("Longmei Group") by the Company and Heilongjiang Longmei Mining Holding Group Co., Ltd. was approved. To ensure the Company's long-term stable coal supply, the Company acquired 1.2703% equity interests in Heilongjiang Longmei Mining Group Co., Ltd. from Heilongjiang Longmei Mining Holding Group Co., Ltd. ("Longmei Holding Group"). As appraised by Beijing China Enterprise Appraisals Co., Ltd.*, a valuer which has been granted the PRC securities-related assets appraisal qualification, as at the valuation base date, being 30 April 2008, the appraised value of Longmei Group amounted to RMB206.91 million. Upon negotiations between the Company and Longmei Holding Group, the confirmed transfer price was RMB219.86 million. The equity acquisition was financed by the internal resources of the Company.

(2) Major Investment Projects not Funded by Proceeds and Progress thereof

Unit: RMB million

Project Name	Project Budget Amount	Project Progress	Project Proceeds
High-performance silicon steel project	2,800	88.09%	—
Total	2,800		

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

6. Substantial changes from the previous year in profitability (gross profit margin)

Profitability (gross profit margin) of principal operations decreased as compared with the previous year, mainly due to the decrease in the prices of steel products as a result of the global financial crisis.

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

8. Analysis of Financial Condition of the Group

Prepared in accordance with IFRSs (unaudited)

(1) Items of condensed consolidated income statement and condensed consolidated statement of cash flows

Unit: RMB million

Item	For the six months ended 30 June 2009	For the six months ended 30 June 2008	Percentage of increase/ (decrease) *(%)*
Turnover	**30,023**	39,865	(24.69)
(Loss)/profit before tax	**(1,734)**	7,542	(122.99)
Net (loss)/profit	**(1,547)**	5,992	(125.82)
Net increase in cash and cash equivalents	**(1,328)**	(6,003)	77.88

Explanations:

a. *Decrease in each of the turnover, profit before tax and net profit as compared with the same period of the previous year were mainly due to the decrease in product prices as a result of the global financial crisis.*

b. *Net increase in cash and cash equivalents increased as compared with the same period of the previous year, attributable to (i) the decrease of RMB5,702 million in net cash inflow from operating activities as a result of lower turnover and such other reasons; (ii) the decrease of RMB6,248 million in net cash outflow in investing activities as a result of acquisition and construction of fixed assets, lower expenditure of construction in progress and decreased external investment; (iii) the increase of RMB4,129 million in net cash inflow from financing activities as a result of the increase in loan and the decreased dividend distribution.*

(2) Items of condensed consolidated statement of financial position

Unit: RMB million

Item	**As at 30 June 2009**	As at 31 December 2008	Percentage of increase/ (decrease) *(%)*
Total assets	**95,071**	94,826	0.26
Owners' equity	**49,972**	52,971	(5.66)
Cash and cash equivalents	**1,646**	2,974	(44.65)
Trade receivables	**2,996**	3,000	(0.13)
Construction in progress	**12,741**	18,789	(32.19)
Trade payables	**8,082**	7,805	3.55

Explanations:

a. The decrease in owners' equity was attributable to the operating loss and the distribution of cash dividends in the first half of the year;

b. The decrease in cash and cash equivalents was due to (i) the increase in net cash inflow of RMB628 million generated from operating activities; (ii) the net cash outflow of RMB3,417 million used in investing activities as a result of acquisition and construction of fixed assets and external investment and such other reasons; (iii) the net cash inflow of RMB1,461 million generated from financing activities as a result of new loans and such other reasons.

c. The decrease in construction in progress was mainly due to the transfer of Bayuquan facilities into fixed assets.

9. Business plan for the second half of the year

(1) To further strengthen marketing, capture the market trends and improve service quality in order to increase market share of the products of the Company.

(2) To continue to improve management of the Company by further promoting the program of management benchmarking for pursuing performance excellence.

(3) To focus on cost reduction and efficiency improvement, actively respond to market changes and strengthen cost control.

(4) To further optimize product mix in order to increase economic benefits of the Company.

(5) To further enhance capabilities in technological innovation and in independent research and development by stepping up scientific research and innovation initiatives.

(6) To attach a greater importance on environmental protection and further implement emission reduction measures.

(7) To put greater efforts in production and operation in Bayuquan production facilities in order to improve the operating results of the Company as a whole.

10. Warning of potential loss in accumulated net profit for the period from the beginning of the year to the end of next reporting period or any material change in accumulated net profit as compared with the same period of the previous year and the reasons thereof

Results estimation **Significant decrease**

	From the beginning of the year to the end of next reporting period	The same period of the previous year	Increase/ Decrease
Estimated accumulated net profit (RMB billion)	0-4.126	8.253	Decrease by 50-100%
Basic earnings per share (RMB/share)	0-0.57	1.141	Decrease by 50-100%

Reasons: The Company's profit is expected to decrease significantly due to the significant decrease in the prices of steel products as a result of the global financial crisis.

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

1. As at 30 June 2009, the Group had long-term loans (excluding loans due within one year) of RMB11,961 million, which was mainly used for supplementation of working capital and project capital. The loans are for a term of 3 to 25 years at an annual interest rate of 4.86% to 6.966%.

2. As at 30 June 2009, the Group had cash and cash equivalents of RMB1,646 million, compared with RMB2,974 million at the end of 2008.

3. As at 30 June 2009, the Group's total assets less current liabilities amounted to RMB62,072 million, as compared with RMB70,677 million at the end of 2008.

The equity attributable to owners of the Company amounted to RMB49,972 million as at 30 June 2009, as compared with RMB52,971 million at the end of 2008.

12. Pledged assets

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

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

As at 30 June 2009, the Group had capital commitment of RMB13,440 million, mainly comprising the construction and renovation projects which have been authorised and contracted for, and those which have been authorised but not yet contracted for.

As at 30 June 2009, the Group had no contingent liabilities.

14. Equity to liabilities ratio (in accordance with IFRSs)

The ratio of shareholders' equity to liabilities of the Group was 1.11 times as at 30 June 2009 and 1.27 times as at 31 December 2008.

15. Foreign exchange risk

The Group exports certain products and imports certain raw materials, equipment, spare parts and materials. The majority of the Group's export and import transactions are settled through import and export agencies at a fixed exchange rate and there is therefore no significant foreign exchange risk for the Group.

16. Employees

As at 30 June 2009, the Company had 30,886 employees, of whom 20,768 were production personnel, 280 were sales personnel, 2,802 were technicians, 292 were financial personnel and 1,714 were administration and managerial personnel. Among the employees of the Company, 5,596 employees held a bachelor's or higher degree, representing 18.12% of the employees; 7,342 employees held a diploma from junior college, representing 23.77% of the employees; and 14,161 employees held a diploma from special secondary schools, representing 45.84% of the employees.

The Company has adopted (i) position-based and risk-based annual remuneration packages for senior management, (ii) position-based remuneration packages with profit share incentives for new product development for technical research personnel, (iii) sales-profit-linked remuneration package for sales personnel, and (iv) position-based remuneration packages for other personnel.

In the first half of 2009, 105 counts of senior management attended trainings for, among the others, political theories and strategy management; 2,770 counts of management and technical staff attended trainings for management knowledge, computer, English, specific technology and training organised by universities and colleges; 5,966 counts of production staff attended trainings for technical skills, computer, equipment inspection and production safety security. 47 employees attended training for on-the-job studying for master's degree.

VI. EXPLANATIONS ON SIGNIFICANT MATTERS

1. Corporate governance of the Company

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

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

2. Proposals for proposed interim profit distribution and transfer from capital reserve to share capital of the Company

The Company will not declare any interim dividend nor transfer any surplus reserves to the share capital of the Company for the six months ended 30 June 2009.

3. Implementation of profit distribution plan

On 12 June 2009, the Company convened its 2008 annual general meeting in Anshan, at which the 2008 profit distribution plan was considered and approved. A cash dividend of RMB2.1 per 10 shares was declared based on the total issued share capital of 7,234,807,847 shares as at 31 December 2008. On 30 June 2009, the Company distributed cash dividends to the holders of its H shares. The exchange rate adopted was HK$100 to RMB88.17, being the average of the basic exchange rates of Renminbi to Hong Kong dollar announced by the Bank of China one calendar week prior to the 2008 annual general meeting. The cash dividends actually paid to the holders of its H shares amounted to HK$259 million. On 26 June 2009, the Company distributed cash dividends to the holders of its A Shares in the total amount of RMB1,291 million. The cash dividends for 2008 distributed by the Company amounted to RMB1,519 million in total.

4. Material litigation and arbitration

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

5. Material acquisition, sale or disposal of assets

During the reporting period, the Company has no material acquisition, sale or disposal of assets.

6. Material connected transactions of the Company in the reporting period

(1) Continuing connected transactions

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

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

Items	Pricing principle	Price (RMB)	Amount (RMB million)	As a percentage of the amount of similar transactions (%)
Iron Concentrate	Not higher than the average import price reported to the PRC customs in the preceding half-year reporting period and the railway transportation cost from Bayuquan Port to the Company as well as adjustment subject to the grade of the iron concentrate which was based on the average weighted grade of the iron concentrate imported by Angang Steel in the preceding half year. For every 1 percentage point increase or decrease in the grade of iron concentrate, the price will be increased or decreased by RMB10/tonne. Angang Holding has undertaken to provide a discount equal to 5% of the average import price reported to the PRC customs in the preceding half-year reporting period on the highest amount of the price determined pursuant to the method as mentioned above.	888/ tonne	4,051	69.37

Items	Pricing principle	Price *(RMB)*	Amount *(RMB million)*	As a percentage of the amount of similar transactions *(%)*
Pellet	Based on the average price of pellets purchased by the Company from independent third parties in the preceding half-year reporting period. For every 1 percentage point of increase or decrease in the grade of pellets, the price will be increased or decreased by RMB10/tonne.	1,013/ tonne	2,378	99.96
Sinter ore	The price of iron concentrate plus processing cost in the preceding half-year reporting period and 10% gross profit (the processing cost of which is not higher than that of similar products produced by the Company).	1,004/ tonne	1,399	100.00

Items	Pricing principle	Price (RMB)	Amount (RMB million)	As a percentage of the amount of similar transactions (%)
Scrap steel	Market Price	—	145	57.20
Billets	Market Price	—	38	70.21
Subtotal	—	—	8,011	80.71
Electricity	State price	0.50/ KWh	942	37.87
Water	State price	3.25/ tonne	37	100.00
Subtotal	—	—	979	38.80
Lime stone	Not higher than the selling prices quoted by any member company of Angang Holding to the independent third parties in the current month	53/ tonne	57	67.44
Lime powder		378/ tonne	367	91.51
Refractory materials		—	101	16.50
Other ancillary materials		—	30	1.46
Spare parts and tools		—	183	12.84
Subtotal	—	—	738	16.19
Total	—	—	9,728	57.19

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

Items	**Pricing principle**	**Amount** *(RMB million)*	**As a percentage of the amount of similar transactions** *(%)*
Railway transportation	State price	315	69.56
Road transportation	Market Price	134	71.03
Agency services: — for import of raw materials, equipment, components and auxiliary materials — for product export — for domestic sales of product	Commission not higher than 1.5% (not to exceed the commission charged by major PRC import and export companies)	119	100.00
Equipment examination, repair and maintenance	Market Price	451	83.59
Design and engineering	Market Price	1,062	33.11
Education facilities, occupational technical training, on-job training, translation	Market Price	0.5	14.10
Employee transportation		2	49.75
Business reception and meeting		1	61.66

Items	Pricing principle	Amount *(RMB million)*	As a percentage of the amount of similar transactions *(%)*
Greening	Cost of labour, materials and administration are paid according to their market price	6	99.73
Security services		24	95.77
Newspaper and other publications	State price	0.5	29.83
Telecommunication and ERP, information system	State price or the total of depreciation and administrative fee	13	78.46
Environmental safety monitoring	State price	1	100.00
Supply of heating	State price	—	—
Production assistance and maintenance	Cost of labour, materials and administration are paid according to their market price	511	88.97
Welfare assistance and maintenance	Cost of labour, materials and administration are paid according to their market price	75	93.61

Items	**Pricing principle**	**Amount** *(RMB million)*	**As a percentage of the amount of similar transactions** *(%)*
Materials processing service	Processing cost plus a gross profit not higher than 5%		
Total	—	2,715	51.94
Interest on settlement funds	State price	4	74.26
Interest on loans and discounted	State price	123	15.46

Note: In which, for the six months ended 30 June 2009, the steel products provided by Angang International Trading Corporation as a domestic and export sales agency amounted to 4,030,000 and 170,000 tonnes respectively.

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

Items	Pricing principle	Price (RMB)	Amount (RMB million)	As a percentage of the amount of similar transactions (%)
Cold rolled sheets	Selling price between the Company (and/or its subsidiaries) and independent third parties in the current month; in the absence of such selling price, the market price. If the market price does not exist, the price is based on the principle of the cost plus a reasonable profit, while the reasonable profit rate is not higher than the average gross profit margin of related products provided by relevant member company.	3,415/tonne	622	8.67
Heavy plates		3,057/tonne	46	1.79
Wire rods		2,914/tonne	141	15.42
Heavy section		4,945/tonne	2.5	0.13
Hot rolled strips		2,898/tonne	932	7.72
Medium plates		2,930/tonne	30	2.30
Galvanized steel		3,533/tonne	100	5.39
Colour coated sheets		4,654/tonne	1.5	4.38
Seamless steel pipes		3,295/tonne	32	3.55
Molten iron		2,540/tonne	12	77.82
Coke		882/tonne	35	100.00
Chemical by-products		—	14	2.85
Sub-total		—	1,968	6.71
Scrap steel	Market price	—	53	92.74
Abandoned materials	Market price	—	23	86.95
Minus sieve powder	Base price of sinter ore for the current period minus the cost of sintering process of Angang Holding	976.50/tonne	1	100.00
Sub-total		—	77	91.01
Total		—	2,045	6.95

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

Items	Pricing principle	Price (RMB)	Amount (RMB million)	As a percentage of the amount of similar transactions (%)
Fresh water	State price	2.93/tonne	20	96.85
Recycled water	Production cost plus a profit margin of 5%	0.74/tonne	11	99.98
Soft water	Production cost plus a profit margin of 5%	2.84/tonne	0.1	100.00
Gas	Production cost plus a profit margin of 5%	48.65/GJ	171	84.02
Blast furnace gas	Production cost plus a profit margin of 5%	4.00/GJ	21	100.00
Steam	Production cost plus a profit margin of 5%	39.50/GJ	23	99.00
Nitrogen	Production cost plus a profit margin of 5%	113.83/1,000M^3	0.3	6.06
Oxygen	Production cost plus a profit margin of 5%	470.96/1,000M^3	1	10.97
Argon	Production cost plus a profit margin of 5%	578.49/1,000M^3	0.2	9.43
Compressed air	Production cost plus a profit margin of 5%	89.50/1,000M^3	1	100.00
Residual warm water	Production cost plus a profit margin of 5%	7.54/GJ	18	89.02
Product testing service	Market Price	—	2	83.09
Transportation service		—	0.4	100.00
Total	—	—	269	42.55

2009 INTERIM REPORT

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

Items	**Amount** *(RMB million)*	**As a percentage of the amount of similar transactions** *(%)*
Cold hard coils	676	10.97
Hot rolled coils	623	5.16
Galvanized steel sheets	2	0.11

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

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

The 33rd meeting of the 4th session of the Board was held by the Company on 5 January 2009. The Board approved the Proposal for Acquisition of the assets relating to the construction in process of electroslag remelting project by the Company from Anshan Iron and Steel Group Complex. To improve the production knowhows of slabs for high quality ultra-thick steel plates and the quality of new products, the Company proposed to acquire the assets relating to the construction in process of electroslag remelting project from Angang Holding. As appraised by Beijing Yue Hua De Wei Assets Valuation Company Limited, a valuer which has been granted securities-related asset appraisal qualification, the appraised value of such assets relating to the electroslag remelting was RMB85 million, and the Company took such appraised value as acquisition consideration and financed the acquisition with its own fund.

7. Claims and obligations between related parties and the Company

As at 30 June 2009, the Company's bank loan of RMB1,000 million was secured by Angang Holding.

8. Material contracts and their performance

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

(2) There was no material guarantee which involved the Company during the reporting period;

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

(4) Save as disclosed in this report, the Company did not enter into any other material contracts during the reporting period;

(5) The Company did not entrust any party for financial management during the reporting period.

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

In accordance with the principles of the "Notice in Relation to Certain Issues Concerning the Regulation of Funds Transfer Between Listed Companies and Connected Parties, and External Guarantees Granted by Listed Companies" [2003] No.56 (the "Notice") issued by CSRC, we have faithfully and carefully reviewed and finalized the external guarantee of Angang Steel Company Limited (hereafter as the "Company") and capital transactions between the Company and its related parties, and hereby make the following explanations:

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

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

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

10. Shareholding increase plan proposed or implemented by shareholders holding more than 30% shares during the reporting period

On 28 October 2008, Angang Holding, the controlling shareholder of the Company, had acquired additional 1,000,000 shares in the Company through the trading system of the Shenzhen Stock Exchange for the first time, accounting for 0.014% of total share capital of the Company. According to the Approval Relating to the Whitewash Waiver exempting Angang Holding to Acquire Shares by way of General Offer in Angang Steel Company Limited issued by the CSRC, Angang Holding intended to increase its shareholding in the Company through the secondary markets within 12 months from the date of the first share acquisition, in a quantity of not more than 361,000,000 shares, with the proportion of increase not exceeding 4.99% of the total issued shares of the Company. During the reporting period, Angang Holding did not increase its shareholding in the Company.

11. Undertakings of the Controlling Shareholder

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

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

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

b. For new circulating A Shares of the Company issued to Angang Holding for the acquisition of the entire equity interest in ANSI subject to the approval of the general meeting and regulatory authorities, it is undertaken by Angang Holding that such shares will also be subject to a trading moratorium of 36 months from the day on which the shares are issued to Angang Holding.

c. Angang Holding will maintain a minimum of 60% shareholding in the Company from the completion of the above acquisition till 31 December 2010.

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

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

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

Angang Holding further states that:

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

During the reporting period, there is no breach of such undertakings made by Angang Holding.

(2) Angang Holding, the controlling shareholder of the Company, made an undertaking to the Company on 19 November 2007 that, pursuant to the Supply of Materials and Services Agreement (2008-2009) entered into between the Company and Angang Holding on 24 October 2007, Angang Holding would provide a discount for the iron concentrate purchased by the Company from it, based on the maximum price as determined under the pricing formula set out in the Supply of Materials and Services Agreement (2008-2009), being 5% of the average import price of iron concentrate reported to the PRC customs for the previous six months.

(3) On 3 December 2008, 526,795,621 shares in the Company held by Angang Holding were released from trading moratorium in accordance with the Company's State-owned Share Reform Plan, representing 7.28% of total shares of the Company. According to the shareholding purpose and divestment plan for shares released from trading moratorium of Angang Holding, Angang Holding has no plan to sell, within six months of the release, any such shares which are no longer subject to trading moratorium.

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

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

During the six months ended 30 June 2009, there was no re-purchase, sale or redemption of the Company's listed securities by the Company or its subsidiaries.

13. Securities transactions of Directors

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

14. Independent non-executive directors

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

15. Audit committee

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

The Audit Committee and the management personnel have reviewed the accounting standards, principles and methods adopted by the Company, and considered matters regarding auditing, internal control and financial reporting, including the unaudited interim report for the six months ended 30 June 2009.

16. Shareholding in other listed companies

Unit: RMB million

Stock Code	Stock abbreviation	Initial investment amount	Shareholding in that company *(%)*	Book value at the end of the period	(Loss)/profit during the reporting period	Change in equity of holders during the reporting period
600961	Zhuzhou Smelter Group (株冶集團)	81	1.9	135	0	67

VII. INTERIM FINANCIAL REPORT (UNAUDITED)

A. Prepared in accordance with International Financial Reporting Standards

Condensed consolidated income statement

For the six months ended 30 June 2009

(Expressed in Renminbi)

		Six months ended 30 June	
		2009	2008
	Note	***RMB million***	*RMB million*
		(unaudited)	(unaudited)
Turnover	3	**30,023**	39,865
Cost of sales		**(30,239)**	(29,796)
Sales related taxes		**(72)**	(525)
Gross (loss)/profit		**(288)**	9,544
Other operating profit/(loss), net		**81**	(63)
Distribution and other operating expenses		**(434)**	(845)
Administrative expenses		**(736)**	(828)
(Loss)/profit from operations		**(1,377)**	7,808
Finance costs		**(343)**	(356)
Share of profits less losses of jointly controlled entities		**2**	88
Share of profits less losses of associates		**(16)**	2

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

For the six months ended 30 June 2009

(Expressed in Renminbi)

	Note	**Six months ended 30 June** **2009** ***RMB million*** **(unaudited)**	2008 *RMB million* (unaudited)
(Loss)/profit before tax	4	**(1,734)**	7,542
Income tax credit/(expense)	5	**187**	(1,550)
(Loss)/profit for the period attributable to owners of the Company		**(1,547)**	5,992
(Loss)/earnings per share	7		
Basic		**RMB(0.214)**	RMB0.828

Condensed consolidated statement of comprehensive income

For the six months ended 30 June 2009

(Expressed in Renminbi)

	Six months ended 30 June	
	2009	2008
	RMB million	*RMB million*
	(unaudited)	(unaudited)
(Loss)/profit for the period	**(1,547)**	5,992
Other comprehensive income for the period, net of tax		
Fair value change on other investments	**67**	(135)
Total comprehensive income for the period attributable to owners of the Company	**(1,480)**	5,857

Condensed consolidated statement of financial position at 30 June 2009

(Expressed in Renminbi)

	Note	At 30 June 2009 *RMB million* (unaudited)	At 31 December 2008 *RMB million* (audited) (restated)
Non-current assets			
Property, plant and equipment	8	**49,853**	43,256
Intangible assets		**15**	18
Construction in progress	9	**12,741**	18,789
Lease prepayments		**6,492**	6,563
Interest in jointly controlled entities		**866**	864
Interest in associates		**1,337**	1,388
Other investments		**365**	55
Deferred tax assets		**1,261**	1,093
		72,930	72,026
Current assets			
Inventories		**9,117**	10,372
Amount due from ultimate parent	15	**12**	97
Amounts due from fellow subsidiaries	15	**4,344**	2,576
Amounts due from jointly controlled entities	15	**101**	—
Trade receivables	10	**2,996**	3,000
Prepayments, deposits and other receivables		**2,941**	2,796
Current tax assets		**984**	985
Cash and cash equivalents	11	**1,646**	2,974
		22,141	22,800

Condensed consolidated statement of financial position at 30 June 2009 *(Continued)*

(Expressed in Renminbi)

	Note	At 30 June 2009 RMB million (unaudited)	At 31 December 2008 RMB million (audited) (restated)
Current liabilities			
Trade payables	12	**8,082**	7,805
Amount due to ultimate parent	15	**18**	11
Amounts due to fellow subsidiaries	15	**1,946**	2,087
Amounts due to jointly controlled entities	15	**173**	25
Amounts due to associates	15	**151**	42
Other payables		**5,476**	5,578
Current portion of bank loans	13	**17,153**	8,601
		32,999	24,149
Net current liabilities		**(10,858)**	(1,349)
Total assets less current liabilities carried forward		**62,072**	70,677

Condensed consolidated statement of financial position at 30 June 2009 *(Continued)*

(Expressed in Renminbi)

	Note	At 30 June 2009 RMB million (unaudited)	At 31 December 2008 RMB million (audited) (restated)
Total assets less current liabilities brought forward		**62,072**	70,677
Non-current liabilities			
Bank loans	13	**11,961**	17,565
Provisions		**102**	102
Deferred income		**37**	39
		12,100	17,706
NET ASSETS		**49,972**	52,971
Capital and reserves			
Share capital		**7,235**	7,235
Share premium		**31,414**	31,414
Reserves		**3,153**	3,086
Retained profits		**8,170**	11,236
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**49,972**	52,971

Approved and authorised for issue by the board of directors on 17 August 2009.

Zhang Xiaogang
Chairman

Fu Jihui
Director

Condensed consolidated statement of changes in equity (unaudited)

For the six months ended 30 June 2009

(Expressed in Renminbi)

	Note	Share capital *RMB million*	Share premium *RMB million*	Reserves *RMB million*	Retained profits *RMB million*	Total *RMB million*
At 1 January 2008						
— as previously stated		7,235	31,414	2,957	12,521	54,127
— transfer of reserve *(note)*		—	—	11	(11)	—
— transfer of reserve *(note)*		—	—	(11)	11	—
— as restated		7,235	31,414	2,957	12,521	54,127
Total comprehensive income for the period		—	—	(135)	5,992	5,857
Final dividends — 2007	6	—	—	—	(3,979)	(3,979)
At 30 June 2008		7,235	31,414	2,822	14,534	56,005
At 1 January 2009						
— as previously stated		7,235	31,414	3,107	11,215	52,971
— transfer of reserve *(note)*		—	—	(21)	21	—
— as restated		7,235	31,414	3,086	11,236	52,971
Total comprehensive income for the period		—	—	67	(1,547)	(1,480)
Final dividends — 2008	6	—	—	—	(1,519)	(1,519)
At 30 June 2009		7,235	31,414	3,153	8,170	49,972

Condensed consolidated statement of changes in equity (unaudited) *(Continued)*

For the six months ended 30 June 2009

(Expressed in Renminbi)

Note:

In 2006, according to the document (Cai Qi [2006] No. 478), entities involved in mining, construction, land transport and/or production of dangerous goods are required to accrue production safety expenses to the relevant period's income statement at fixed rates on production volume or turnover. In 2008, according to the requirements of the document (Cai Hui Han [2008] No. 60) and "Interpretation of Accounting Standards for Business Enterprises (2008)", production safety expenses are changed to recognise in the "Reserve fund — specified fund" retrospectively. Accordingly, the retained earnings transferred to reserve at the beginning of 2008.*

In 2009, according to the requirements of the document (Cai Hui [2009] No.8), production safety expenses are changed to recognise as cost of related products or gain or loss for the period and special reserve retrospectively. As such, the special reserve transferred to retained earnings at the beginning of 2008 and 2009.

Condensed consolidated statement of cash flows

For the six months ended 30 June 2009

(Expressed in Renminbi)

	Six months ended 30 June	
	2009	2008
	RMB million	*RMB million*
	(unaudited)	(unaudited)
Net cash generated from operating activities	**628**	6,330
Net cash used in investing activities	**(3,417)**	(9,665)
Net cash generated from/(used in) financing activities	**1,461**	(2,668)
Net (decrease)/increase in cash and cash equivalents	**(1,328)**	(6,003)
Cash and cash equivalents at 1 January	**2,974**	7,733
Cash and cash equivalents at 30 June	**1,646**	1,730

1. Basis of preparation

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

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

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Company and its subsidiary (the "Group") since the 2008 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the IASB. IFRSs includes all applicable International Financial Reporting Standards ("IFRS"), IAS and related interpretations.

1. Basis of preparation *(Continued)*

In the current period, the Group has adopted all the new and revised IFRSs issued by the IASB that are relevant to its operations and effective for its accounting year beginning on 1 January 2009. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years except as stated below.

(a) Presentation of Financial Statements

IAS 1 (Revised) "Presentation of Financial Statements" affects certain disclosures and presentation of the financial statements. The balance sheet is renamed as the statement of financial position and the cash flow statement is renamed as the statement of cash flows. All income and expenses arising from transactions with non-owners are presented in the income statement and statement of comprehensive income, and the total carried to the statement of changes in equity. The owner changes in equity are presented in the statement of changes in equity. These presentation requirements have been applied retrospectively in these condensed financial statements.

(b) Operating Segments

IFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Previously, IAS 14 "Segment Reporting" required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's 'system of internal financial reporting to key management personnel' serving as the starting point for the identification of such segments. IFRS 8 results in a redesignation of the Group's reportable segments, but has had no impact on the reported results or financial position of the Group. IFRS 8 has been applied retrospectively.

1. Basis of preparation *(Continued)*

(b) Operating Segments *(Continued)*

The segment accounting policies under IFRS 8 are stated in note 2 to the condensed financial statements.

The financial information relating to the financial year ended 31 December 2008 that is included in the interim financial report as being previously reported information does not constitute the Group's annual financial statements prepared under IFRSs for that financial year but is derived from those financial statements. The Group's annual financial statements for the year ended 31 December 2008 are available from the Company's registered office. The independent auditor has expressed an unqualified opinion on those financial statements in their report dated 14 April 2009.

2. Segment information

The Group has operated a single reportable segment for the production and sales of steel products.

Segment revenue, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of property, plant and equipment, other intangible assets, inventories and trade receivables. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities and corporate borrowings.

Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on terms mutually agreed between the segments.

2. Segment information *(Continued)*

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

	RMB million (unaudited)
Six months ended 30 June 2009	
Revenue from external customers	**30,023**
Segment loss	**(1,547)**
At 30 June 2009	
Segment assets	**88,988**
Six months ended 30 June 2008	
Revenue from external customers	39,865
Segment profit	5,991
At 31 December 2008	
Segment assets	91,005

2. Segment information *(Continued)*

	Six months ended 30 June	
	2009	2008
	RMB million	*RMB million*
	(unaudited)	(unaudited)
Reconciliation of segment profit or loss:		
Total profit or loss of reportable segments	**(1,547)**	5,991
Unallocated amounts:		
Dividend income	**—**	1
Consolidated (loss)/profit for the period	**(1,547)**	5,992

3. Turnover

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

4. (Loss)/profit before tax

The Group's (loss)/profit before tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2009	2008
	RMB million	*RMB million*
	(unaudited)	(unaudited)
Interest and other borrowing costs	**791**	692
Less: Amount capitalised as construction in progress	**(450)**	(339)
Net interest expenses	**341**	353
Interest income	**(4)**	(26)
Dividend income from other investments	**—**	(1)
Amortisation of lease prepayments and intangible assets	**74**	68
Depreciation	**2,926**	2,249
(Gain)/loss on disposals of property, plant and equipment	**(15)**	13
Impairment losses of property, plant and equipment	**—**	30
Net allowance for inventories	**612**	38
Research and development costs	**3**	12

5. Income tax (credit)/expense

Income tax (credit)/expense in the condensed consolidated income statement represents:

	Six months ended 30 June	
	2009	2008
	RMB million	*RMB million*
	(unaudited)	(unaudited)
Current tax expense — PRC income tax	**3**	1,617
Deferred tax income	**(190)**	(67)
	(187)	1,550

The provision for PRC income tax is based on a statutory rate of 25% (six months ended 30 June 2008: 25%) of the estimated assessable profits of the Group entities for the period as determined in accordance with relevant income tax rules and regulations in the PRC.

6. Dividends

	Six months ended 30 June	
	2009	2008
	RMB million	*RMB million*
	(unaudited)	(unaudited)
Final dividends in respect of the financial year ended 31 December 2008, approved and paid during the following interim period, of RMB21 cents per share (year ended 31 December 2007 approved and paid: RMB55 cents per share)	**1,519**	3,979

6. Dividends *(Continued)*

The final dividends attributable to A share shareholders and H share shareholders amounting to RMB1,291 million (six months ended 30 June 2008: RMB3,382 million) and RMB228 million (six months ended 30 June 2008: RMB597 million) were paid on 26 June 2009 and 30 June 2009 respectively.

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: RMBNil).

7. (Loss)/earnings per share

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to owners of the Company for the period of RMB1,547 million (six months ended 30 June 2008: profit attributable to owners of the Company for the period of RMB5,992 million) and the weighted average number of shares of 7,235 million in issue during the six months ended 30 June 2009 (six months ended 30 June 2008: 7,235 million).

(b) Diluted (loss)/earnings per share

No diluted (loss)/earnings per share are presented as the Company did not have any potential equity shares in existence during the six months ended as at 30 June 2008 and 2009.

8. Property, plant and equipment

During the six months ended 30 June 2009, the Group acquired property, plant and equipment of approximately RMB1 million.

9. Construction in progress

The acquisitions and transfer of items of construction in progress during the six months ended 30 June 2008 and 2009 are as follows:

	Six months ended 30 June	
	2009	2008
	RMB million	*RMB million*
	(unaudited)	(unaudited)
Additions	**3,484**	8,004
Transfer to property, plant and equipment	**(9,532)**	(3,237)

10. Trade receivables

	At 30 June 2009	At 31 December 2008
	RMB million	*RMB million*
	(unaudited)	(audited)
Accounts receivable	**456**	417
Bills receivable	**2,540**	2,583
	2,996	3,000

10. Trade receivables *(Continued)*

The ageing analysis of trade receivables is as follows:

	At 30 June 2009 ***RMB million*** **(unaudited)**	At 31 December 2008 *RMB million* (audited)
Less than 3 months	**2,534**	2,386
More than 3 months but less than 12 months	**458**	610
More than 1 year	**4**	4
	2,996	3,000

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

11. Cash and cash equivalents

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

As at 30 June 2009, a deposit of RMB1,541 million (31 December 2008: RMB2,878 million) was placed by the Group in Angang Group Financial Company Limited ("Angang Finance"), an associate and a fellow subsidiary of the Group.

12. Trade payables

	At 30 June 2009 RMB million (unaudited)	At 31 December 2008 RMB million (audited)
Accounts payable	**3,596**	3,220
Bills payable	**4,486**	4,585
	8,082	7,805

The ageing analysis of trade payables is as follows:

	At 30 June 2009 RMB million (unaudited)	At 31 December 2008 RMB million (audited)
Due on demand	**1,075**	751
Due within 3 months	**5,405**	7,054
Due after 3 months but within 6 months	**1,602**	—
	8,082	7,805

13. Bank loans

	At 30 June 2009 RMB million (unaudited)	At 31 December 2008 RMB million (audited)
Bank loans	**29,114**	26,166
Less: bank loans due within one year classified as current liabilities	**(17,153)**	(8,601)
	11,961	17,565

Among the bank loans of the Group as at 30 June 2009, RMB1,000 million (31 December 2008: RMB1,200 million) were guaranteed by Anshan Iron and Steel Group Complex ("Angang Holding"), the ultimate parent of the Company.

As at 30 June 2009, loans from Angang Finance amounted to RMB9,000 million (31 December 2008: RMB3,100 million).

14. Commitments

The Group had capital commitments outstanding as at 30 June 2009 not provided for as follows:

	At 30 June 2009 RMB million (unaudited)	At 31 December 2008 RMB million (audited)
Authorised and contracted for:		
— Construction projects of production lines	**3,056**	4,867
— Investment in an associate	**432**	915
Authorised but not contracted for:		
— Construction projects of production lines	**6,831**	—
— Improvement projects of production lines	**3,121**	—
	13,440	5,782

15. Related party transactions

The following is a summary of significant transactions carried out between the Group and Angang Holding and its subsidiaries other than the Group (collectively report to as "Angang Group"), the jointly controlled entities and associates during the period.

15. Related party transactions *(Continued)*

(A) Significant transactions and balances with Angang Group

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

	Note	Six months ended 30 June **2009** **RMB million (unaudited)**	2008 *RMB million* (unaudited)
Sales of finished goods (before deducting sales related taxes)	(a)	**1,968**	2,332
Sales of scrap materials and minus sieve powder (before deducting sales related taxes)	(a)	**77**	223
Fee received for comprehensive services provided	(b)	**269**	234
Sales of assets	(c)	**—**	4
Purchase of raw materials	(d)	**8,011**	8,640
Purchase of ancillary materials and spare parts	(e)	**738**	1,025
Utility supplies	(f)	**979**	798
Fees paid for other support services	(g)	**2,715**	4,768
Purchase of assets	(h)	**85**	1,289
Interest received	(i)	**4**	12
Interest paid	(i)	**123**	95

15. Related party transactions *(Continued)*

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

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

Notes:

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

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

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

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

15. Related party transactions *(Continued)*

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

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

Notes: (Continued)

(d) The Group purchased its principal raw material, from Angang Group at prices determined and modified on a semi-annual basis. The purchase price is mainly no higher than the average prices quoted to the Group for importing principal raw materials of similar quality plus freight charges and price adjustments for the quality or the average purchase prices charged by independent suppliers and price adjustments of the quality or raw materials price plus 10% mark up of the last semi-annual processing costs or market prices.

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

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

15. Related party transactions *(Continued)*

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

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

Notes: (Continued)

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

(h) The Group has purchased certain property, plant and equipment from Angang Group at prices based on the market price.

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

As at 30 June 2009, the Group placed deposit with Angang Finance amounted to RMB1,541 million (31 December 2008: RMB2,878 million) and the loans from Angang Finance amounted to RMB9,000 million (31 December 2008: RMB3,100 million).

15. Related party transactions *(Continued)*

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

(ii) Guarantee of bank loans

As at 30 June 2009, certain bank loans amounted to RMB1,000 million (31 December 2008: RMB1,200 million) were guaranteed by Angang Holding.

(iii) Amount due from/to ultimate parent

Amount due from/to ultimate parent mainly represents fee receivables for utilities and services provided and fees payable for support services.

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

(iv) Amounts due from/to fellow subsidiaries

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

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

(v) Supply of Materials and Services Agreement

The Company entered into a Supply of Materials and Services Agreement 2008/09 ("Supply Agreement") with Angang Holding on 24 October 2007, which is effective on 1 January 2008 for 2 years.

15. Related party transactions *(Continued)*

(B) Significant transactions and balances with other related parties

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

The Group sold finished products to ANSC - TKS amounting to RMB548 million for the six months ended 30 June 2009 (six months ended 30 June 2008: RMB1,055 million) for further processing.

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

The Group sold finished products to Changchun FAM amounting to RMB34 million for the six months ended 30 June 2009 (six months ended 30 June 2008: RMB52 million) for further processing.

(3) Sales of finished goods to TKAS (Changchun) Steel Service Center Ltd. ("TKAS - SSC") by the Group

The Group sold finished products to TKAS - SSC amounting to RMB125 million for the six months ended 30 June 2009 (six months ended 30 June 2008: RMB7 million) for further processing.

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

The Group sold finished products to TKAS amounting to RMB1 million for the six months ended 30 June 2009 (six months ended 30 June 2008: RMB1 million) for further processing.

15. Related party transactions *(Continued)*

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

(5) Sales of finished goods to Tianjin Angang Tian Tie Cold Rolled Sheets Company Limited ("Tianjin Tiantie") by the Group

The Group sold finished products to Tianjin Tiantie amounting to RMB593 million for the six months ended 30 June 2009 (six months ended 30 June 2008: RMB Nil) for further processing.

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

(6) Amounts due from/to jointly controlled entities and associates

Amounts due from/to jointly controlled entities and associates mainly represent the amounts receivables/deposits received by the Group in respect of sales of finished goods.

The amounts due from/to jointly controlled entities and associates are unsecured, interest free and have no fixed terms of repayment.

15. Related party transactions *(Continued)*

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

(7) Transactions with key management personnel

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

	Six months ended 30 June	
	2009	2008
	RMB million	*RMB million*
	(unaudited)	(unaudited)
Directors' and supervisors' fees	**—**	—
Salaries, allowance and other benefits in kind	**0.80**	1.73
Retirement scheme contributions	**0.13**	0.29
	0.93	2.02

(C) Transactions with other state-controlled entities in the PRC

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

Other than those transactions as disclosed above, the Group conducts certain business activities with other state-controlled entities which include but are not limited to the following:

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

15. Related party transactions *(Continued)*

(C) Transactions with other state-controlled entities in the PRC *(Continued)*

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

16. Events after the balance sheet date

On 22 July 2009, the Board of the Company approved and planned to issue 217,160,000 new H shares which to be listed on the Main Board of The Stock Exchange of Hong Kong Limited. The issuance of these H shares is subject to the approval in the general meeting of the Company, the Company's A share shareholders class general meeting and the Company's H share shareholders class general meeting. In addition, the issuance is further subject to the approval of China Securities Regulatory Commission and other relevant PRC authorities. The actual amount of new H shares to be issued shall be determined by the Company and the underwriter pursuant to the market conditions.

On 22 July 2009, the Board of the Company approved and planned to issue short-term debenture with an aggregate principal amount of not more than RMB6,000 million ("Debentures") in the PRC inter-bank debenture market. The Debentures will be offered in two tranches, each with an aggregate principal amount of not more than RMB3,000 million and a term of maturity of not more than 365 days (included the 365th day). The interest rate is estimated to be between the range of 2% to 2.5%. The actual interest rate shall depend on the interest rate quoted in the Shanghai Interbank Offered Rate at the time of issue of the Debentures.

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

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

Consolidated Balance Sheet (Unaudited)

As at 30 June 2009

Prepared by : Angang Steel Company Limited *Monetary unit: RMB million*

	Note	**30 June 2009**	31 December 2008
Assets			
Current assets			
Cash at banks and on hand	7(1)	**1,646**	2,974
Trading financial assets			
Bills receivable	7(2)	**2,540**	2,583
Accounts receivable	7(3)	**825**	1,235
Prepayments	7(4)	**4,914**	2,731
Interest receivable			
Other receivables	7(5)	**17**	78
Inventories	7(6)	**9,117**	10,372
Total current assets		**19,059**	19,973
Non-current assets			
Available-for-sale financial assets	7(7)	**135**	45
Long-term equity investments	7(8)	**2,433**	2,262
Investment real estate			
Fixed assets	7(9)	**49,850**	43,252
Construction in progress	7(10)	**10,098**	12,547
Construction material	7(11)	**2,643**	6,242
Intangible assets	7(12)	**6,684**	6,761
Deferred tax assets	7(13)	**1,285**	1,102
Other non-current assets			
Total non-current assets		**73,128**	72,211
Total assets		**92,187**	92,184

Legal representative:	*Chief Accountant:*	*Controller:*
Zhang Xiaogang	**Ma Lianyong**	**Ma Lianyong**

Consolidated Balance Sheet (Unaudited) *(Continued)*

Prepared by : Angang Steel Company Limited *Monetary unit: RMB million*

	Note	**30 June 2009**	31 December 2008
Liabilities and shareholders' equity			
Current liabilities			
Short-term loans	7(15)	**11,700**	7,570
Bills payable	7(16)	**4,486**	4,585
Accounts payable	7(17)	**3,667**	3,427
Advances from customers	7(18)	**4,403**	3,629
Employee benefits payable	7(19)	**315**	329
Taxes payable	7(20)	**(3,030)**	(2,771)
Other payables	7(21)	**2,924**	3,523
Non-current liabilities due within one year	7(22)	**5,453**	1,031
Total current liabilities		**29,918**	21,323
Non-current liabilities			
Long-term loans	7(23)	**11,961**	17,565
Deferred tax liabilities	7(24)	**57**	47
Other non-current liabilities		**139**	141
Total non-current liabilities		**12,157**	17,753
Total liabilities		**42,075**	39,076

Consolidated Balance Sheet (Unaudited) *(Continued)*

Prepared by : Angang Steel Company Limited *Monetary unit: RMB million*

	Note	**30 June 2009**	31 December 2008
Shareholders' equity			
Share capital	7(25)	**7,235**	7,235
Capital reserve	7(26)	**31,490**	31,423
Special reserve	7(28)	**40**	21
Surplus reserves	7(27)	**3,280**	3,280
Undistributed profit	7(29)	**8,067**	11,149
Differences from translation of foreign currency			
Subtotal of Shareholders' equity attributable to parent company		**50,112**	53,108
Minority interest			
Total shareholders' equity		**50,112**	53,108
Total liabilities and shareholders' equity		**92,187**	92,184

Legal representative: **Zhang Xiaogang**

Chief Accountant: **Ma Lianyong**

Controller: **Ma Lianyong**

Consolidated Income Statement (Unaudited)

For the period ended 30 June 2009

Prepared by : Angang Steel Company Limited *Monetary unit: RMB million*

Items	*Note*	**For the period ended 30 June 2009**	2008
1. Operating income	7(30)	**30,042**	40,168
including:Operating income from main business	7(30)	**30,042**	40,168
2. Operating costs		**31,839**	32,717
including:Operating cost for main business	7(31)	**28,982**	29,346
Business tax and surcharges	7(32)	**72**	525
Selling expenses	7(33)	**434**	845
Administrative expenses		**1,418**	1,596
Financial expenses	7(34)	**321**	337
Impairment losses on assets	7(35)	**612**	68
Add:gains/losses from fair value variation			
Investment income	7(36)	**(14)**	91
Including: Income from investment in jointly controlled enterprises and associates	7(36)	**(14)**	90
3. Operating profit		**(1,811)**	7,542
Add: Non-operating income	7(37)	**69**	14
Less: Non-operating expenses	7(38)	**13**	31
Including: Loss from non-current assets disposal	7(38)	**13**	25
4. Profit before income tax	7(39)	**(1,755)**	7,525
Less:Income tax expense	7(39)	**(192)**	1,545

Consolidated Income Statement (Unaudited) *(Continued)*

For the period ended 30 June 2009

Prepared by : Angang Steel Company Limited *Monetary unit: RMB million*

Items	*Note*	For the period ended 30 June 2009	2008
5. Net profit for the year		**(1,563)**	5,980
including: net profit of acquiree realized before acquiring day in combination under same control			
Net profit attributable to shareholder of parent company		**(1,563)**	5,980
Gains/losses attributable to minority shareholder			
6. Earning per share			
(1) basic earning per share	7(40)	**(0.216)**	0.827
(2) diluted earning per share	7(40)	**(0.216)**	0.827
7.Other comprehensive income		**67**	(135)
8.Total comprehensive income	7(41)	**(1,496)**	5,845
Share of total comprehensive income attributable to shareholder of parent company		**(1,496)**	5,845
Share of total comprehensive income attributable to minority interest			

Legal representative: **Zhang Xiaogang**

Chief Accountant: **Ma Lianyong**

Controller: **Ma Lianyong**

Consolidated Statement of changes in shareholders' equity (Unaudited)

As at 30 June 2009

Prepared by : Angang Steel Company Limited

Monetary unit: RMB million

30 June 2009

Items	Shareholders' equity attributable to parent company								
	Share capital	Capital reserve	less: treasury stock	Special reserve	Surplus reserve	Undistri-buted profit	other	Minority interest	Total of shareholders' equity
1. Balance at the end of last year	7,235	31,423			3,301	11,144			53,103
Add: change of accounting policy				21	(21)	5			5
Correction of error of last period									
2. Balance at beginning of the year	7,235	31,423		21	3,280	11,149			53,108
3. Variation of the year		67		19		(3,082)			(2,996)
(1) Net profit						(1,563)			(1,563)
(2) Gains/losses that attributed to shareholders equity directly		67							67
i. Net variation of fair value in available for sale financial assets		90							90
ii. Effects of other shareholder's equity of investee under equity method									
iii. Effects of income tax related to gains/losses that attributed to shareholders equity directly		(23)							(23)
Subtotal of (1)(2)above		67				(1,563)			(1,496)

31 December 2008

Items	Shareholders' equity attributable to parent company								
	Share capital	Capital reserve	less: treasury stock	Special reserve	Surplus reserve	Undistri-buted profit	other	Minority interest	Total of shareholders' equity
1. Balance at the end of last year	7,235	31,593			2,981	12,446			54,255
Add: change of accounting policy				11					11
Correction of error of last period									
2. Balance at beginning of the year	7,235	31,593		11	2,981	12,446			54,266
3. Variation of the year		(170)		10	299	(1,297)			(1,158)
(1) Net profit						2,981			2,981
(2) Gains/losses that attributed to shareholders equity directly		(170)							(170)
i. Net variation of fair value in available for sale financial assets		(226)							(226)
ii. Effects of other shareholder's equity of investee under equity method									
iii. Effects of income tax related to gains/losses that attributed to shareholders equity directly		56							56
Subtotal of (1)(2)above		(170)				2,981			2,811

Consolidated Statement of changes in shareholders' equity (Unaudited) *(Continued)*

As at 30 June 2009

Prepared by : Angang Steel Company Limited

Monetary unit: RMB million

	30 June 2009									31 December 2008								
	Shareholders' equity attributable to parent company									Shareholders' equity attributable to parent company								
			less:			Undistri-			Total of			less:			Undistri-			Total of
Items	Share capital	Capital reserve	treasury stock	Special reserve	Surplus reserve	buted profit	other	Minority interest	shareholders' equity	Share capital	Capital reserve	treasury stock	Special reserve	Surplus reserve	buted profit	other	Minority interest	shareholders' equity
(3) Variation of share																		
i. Capital injection																		
ii. Share-based payment attributable to shareholder's equity																		
(4) Special reserve				19					19				10					10
i. Appropriation number of this year				19					19				34					34
ii. Using number of this year													24					24
(5) Profit distribution						(1,519)			(1,519)					299	(4,278)			(3,979)
i. Appropriation for surplus reserve														299	(299)			
ii. Distribution to Shareholders						(1,519)			(1,519)						(3,979)			(3,979)
iii. Other distribution																		
(6) Transfer internally of shareholder's equity																		
i. Capital reserve transferred to share capital																		
ii. Surplus reserve transferred to share capital																		
iii. Losses covered by Surplus reserve																		
4. Balance at the end of the period	7,235	31,490		40	3,280	8,067			50,112	7,235	31,423		21	3,280	11,149			53,108

Legal representative:
Zhang Xiaogang

Chief Accountant:
Ma Lianyong

Controller:
Ma Lianyong

Consolidated Cash Flow Statement (Unaudited)

for the period ended 30 June 2009

Prepared by : Angang Steel Company Limited *Monetary unit: RMB million*

Items	*Note*	For the period ended 30 June 2009	2008
1. Cash flows from operating activities			
Cash received from sale of goods		**33,776**	48,718
Refund of taxes		**11**	
Cash received in relation to other operating activities		**6**	4
Sub-total of cash inflows		**33,793**	48,722
Cash paid for goods and services		**29,680**	35,359
Cash paid to and for employees		**1,237**	1,288
Cash paid for all types of taxes		**1,196**	4,759
Cash paid relating to other operating activities		**265**	402
Sub-total of cash outflows		**32,378**	41,808
Net cash flow from operating activities	7(42)	**1,415**	6,914

Consolidated Cash Flow Statement (Unaudited) *(Continued)*
for the period ended 30 June 2009

Prepared by : Angang Steel Company Limited *Monetary unit: RMB million*

Items	*Note*	**For the period ended 30 June 2009**	2008
2. Cash flows from investing activities			
Cash received from return on investments			
Cash received from investment income		**36**	2
Net cash received from the disposal of fixed assets, intangible assets		**21**	6
Net cash received from the disposal of subsidiary, other business unit			
Cash received in relation to other investing activities		**382**	119
Sub-total of cash inflows		**439**	127
Cash paid for acquisition of fixed assets intangible assets and other long-term assets		**3,710**	9,440
Cash paid for acquisition of investments		**142**	326
Net cash paid for acquisition of subsidiary, other business unit			
Cash paid relating to other investing activities			
Sub-total of cash outflows		**3,852**	9,766
Net cash outflow from investing activities		**(3,413)**	(9,639)

Angang Steel Company Limited

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

for the period ended 30 June 2009

Prepared by : Angang Steel Company Limited *Monetary unit: RMB million*

Items	*Note*	For the period ended 30 June 2009	2008
3. Cash flows from financing activities			
Cash received from receiving investment			
including: received of subsidiary from minority shareholder			
Cash received from borrowings		**14,540**	6,570
Cash received in relation to other financing activities			
Sub-total of cash inflows		**14,540**	6,570
Cash repayments of borrowings		**11,570**	5,265
Cash paid for dividends, profits distribution or interest		**2,287**	4,524
including: dividends, profits of subsidiary paid to minority shareholder			
Cash paid relating to other financing activities		**13**	59
Sub-total of cash outflows		**13,870**	9,848
Net cash inflow from financing activities		**670**	(3,278)

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

for the period ended 30 June 2009

Prepared by : Angang Steel Company Limited *Monetary unit: RMB million*

Items	*Note*	For the period ended 30 June **2009**	2008
4. Effect of foreign exchange rate changes on cash and cash equivalents			
5. Net increase in cash and cash equivalents	7(42)	**(1,328)**	(6,003)
Add: Cash and cash equivalents at the beginning of the year		**2,974**	7,733
6. Cash and cash equivalents at the end of the year	7(42)	**1,646**	1,730

Legal representative: **Zhang Xiaogang** *Chief Accountant:* **Ma Lianyong** *Controller:* **Ma Lianyong**

Balance Sheet (Unaudited)
As at 30 June 2009

Prepared by : Angang Steel Company Limited *Monetary unit: RMB million*

	Note	30 June 2009	31 December 2008
Assets			
Current assets:			
Cash at banks and on hand		**1,586**	2,914
Trading financial assets			
Bills receivable		**2,540**	2,583
Accounts receivable	8(1)	**825**	1,235
Prepayments		**4,914**	2,731
Interest receivable			
Dividends receivable			
Other receivables	8(2)	**17**	78
Inventories		**9,117**	10,372
Total current assets		**18,999**	19,913
Non-current assets			
Available-for-sale financial assets		**135**	45
Long-term equity investments	8(3)	**2,493**	2,322
Investment real estate			
Fixed assets		**49,850**	43,252
Construction in progress		**10,098**	12,547
Construction material		**2,643**	6,242
Intangible assets		**6,684**	6,761
Deferred tax assets		**1,285**	1,102
Other non-current assets			
Total non-current assets		**73,188**	72,271
Assets		**92,187**	92,184

Legal representative:	*Chief Accountant:*	*Controller:*
Zhang Xiaogang	**Ma Lianyong**	**Ma Lianyong**

Balance Sheet (Unaudited) ***(Continued)***
As at 30 June 2009

Prepared by : Angang Steel Company Limited *Monetary unit: RMB million*

	Note	**30 June 2009**	31 December 2008
Liabilities and shareholders' equity			
Current liabilities			
Short-term loans		**11,700**	7,570
Bills payable		**4,486**	4,585
Accounts payable		**3,667**	3,427
Advances from customers		**4,403**	3,629
Employee benefits payable		**315**	329
Taxes payable		**(3,030)**	(2,771)
Other payables		**2,924**	3,523
Non-current liabilities due within one year		**5,453**	1,031
Total current liabilities		**29,918**	21,323
Non-current liabilities			
Long-term loans		**11,961**	17,565
Deferred tax liabilities		**57**	47
Other non-current liabilities		**139**	141
Total non-current liabilities		**12,157**	17,753
Total liabilities		**42,075**	39,076
Shareholders' equity			
Share capital		**7,235**	7,235
Capital reserve		**31,490**	31,423
less:treasury stock			
Special reserves		**40**	21
Surplus reserves		**3,280**	3,280
Undistributed profit		**8,067**	11,149
Total shareholders' equity		**50,112**	53,108
Total liabilities and shareholders' equity		**92,187**	92,184

Legal representative: **Zhang Xiaogang** *Chief Accountant:* **Ma Lianyong** *Controller:* **Ma Lianyong**

Income Statement (Unaudited)

For the period ended 30 June 2009

Prepared by : Angang Steel Company Limited *Monetary unit: RMB million*

Items	Note	For the period ended 30 June 2009	2008
1. Operating income	8(4)	**30,042**	40,168
Less: Operating costs	8(5)	**28,982**	29,346
Business tax and surcharges		**72**	525
Selling expenses		**434**	845
Administrative expenses		**1,418**	1,596
Financial expenses		**321**	337
Impairment losses on assets		**612**	68
Add: Gains/losses from fair value variation			
Investment income	8(6)	**(14)**	91
Including: Income from investment in jointly controlled enterprises and associates		**(14)**	90
2. Operating profit		**(1,811)**	7,542
Add: Non-operating income		**69**	14
Less: Non-operating expenses		**13**	31
Including: Loss from non-current assets disposal		**13**	25
3. Profit before income tax		**(1,755)**	7,525
Less: Income tax expense		**(192)**	1,545

Income Statement (Unaudited)

For the period ended 30 June 2009

Prepared by : Angang Steel Company Limited *Monetary unit: RMB million*

Items	*Note*	For the period ended 30 June **2009**	2008
4. Net profit for the year		**(1,563)**	5,980
5. Earning per share			
(1) basic earning per share		**(0.216)**	0.827
(2) diluted earning per share		**(0.216)**	0.827
6. Other comprehensive income		**67**	(135)
7. Total comprehensive income		**(1,496)**	5,845

Legal representative: **Zhang Xiaogang** *Chief Accountant:* **Ma Lianyong** *Controller:* **Ma Lianyong**

Statement of changes in shareholders' equity (Unaudited)

As at 30 June 2009

Prepared by : Angang Steel Company Limited

Monetary unit: RMB million

Items	30 June 2009 Share capital	Capital reserve	less: treasury stock	Special reserve	Surplus reserve	Undistri-buted profit	Total of shareholders' equity	31 June 2008 Share capital	Capital reserve	less: treasury stock	Special reserve	Surplus reserve	Undistri-buted profit	Total of shareholders' equity
1. Balance at the end of last year	7,235	31,423			3,301	11,144	53,103	7,235	31,593			2,981	12,446	54,255
Add: change of accounting policy				21	(21)	5	5				11			11
Correction of error of last period														
2. Balance at beginning of the year	7,235	31,423		21	3,280	11,149	53,108	7,235	31,593		11	2,981	12,446	54,266
3. Variation of the year		67		19		(3,082)	(2,996)		(170)		10	299	(1,297)	(1,158)
(1) Net profit						(1,563)	(1,563)						2,981	2,981
(2) Gains/losses that attributed to shareholders equity directly		67					67		(170)					(170)
i . Net variation of fair value in available for sale financial assets		90					90		(226)					(226)
ii. Effects of other shareholder's equity of investee under equity method														
iii. Effects of income tax related to gains/losses that attributed to shareholders equity directly		(23)					(23)		56					56
Subtotal of (1)(2)above		67				(1,563)	(1,496)		(170)				2,981	2,811

Statement of changes in shareholders' equity (Unaudited) *(Continued)*

As at 30 June 2009

Prepared by : Angang Steel Company Limited

Monetary unit: RMB million

Items	30 June 2009 Share capital	Capital reserve	less: treasury stock	Special reserve	Surplus reserve	Undistri-buted profit	Total of shareholders' equity	31 June 2008 Share capital	Capital reserve	less: treasury stock	Special reserve	Surplus reserve	Undistri-buted profit	Total of shareholders' equity
(3) Variation of share														
i. Capital injection														
ii. Share-based payment attributable to shareholder's equity														
(4) Special reserve				19			19				10			10
i. Appropriation number of the year				19			19				34			34
ii. Using number of the year											24			24
(5) profit distribution						(1,519)	(1,519)					299	(4,278)	(3,979)
i. Appropriation for surplus reserve												299	(299)	
ii. Distribution to shareholders						(1,519)	(1,519)					(3,979)	(3,979)	
iii. Other distribution														

Statement of changes in shareholders' equity (Unaudited) *(Continued)*

As at 30 June 2009

Prepared by : Angang Steel Company Limited

Monetary unit: RMB million

Items	30 June 2009 Share capital	Capital reserve	less: treasury stock	Special reserve	Surplus reserve	Undistri-buted profit	Total of shareholders' equity	31 June 2008 Share capital	Capital reserve	less: treasury stock	Special reserve	Surplus reserve	Undistri-buted profit	Total of shareholders' equity
(6) Transfer internally of shareholder's equity														
i. Capital reserve transferred to share capital														
ii. Surplus reserve transferred to share capital														
iii. Losses covered by Surplus reserve														
4. Balance at the end of the period	7,235	31,490		40	3,280	8,067	50,112	7,235	31,423		21	3,280	11,149	53,108

Legal representative: **Zhang Xiaogang**

Chief Accountant: **Ma Lianyong**

Controller: **Ma Lianyong**

Cash Flow Statement (Unaudited)

for the period ended 30 June 2009

Prepared by : Angang Steel Company Limited *Monetary unit: RMB million*

Items	*Note*	For the period ended 30 June 2009	2008
1. Cash flows from operating activities			
Cash received from sale of goods		**33,776**	48,718
Refund of taxes		**11**	
Cash received in relation to other operating activities		**6**	4
Sub-total of cash inflows		**33,793**	48,722
Cash paid for goods and services		**29,680**	35,359
Cash paid to and for employees		**1,237**	1,288
Cash paid for all types of taxes		**1,196**	4,759
Cash paid relating to other operating activities		**265**	402
Sub-total of cash outflows		**32,378**	41,808
Net cash flow from operating activities	8(8)	**1,415**	6,914
2. Cash flows from investing activities			
Cash received from return on investments			
Cash received from investment income		**36**	2
Net cash received from the disposal of fixed assets, intangible assets		**21**	6
Net cash received from the disposal of subsidiary, other business unit			
Cash received in relation to other investing activities		**382**	119
Sub-total of cash inflows		**439**	127

Cash Flow Statement (Unaudited) *(Continued)*
for the period ended 30 June 2009

Prepared by : Angang Steel Company Limited *Monetary unit: RMB million*

Items	*Note*	For the period ended 30 June 2009	2008
Cash paid for acquisition of fixed assets intangible assets and other long-term assets		**3,710**	9,440
Cash paid for acquisition of investments		**142**	386
Net cash paid for acquisition of subsidiary, other business unit			
Cash paid relating to other investing activities			
Sub-total of cash outflows		**3,852**	9,826
Net cash outflow from investing activities		**(3,413)**	(9,699)
3. Cash flows from financing activities			
Cash received from receiving investment			
Cash received from borrowings		**14,540**	6,570
Cash received in relation to other financing activities			
Sub-total of cash inflows		**14,540**	6,570
Cash repayments of borrowings		**11,570**	5,265
Cash paid for dividends, profits distribution or interest		**2,287**	4,524
Cash paid relating to other financing activities	13	**59**	
Sub-total of cash outflows		**13,870**	9,848
Net cash inflow from financing activities		**670**	(3,278)

Cash Flow Statement (Unaudited) *(Continued)*
for the period ended 30 June 2009

Prepared by : Angang Steel Company Limited *Monetary unit: RMB million*

Items	*Note*	For the period ended 30 June 2009	2008
4. Effect of foreign exchange rate changes on cash and cash equivalents			
5. Net increase in cash and cash equivalents	8(8)	**(1,328)**	(6,063)
Add: Cash and cash equivalents at the beginning of the year		**2,914**	7,733
6. Cash and cash equivalents at the end of the year	8(8)	**1,586**	1,670

Legal representative: **Zhang Xiaogang** *Chief Accountant:* **Ma Lianyong** *Controller:* **Ma Lianyong**

1. COMPANY STATUS

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

The Company was established as a joint stock limited company under the Company Law of the People's Republic of China ("PRC"), with Anshan Iron & Steel Group Complex ("Angang Holding") as the sole promoter, pursuant to the approval document Tigaisheng [1997] No.62 "Reply to the Approval of the Establishment of Angang New Steel Company Limited" issued by the State Commission for Economic Restructuring of the PRC. The Company took over the businesses of the Wire Rod Plant, the Thick Plate Plant, and the Cold Rolling Plant (collectively referred to as the "Plants") of Angang Holding. According to the Division Agreement which took effect from 1 January 1997, Angang Holding transferred the production, sales, research and development, administration activities of the Plants together with the relevant assets and liabilities as at 31 December 1996 as its contribution to the Company. The above net assets were converted into 1,319,000,000 shares of the Company of RMB1.00 each.

The Company issued 890,000,000 foreign invested ordinary shares ("H shares") with a par value of RMB1.00 each on 22 July 1997 which were subsequently listed on The Stock Exchange of Hong Kong Limited on 24 July 1997. The Company also issued 300,000,000 ordinary A shares with a par value of RMB1.00 each on 16 November 1997 which were subsequently listed on the Shenzhen Stock Exchange on 25 December 1997.

On 26 January 2006, the Company made an additional issue of 2,970,000,000 ordinary A shares with a par value of RMB1.00 each at an issue price of RMB4.29 each to Angang Holding for a total consideration of RMB12.74 billion. Proceeds of the issue were used to partly finance the acquisition of the entire equity interest in ANSI .Upon the completion of the entire equity acquisition of ANSI, all the business, assets and liabilities of ANSI were transferred to the Company, and ANSI has applied for deregistration.

1. COMPANY STATUS *(Continued)*

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

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

At the balance sheet day, the Company's legal representative: Zhang Xiaogang; registered capital:RMB7,234,807,847;business certificate code: 210000400006026;registered address: Production Area of Angang Steel, Address of the Company Tie Xi District, Anshan City, Liaoning Province, the People's Republic of China (the "PRC"). On 26 June 2008, the Company invested RMB60 million to establish Angang Steel Logistics (Wuhan) Co., Ltd ("Angang Wuhan"), of which the registered capital was wholly held by the company.

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

The financial statements has been approved by the Board of Directors in August 17, 2009

2. STATEMENT OF COMPLIANCE

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

3. BASIS OF PREPARATION

These financial statements have been translated into English from the company financial statements issued in Chinese. In the event of any discrepancy between the English and Chinese versions, the Chinese version shall prevail.

The financial statements of the group are based on the assumption of going concern principal and the transactions and events are recognized and measured in accordance with "New Basic Standards" and other specific accounting standards.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS

(1) Accounting year

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

(2) Functional currency and presentation currency

The group's functional currency is RMB.

(3) Measurement basis

The financial statements is prepared on accrual basis and generally, measured in historical cost, and when the accounting elements meet the requirements of "New Standards" and could be measured reliably, then the replacement cost, net realizable value, present value and fair value could be adopted.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(4) Cash equivalents

Cash equivalents refer to the investment of short term (due in three month form the purchasing day) and of high liquidity, which are readily converted into known amounts of cash and are subject to an insignificant risk of change in value.

(5) Translation of foreign currencies

At the time of initial recognition of a foreign currency transaction, the amount in the foreign currency is translated to RMB at the spot exchange rate of the transaction date. (A spot exchange rate is an exchange rate quoted by the People's Bank of Chinaon the day of transaction).

Monetary items denominated in foreign currencies are translated to RMB at the spot exchange at the balance sheet day. The resulting exchange differences are recognized in profit or loss, except those arising from the principals and interests on foreign currency borrowings specifically for the purpose of acquisition, construction of qualifying assets (see note 7(10)). Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to RMB using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the exchange differences are recognized in profit or loss or capital reserve.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(6) Financial assets and financial liabilities

(a) Classification of financial assets and financial liabilities

Financial assets shall be classified into the following categories on initial recognition according to business character and requirement of risk management of the group: (i) The financial assets which are measured at their fair values and the variation of which is recorded into the profits and losses of the current period; (ii) held-to-maturity investments; (iii) loans and the account receivables; (iv) financial assets available for sale; (v) other financial liabilities.

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

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

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities, measured at fair value and the variation of its fair value be recognized as current losses or gains, its transaction costs are charged to profit or loss, and for others are recognized as initial cost of financial assets and financial liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(6) Financial assets and financial liabilities (Continued)

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

Subsequent measurement of financial assets and liabilities:

(i) the financial assets and financial liabilities which are measured at fair values and the variation of which is ascertained as profits or losses of the current period. Subsequent recognition is measured at fair value, all realized and unrealized profits and a loss is recognized as profits or losses of the current period.

(ii) Held-to-maturity investments and Receivables are subsequently stated at post-amortization cost using the effective interest method. But if the effect of discounting to present value is not significant, it is measured at cost deducted by bad debts provision

(iii) Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value and changes therein, except for impairment losses and foreign exchange gains and losses from monetary financial assets, which are recognized directly in equity. When an investment is derecognized, the cumulative gain or loss in equity is removed from equity and recognized in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(6) Financial assets and financial liabilities (Continued)

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

(iv) The equity instrument investments, for which there is no quotation in the active market and whose fair value cannot be measured reliably, and the derivative financial assets which are connected with the said equity instrument and must be settled by delivering the said equity instrument, shall be measured on the basis of their costs.

(v) Other financial liabilities

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

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

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(6) Financial assets and financial liabilities (Continued)

(c) Determination of fair values

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

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

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(6) Financial assets and financial liabilities (Continued)

(d) Recognition and measurement of transfer of financial assets

While the Group has transferred nearly all of the risks and rewards related to the ownership of the financial asset to the transferee, it derecognizes the financial asset. If it retained nearly all of the risks and rewards related to the ownership of the financial asset, it shall not derecognizes the financial asset. Where the Group does not transfer or retain nearly all of the risks and rewards related to the ownership of a financial asset, it shall deal with it according to the circumstances as follows, respectively:

(i) The financial assets shall be derecognized while the control over it is given up.

(ii) The financial assets shall be recognized according to the extent of continuous involvement in transferred financial assets of the group, and the relevant financial liability shall be recognized correspondingly while the control over it is not given up.

4. **SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS** ***(Continued)***

(6) Financial assets and financial liabilities (Continued)

(d) Recognition and measurement of transfer of financial assets ***(Continued)***

If the transfer of an entire financial asset satisfies the conditions for derecognizing, the difference between the amounts of the following 2 items shall be recorded into the profits and losses of the current period:

(i) The book value of the transferred financial asset;

(ii) The sum of consideration received from the transfer, and the accumulative amount of the changes of the fair value originally recorded into the owner's equities

If the transfer of partial financial asset satisfies the conditions to stop the recognition, the entire book value of the transferred financial asset shall, between the portion whose recognition has been stopped and the portion whose recognition has not been stopped , be apportioned according to their respective relative fair value, and the difference between the amounts of the following 2 items shall be included into the profits and losses of the current period :

(i) The book value of the portion whose recognition has been stopped;

(ii) The sum of consideration of the portion whose recognition has been stopped, and the portion of the accumulative amount of the changes in the fair value originally recorded into the owner's equities which is corresponding to the portion whose recognition has been stopped

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(6) Financial assets and financial liabilities (Continued)

(e) Impairment of financial assets

i. scope and objective evidence for Impairment of financial assets

The group reviewed the carrying amounts of financial assets (other than those at fair value through profit or loss) at each balance sheet day to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. The objective evidence refers to the events which has influence on estimated future cash flow of the financial assets and can be measured reliably after its initial recognition.

ii. test and measurement method for impairment of financial assets

A. Financial asset is measured on the basis of post-amortization costs

while objective evidence shows an impairment occurred to the financial assets, it's book value shall be written down to estimated future cash flow(excluding the loss of future credits not yet occurred), and the written down shall be recorded into current profits. The estimated future cash flow shall be determined according to the capitalization of the original actual interest rate of the said financial asset, taking into account the value of the relevant guarantee.

4. **SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS** ***(Continued)***

(6) Financial assets and financial liabilities (Continued)

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

ii. test and measurement method for impairment of financial assets *(Continued)*

A. Financial asset is measured on the basis of post-amortization costs *(Continued)*

An impairment test shall be made on the financial assets with significant single amounts. If any objective evidence shows that it has been impaired, the impairment-related losses shall be recognized and shall be recorded into the profits and losses of the current period. With regard to the financial assets with insignificant single amounts, an independent impairment test may be carried out, or they may be included in a combination of financial assets with similar credit risk features so as to carry out an impairment-related test. Where, upon independent test, the financial asset (including those financial assets with significant single amounts and those with insignificant amounts) has not been impaired, it shall be included in a combination of financial assets with similar risk features so as to conduct another impairment test. The financial assets which have suffered from an impairment loss in any single amount shall not be included in any combination of financial assets with similar risk features for any impairment test. Where any financial asset measured on the basis of post-amortization costs is recognized as having suffered from any impairment loss, if there is any objective evidence proving that the value of the said financial asset has been restored, and it is objectively related to the events that occur after such loss is recognized, the impairment-related losses as originally recognized shall be reversed and be recorded into the profits and losses of the current period. However, the reversed carrying amount shall not be any more than the post-amortization costs of the said financial asset on the day of reverse under the assumption that no provision is made for the impairment. The way of impairment testing and impairment measurement Is disclosed In “note 4(7) receivables”

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(6) Financial assets and financial liabilities (Continued)

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

ii. test and measurement method for impairment of financial assets *(Continued)*

B. Financial asset is measured on the basis of costs

While objective evidence shows impairment occurred to financial asset, the amount of the impairment loss shall be measured as the difference between the carrying amount of the investment and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset, such impairment loss is not reversed.

For other long-term equity investments measured on the basis of costs which according to "New Standards "No.2 Long-term Equity Investments, there is no quotation in the active market and whose fair value cannot be measured reliably, and impairment shall be measured comply with the same way above-mentioned.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(6) Financial assets and financial liabilities (Continued)

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

ii. test and measurement method for impairment of financial assets *(Continued)*

C. Available-for-sale financial asset

While objective evidence shows impairment occurred to available-for-sale financial asset, the accumulative losses arising from the decrease of the fair value of the capital reserve which was directly included shall be transferred out and recorded into the profits and losses of the current period. The accumulative losses that are transferred out shall be the balance obtained from the initially obtained costs of the sold financial asset after deducting the principals as taken back, the current fair value and the impairment-related losses as was recorded into the profits and losses of the current period.

(f) Equity instrument

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(7) Account receivables

(a) Measurement standard in provision of bad debt

The Group carry out an inspection, on the balance sheet day, on the carrying amount of the account receivables .Where there is any objective evidence as followings proving that such account receivables has been impaired, an impairment provision shall be made. (i) A serious financial difficulty occurs to the issuer or debtor; (ii) The debtor breaches any of the contractual stipulations, for example, fails to pay or delays the payment of interests or the principal, etc. (iii) The debtor will probably go bankrupt or carry out other financial reorganizations; (iv) Other objective evidences showing the impairment of the account receivables

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(7) Account receivables (Continued)

(b) Measurement method in provision of bad debt

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

An independent impairment test shall be made on the financial assets with significant single amounts and insignificant single amounts but will be riskier as they be put into a portfolio by credit risk features

Account receivables with insignificant single amounts and those has not been impaired upon independent test are divided to a series of combination, then conduct impairment test.

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

4. **SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)***

(7) Account receivables (Continued)

(b) **Measurement method in provision of bad debt *(Continued)***

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

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

(8) Inventories

(a) **Classification of inventory**

The inventory of the group comprises raw material, work in progress, finished goods, consumables, spare parts, materials in transit, materials in outsourcing etc.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(8) Inventories (Continued)

(b) Pricing method of acquisition and assumption of inventory

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

(c) Amortization of consumables

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

(d) Inventory counting system

The Group maintains a perpetual inventory system.

(e) Recognition and measurement of provision

On balance sheet day, the inventories shall be measured whichever is lower in accordance with the cost and the net realizable value.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(8) Inventories (Continued)

(e) Recognition and measurement of provision *(Continued)*

Net realizable value is the estimated selling price in the normal course of business less the estimated costs to completion and the estimated expenses and related taxes necessary to make the sale, including: ?as to inventory for sales such as finished products, commodities and tradable material, Net realizable value is the estimated selling price in the normal course of business less the estimated expenses and related taxes necessary to make the sale; ? as to inventory of which processing is required before selling, Net realizable value is the estimated selling price in the normal course of business less the estimated costs to completion and the estimated expenses and related taxes necessary to make the sale.; as to inventory held for contract of sales or service rendering, net realizable value is calculated on the basis of contractual price. If held inventory is more than amounts prescribed, Net realizable value of the excessive inventory is calculated on the basis of the general selling price.

Except spare parts, any excess of the cost over the net realizable value of each item of inventories is recognized as a provision for diminution in the value of inventories. Provision for diminution of spare parts is calculated according to the actual situation and the estimation of the management.

On balance sheet day, if cost of the inventory is higher than Net realizable value, provision for diminution shall be recorded into profits or losses of the current period. If the factors which lead to the written-down of Inventory previously disappear, the written-down, which is no more than the amount accrued previously, shall be resumed and recorded into profits or losses of the current period.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(9) Long-term equity investments

(a) Initial Measurement

For the long-term equity investment in subsidiaries arose from common control enterprise, the Group based on the date of common control to recognize the share of book value of the shareholders' equity of subsidiaries as the initial investment costs of the long-term investments. The difference of the initial investment costs of the long-term investment and the book value of the consideration would adjust to the share premium (or capital premium) in the capital reserve and if the share premium (or capital premium) in the capital reserve insufficient to set off such amount, the insufficient part would adjust to the retained earnings The direct cost for the business combination of the combining party shall, including the expenses for audit, assessment and legal services, be recorded into the profits and losses at the current period. The bonds issued for a business combination or the handling fees, commissions and other expenses for assuming other liabilities shall be recorded into the amount of initial measurement of the bonds or other debts. The handling fees, commissions and other expenses for the issuance of equity securities for the business combination shall be credited against the surplus of equity securities; if the surplus is not sufficient, the retained earnings shall be offset.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(9) Long-term equity investments (Continued)

(a) Initial Measurement *(Continued)*

For the long-term equity investment in subsidiaries not arose from common control enterprise, the Group recognize the initial investment costs based on the cost at the date of acquisition. The combination costs shall be the fair values, on the acquisition date, of the assets paid, the liabilities incurred or assumed and the equity securities issued by the acquirer in exchange for the control on the acquire. All relevant direct costs incurred to the acquirer for the business combination shall also be recorded into the cost of business combination. For a business combination realized by two or more transactions of exchange, the combination costs shall be the summation of the costs of all separate transactions. Where any future event that is likely to affect the combination costs is stipulated in the combination contract or agreement, if it is likely to occur and its effects on the combination costs can be measured reliably, the acquirer shall record the said amount into the combination costs. The bonds issued for a business combination or the handling fees, commissions and other expenses for assuming other liabilities shall be recorded into the amount of initial measurement of the bonds or other debts. The handling fees, commissions and other expenses for the issuance of equity securities for the business combination shall be offset against the surplus of equity Securities; if the surplus is not sufficient, the retained earnings shall be offset.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(9) Long-term equity investments (Continued)

(a) Initial Measurement *(Continued)*

The initial cost of a long-term equity investment obtained by making payment in cash shall be the purchase cost which is actually paid. The initial cost consists of the expenses directly relevant to the obtainment of the long-term equity investment, taxes and other necessary expenses.

The initial cost of a long-term equity investment obtained on the basis of issuing equity securities shall be the fair value of the equity securities issued.

The initial cost of a long-term equity investment of an investor shall be the value stipulated in the investment contract or agreement except the unfair value stipulated in the contract or agreement.

The initial cost of a long-term investment obtained by the exchange of nonmonetary assets shall be ascertained in accordance with the Accounting Standards for Enterprises No. 7 - Exchange of Non-monetary Assets.

The initial cost of a long-term equity investment obtained by Destruction of liabilities shall be ascertained in accordance with Accounting Standards for Enterprises No. 12 - Debt Restructuring.

4. **SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)***

(9) Long-term equity investments (Continued)

(a) **Initial Measurement *(Continued)***

The initial cost of a long-term investment shall be recognized according to its revaluation price while the book value is adjusted in the light of its appraised value in the reformation of its mechanism.

Except the direction cost related to business combination, the initial cost of long-term investment, acquired by other ways, comprise direct acquisition cost, relevant tax and other expenditures necessary.

The cash dividends and profits announced, which Is Included In consideration, shall not be recognized as initial cost of long-term investment but receivables.

(b) **Subsequent Measurement**

(i) A long-term equity investment of an investing enterprise, which is able to control the invested enterprise. Or does not do joint control or does not have significant influences on the invested entity, and has no offer in the active market and its fair value cannot be reliably measured, are stated at cost method.

The price of a long-term equity investment measured by employing the cost method shall be included at its initial investment cost. If there are additional investments or disinvestments, the cost of the long-term equity investment shall be adjusted. The dividends or profits declared to distribute by the invested entity shall be recognized as the current investment income.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(9) Long-term equity investments (Continued)

(b) Subsequent Measurement *(Continued)*

(ii) A long-term equity investment of the investing enterprise that does joint control or significant influences over the invested entity shall be measured by employing the equity method. If the initial cost of a long-term equity investment is more than the investing enterprise' attributable share of the fair value of the invested entity's identifiable net assets for the investment, the initial cost of the long-term equity investment may not be adjusted. If the initial cost of a long-term equity investment is less than the investing enterprise' attributable share of the fair value of the invested entity's identifiable net assets for the investment, the difference shall be included in the current profits and losses and the cost of the long-term equity investment shall be adjusted simultaneously.

After an investing enterprise obtains a long-term equity investment, it shall, in accordance with the attributable of the net profits or losses of the invested entity, recognize the investment profits or losses and adjust the book value of the long-term equity investment.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(9) Long-term equity investments (Continued)

(b) Subsequent Measurement *(Continued)*

The investing enterprise shall, on the ground of the fair value of all identifiable assets of the invested entity when it obtains the investment, recognize the distributable share of the net profits and losses of the invested entity after it adjusts the net profits of the invested entity. If the accounting policies and accounting periods adopted by the invested entity are different from those adopted by the investing enterprise, an adjustment shall be made to the financial statements of the invested entity in accordance with the accounting policies and accounting periods of the investing enterprise and recognize the investment profits or losses. The investing enterprise shall, in the light of the profits or cash dividends declared to distribute by the invested entity, calculate the proportion it shall obtain, and shall reduce the book value of the long-term equity investment correspondingly. An investing enterprise shall recognize the net losses of the invested enterprise until the book value of the long-term equity investment and other long-term rights and interests which substantially form the net investment made to the invested entity are reduced to zero, unless the investing enterprise has the obligation to undertake extra losses. Where any change is made to the owner's equity other than the net profits and losses of the invested entity, the book value of the long-term equity investment shall be adjusted and be included in the owner's equity.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(9) Long-term equity investments (Continued)

(c) Measurement standard of the joint control and significant influences

1. Measurement criteria of joint control: No any party could solely control operating activity of the joint venture. The financial and operating decisions of joint venture need consensus of each party.

2. Measurement criteria of significant influences : When the company directly or indirectly owns, or by subsidiaries owns, (20%), but less than 50% of the voting shares of invested entity, unless there is a clear evidence that the invested entity shall not participate in the p financial and operating decision making, the company has significant influence on invested entity, The company owns less than 20% of the voting shares of invested entity, the company has no significant influence on invested entity.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(9) Long-term equity investments (Continued)

(c) Measurement standard of the joint control and significant influences *(Continued)*

2. *(Continued)*

   But with the following conditions, we believe that the company has significant influence on the invested entity: (i) Have representative in board of directors of the invested entity or similar authority; (ii) Get involved in the invested entity's policy making; (iii) There are significant transactions with the invested entity; (iv) Dispatch management staff to the invested entity; (v) Providing key technology to the invested entity.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(10) Fixed assets

(a) Condition recognizing

Fixed assets represent the tangible assets held by the Group for use in the production of goods, service rendering, and renting and operation management purposes with useful lives over one year.

No fixed asset may be recognized unless it simultaneously meets the conditions as follows:

(i) The economic benefits pertinent to the fixed asset are likely to flow into the enterprise; and

(ii) The cost of the fixed asset can be measured reliably.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses

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

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

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(10) Fixed assets (Continued)

(a) Condition recognizing *(Continued)*

(ii) *(Continued)*

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

(b) Classification and depreciation method

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

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

Class of fixed assets	Estimated useful-life	Residual value rate
Plants and buildings	10-20years	3%-5%
Machinery and equipment	3-15years	3%-5%
Other fixed assets	2-12years	3%-5%

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

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(11) Construction in progress

Construction in progress includes Technical Renovation Project, Technical measures to project, project formed with scattered fixed assets. Construction in progress shall be initially measured according to its cost.

Construction in progress is stated in the balance sheet at cost less impairment losses.

Construction in progress is transferred to fixed assets when it is ready for its intended use.

(12) Intangible assets

(a) Initial Measurement

The intangible assets shall be initially measured according to its cost.

4. **SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)***

(12) Intangible assets (Continued)

(b) Subsequent measurement

(i) Estimation of useful life of intangible assets

Intangible assets owned or controlled by the Group is come from contractual rights or legal rights, and its useful life is no longer than the period stipulated in contract or statutory period; There are evidences show that no significant cost is required to prolong the contract period, then the prolonged contract period shall be recognized as useful life; If there are no contractual life and statutory life, the useful life of intangibles shall be ascertained according to the historical experiences and the suggestions from relevant experts. An intangible asset is regarded as having an indefinite useful life and is not amortized when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for The Group.

(ii) Check of useful life

At the end of any fiscal year, The Group checks useful life and the amortization method of intangible assets, and adjust it when necessary

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(12) Intangible assets (Continued)

(b) Subsequent measurement *(Continued)*

(iii) Amortization

For an intangible asset with finite useful life, its cost less residual value and impairment loss is amortized on the straight-line method over its estimated useful life. The respective amortization periods for each intangible asset are as follows:

Items	Amortization period
Land using rights	50 years
Acquired software	3 to 10 years
Industrial technology	6 to 10 years

For an intangible asset with infinite useful life, the impairment shall be tested but amortization at the end of every fiscal year. At the end of this year the Group has no intangible assets with infinite useful life.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(13) Expenditures on research and development

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

The development expenditures for its internal research and development projects of an enterprise may be confirmed as intangible assets when they satisfy the following conditions simultaneously:

(a) It is feasible technically to finish intangible assets for use or sale;

(b) It is intended to finish and use or sell the intangible assets;

(c) The usefulness of methods for intangible assets to generate economic

benefits shall be proved, including being able to prove that there is a potential market for the products manufactured by applying the intangible assets or there is a potential market for the intangible assets itself or the intangible assets will be used internally;

(d) It is able to finish the development of the intangible assets, and able to use or sell the intangible assets, with the support of sufficient technologies, financial resources and other resources;

(e) The development expenditures of the intangible assets can be reliably measured.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(14) Long-term deferred expenses

Long-term deferred expenses refer to the incurred expenses that amortized in current period and the periods following, mortised period is longer than one year. Long-term deferred expenses are initially measured according to its actual payment and amortized based on line-method during the amortized periods.

(15) Impairment of assets

(a) The following assets subject to this article

long-term investment (excluding investment without joint control or significant influences over Invested enterprise, and the investment, of which the fair value can't be measured reliably and no quoted price in active market), investment real estate, fixed assets, construction in progress, construction material, intangible assets (including capitalized expenditures), asset group, combination of assets group, goodwill, etc.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(15) Impairment of assets (Continued)

(b) Recognition of probable impairment

On balance sheet day, the group made a judgment on whether or not the impairment exists among all assets. At the end of every fiscal year, impairment testing must be conducted among good will and intangible assets with infinite useful life

There may be an impairment of assets when one of the following signs occurs:

(i) The current market price of assets falls, and its decrease is obviously higher than the expected drop over time or due to the normal use;

(ii) The economic, technological or legal environment in which The Group position, or the market where the assets is situated will have any significant change in the current period or in the near future, which will cause adverse impact on the enterprise;

(iii) The market interest rate or any other market investment return rate has risen in the current period, and thus the discount rate of The Group for calculating the expected future cash flow of the assets will be affected, which will result in great decline of the recoverable amount of the assets;

(iv) Any evidence shows that the assets have become obsolete or have been damaged substantially;

(v) The assets have been or will be left unused, or terminated for use, or disposed ahead of schedule;

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(15) Impairment of assets (Continued)

(b) Recognition of probable impairment *(Continued)*

(vi) Any evidence in the internal report of The Group shows that the economic performance of the assets have been or will be lower than the expected performance, for example, the net cash flow created by assets or the operating profit (or loss) realized is lower (higher) than the excepted amount, etc.; and

(vii) Other evidence indicates that the impairment of assets has probably occurred.

(c) Measurement of the recoverable amount

Where any evidence shows that there is possible assets impairment, the recoverable amount of the assets shall be estimated. The recoverable amount shall be determined in light of the higher one of the net amount of the fair value of the assets minus the disposal expenses and the current value of the expected future cash flow of the assets. The net amount of the fair value of an asset minus the disposal expenses shall be determined in light of the amount of the basis of the price as stipulated in the sales agreement in the fair transaction minus the disposal expenses directly attributable to the asset. The current value of the expected future cash flow of an asset shall be determined by the discounted cash with an appropriate discount rate, on the basis of the expected future cash flow generated during the continuous use or final disposal of an asset.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(15) Impairment of assets (Continued)

(d) Determination of Losses of Asset Impairment

Where the measurement result of the recoverable amount indicates that an asset's recoverable amount is lower than its carrying value, the carrying value of the asset shall be recorded down to the recoverable amount, and the reduced amount shall be recognized as the loss of asset impairment and be recorded as the profit or loss for the current period. Simultaneously, provision for the asset impairment shall be made accordingly.

After the loss of asset impairment has been recognized, the depreciation or amortization expenses of the impaired asset shall be adjusted accordingly in the future periods so as to amortize the post-adjustment carrying value of the asset systematically (deducting the expected net salvage value) within the residual useful life of the asset. Once any loss of asset impairment is recognized, it shall not be switched back in the future accounting periods

(e) Recognition of Group Assets and Treatments of Impairment

Where there is any evidence indicating a possible impairment of assets, The Group shall, on the basis of single item assets, estimate the recoverable amount. Where it is difficult to do so, it shall determine the recoverable amount of the group assets on the basis of the asset group to which the asset belongs. The group assets should be recognized in accordance with the main cash inflow generated by the group assets which is whether independent of those by other assets or group assets.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(15) Impairment of assets (Continued)

(e) Recognition of Group Assets and Treatments of Impairment *(Continued)*

The recognition of an asset group shall base on whether the main cash inflow generated by the asset group is independent of those generated by other assets or other group assets. Simultaneously, when recognizing an asset group, The Group shall take into consideration how its managers manage the production and business activities (for example, according to the production lines, business varieties or according to the regions or areas), and the ways of decision-making for the continuous use or disposal of the assets, etc.

Where the recoverable amount of an asset group or a combination of asset groups is lower than its carrying value (where the headquarter' assets and good will are apportioned to a certain asset group or a combination of asset groups, the carrying value of the asset group or the combination of asset groups shall include the amount of the relevant assets of the headquarter and good will that have been apportioned to), it shall be recognized as the corresponding impairment loss. The amount of the impairment loss shall first charge against the carrying value of the headquarter' assets and good will which are apportioned to the asset group or combination of asset groups, then charge it against the carrying value of other assets in proportion to the weight of other assets in the asset group or combination of asset groups with the good will excluded. The charges against the carrying value of the assets above shall be treated as the impairment loss of the assets (including the good will) and recorded as profit or loss for the current period.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(15) Impairment of assets (Continued)

(f) Good will

Good will of the Group formed by merger of enterprises shall be subject to an impairment test at least at the end of each year. The Good will shall, together with the related asset group or combination of asset group, be subject to the impairment test. When an enterprise makes an impairment test of assets, it shall, as of the purchasing day, apportion the carrying value of the good will formed by merger of enterprises to the relevant asset groups by a reasonable method. Where it is difficult to do so, it shall be apportioned to the relevant combinations of asset groups. The related asset group or combination of asset groups shall be the asset group or combination of asset groups that can benefit from the synergy effect of enterprise merger, and shall be smaller than the reporting segments

When making an impairment test on the relevant asset groups or combination of asset groups containing good will, if any evidence shows that the impairment of asset groups or combinations of asset groups is possible, The Group shall first make an impairment test on the asset groups or combinations of asset groups not containing good will, calculate the recoverable amount, compare it with the relevant carrying value and recognize the corresponding impairment loss. Then The Group shall make an impairment test of the asset groups or combinations of asset groups containing good will, and compare the carrying value of these asset groups or combinations of asset groups (including the carrying value of the good will apportioned thereto) with the recoverable amount. Where the recoverable amount of the relevant assets or combinations of the asset groups is lower than the carrying value thereof, it shall recognize the impairment loss of the good will, and treat them according to the method mentioned above.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(16) Borrowing costs

(a) Recognition and Measurement

The borrowing costs include interest on borrowings, amortization of discounts or premiums on borrowings, ancillary expenses, and exchange difference on foreign currency translation concerning borrowings. Borrowing costs incurred directly attributable to the acquisition, construction of a qualified asset are capitalized as part of the cost of the asset. Except for the above, other borrowing costs are recognized as financial expenses in the income statement when incurred.

The borrowing costs shall not be capitalized unless they simultaneously meet the following requirements:

(i) The asset disbursements have already incurred, which shall include the cash, transferred non-cash assets or interest bearing debts paid for the acquisition and construction or production activities for preparing assets eligible for capitalization;

(ii) The borrowing costs has already incurred; and

(iii) The acquisition and construction or production activities which are necessary to prepare the asset for its intended use or sale have already started.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(16) Borrowing costs (Continued)

(b) Capitalization period

For the borrowing costs incurred before a qualified asset under acquisition, construction or production is ready for the intended use or sale shall be capitalized at the incurred amount when they are incurred, and shall be recorded into the costs of the asset eligible for capitalization; those incurred after a qualified asset under acquisition and construction or production is ready for the intended use or sale shall be recognized as expenses on the basis of the incurred amount when they are incurred, and shall be recorded into the profits and losses of the current period. Where the acquisition and construction or production of a qualified asset is interrupted abnormally and the interruption period lasts for more than 3 months, the capitalization of the borrowing costs shall be suspended. The capitalization of the borrowing costs during the suspension is not included.

(c) Calculation of borrowings

During the period of capitalization, the to-be-capitalized amount of interests (including the amortization of discounts or premiums) in each accounting period shall be determined according to the following provisions:

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(16) Borrowing costs (Continued)

(c) Calculation of borrowings *(Continued)*

(i) As for specifically borrowed loans for the acquisition and construction or production of assets eligible for capitalization, the to-be-capitalized amount of interests shall be determined in light of the actual cost incurred of the specially borrowed loan at the present period minus the income of interests earned on the unused borrowing loans as a deposit in the bank or as a temporary investment.

(ii) Where a general borrowing is used for the acquisition and construction or production of assets eligible for capitalization, The Group shall calculate and determine the to-be-capitalized amount of interests on the general borrowing by multiplying the weighted average asset disbursement of the part of the accumulative asset disbursements minus the general borrowing by the capitalization rate of the general borrowing used. The capitalization rate shall be calculated and determined in light of the weighted average interest rate of the general borrowing.

(d) Recognition of the interest rates

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

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(17) Employee benefits

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

(a) Retirement benefits

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

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(17) Employee benefits (Continued)

(b) Housing fund and other social insurances

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

(c) Termination benefits

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(18) Contingent liabilities

(a) Recognition

The obligation, pertinent to Contingencies such as guarantee, product quality assurance, downsizing, loss contracts, reorganization, disposal of fixed assets, shall be recognized as estimated debts when the following conditions are satisfied simultaneously:

(i) That obligation is a current obligation of the enterprise;

(ii) It is likely to cause any economic benefit to flow out of the group as a result of execution of the obligation;

(iii) The amount of the obligation can be measured in a reliable way.

In terms of a possible obligation resulting from a past transaction or event, whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow can not be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(18) Contingent liabilities (Continued)

(b) Measurement

The estimated debts shall be initially measured in accordance with the best estimate of the necessary expenses for the performance of the current obligation. To determine the best estimate, an enterprise shall fully take into consideration of the risks, uncertainty, time value of money, and other factors pertinent to the Contingencies. If the time value of money is of great significance, the best estimate shall be determined after discounting the relevant future outflow of cash. An enterprise shall check the book value of the estimated debts on the balance sheet day. If there is any exact evidence indicating that the book value cannot really reflect the current best estimate, the group shall adjust the book value in accordance with the current best estimate.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(19) Revenue recognition

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

(a) Sale of goods

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

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

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

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

4 Relevant economic benefits is likely to flow in the group

5 relevant cost which occurred or will occur can be measured reliably

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(19) Revenue recognition (Continued)

(b) Revenue from service rendering

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

Where the outcome of service rendering cannot be estimated reliably, the revenue and cost shall be treated as following respectively:

I. if the costs incurred are expected to be recoverable, revenues are recognized to the extent that the costs incurred that are expected to be recoverable, and an equivalent amount is charged to profit or loss as service cost;

II. if the costs incurred are not expected to be recoverable, the costs incurred are recognized in profit or loss and no service revenue is recognized.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(19) Revenue recognition (Continued)

(c) Revenue from leasing use right of assets

(i) principle of recognition:

The revenue from leasing use right of assets consists of interest revenue and royalty revenue.

Revenue from leasing use right of assets may be recognized when the following conditions are met simultaneously:

The relevant economic benefits are likely to flow into the enterprise;

The amount of revenues can be measured in a reliable way.

(ii) Method of recognition:

— The amount of interest revenue should be measured and confirmed in accordance with the length of time for which the enterprise's cash is used by others and the actual interest rate;

— The amount of royalty revenue should be measured and confirmed in accordance with the period and method of charging as stipulated in the relevant contract or agreement.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(20) Leases

(a) Classification of Leases

The Group classifies a lease as a financing lease or an operating lease on the lease beginning date.

(b) Standard of recognition:

Where a lease satisfies one or more of the following criteria, it shall be recognized as a finance lease:

(i) The ownership of the leased asset is transferred to the lessee when the term of lease expires;

(ii) The lessee has the option to buy the leased asset at a price which is expected to be far lower than the fair value of the leased asset at the date when the option becomes exercisable. Thus, on the lease beginning date, it can be reasonably determined that the option will be exercised;

(iii) Even if the ownership of the asset is not transferred, the lease term covers the major part of the use life of the leased asset;

(iv) In the case of the lessee, the present value of the minimum lease payments on the lease beginning date amounts to substantially all of the fair value of the leased asset on the lease beginning date; in the case of the leaser, the present value of the minimum lease receipts on the lease beginning date amounts to substantially all of the fair value of the leased asset on the lease beginning date;

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(20) Leases (Continued)

(b) Standard of recognition: *(Continued)*

(v) The leased assets are of a specialized nature that only the lessee can use them without making major modifications. Operating lease refer to a lease other than a financing lease.

(c) Accounting Treatments in Finance Leases

(i) Accounting Treatments of Lessees:

On the lease beginning date, a lessee shall record the lower one of the fair value of the leased asset and the present value of the minimum lease payments on the lease beginning date as the entering value in an account, recognize the amount of the minimum lease payments as the entering value in an account of long-term account payable, and treat the balance between the recorded amount of the leased asset and the long-term account payable as unrecognized financing charges. The initial direct costs such as commissions, attorney's fees and traveling expenses, stamp duties directly attributable to the leased item incurred during the process of lease negotiating and signing the leasing agreement shall be recorded into the asset value of the current period.

When calculates the present value of the minimum lease payments, adopt the interest rate provided in the lease agreement as the discount rate.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(20) Leases (Continued)

(c) Accounting Treatments in Finance Leases *(Continued)*

(i) Accounting Treatments of Lessees: *(Continued)*

The lessee shall adopt the effective interest rate method to calculate and recognize the financing charge in the current period.

In calculating the depreciation of a leased asset, the lessee should adopt a depreciation policy for leased assets consistent with that for depreciable assets which are owned by the lessee.

If it is reasonable to be certain that the lessee will obtain the ownership of the leased asset when the lease term expires, the leased asset shall be fully depreciated over its useful life. If it is not reasonable to be certain that the lessee will obtain the ownership of the leased asset at the expiry of the lease term, the leased asset shall be fully depreciated over the shorter one of the lease term or its useful life.

Contingent rents shall be recognized as an expense in the period in which they are actually incurred.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(20) Leases (Continued)

(c) Accounting Treatments in Finance Leases *(Continued)*

(ii) Accounting Treatments of leasers

On the beginning date of the lease term, recognize the sum of the minimum lease receipts on the lease beginning date and the initial direct costs as the entering value in an account of the financing lease values receivable, and record the unguaranteed residual value at the same time. The balance between the sums of the minimum lease receipts, the initial direct costs and the unguaranteed residual value, and the sum of their present values shall be recognized as unrealized financing income.

The leaser shall calculate the financing income at the current period by adopting the effective interest rate method.

Contingent rents shall be recorded into the profits and losses of the period in which they actually arise.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(20) Leases (Continued)

(d) Accounting Treatments in Operating Leases

The rents from operating leases shall be recorded by the leasee and leaser in the profits and losses of the current period by using the straight-line method over each period of the lease term. The initial direct costs incurred to a leaser and lessee shall be recorded into the profits and losses of the current period. The contingent rents shall be recorded into the profits and losses of the current period in which they actually arise

(21) Government grants

(a) Recognition

No government subsidy may be recognized unless the following conditions are met simultaneously as follows:

(i) The Group can meet the conditions for the government subsidies;

(ii) The Group can obtain the government subsidies.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(21) Government grants (Continued)

(b) Measurement

(i) If government grant is in the form of a transfer of a monetary asset, it is measured at the amount that is received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at its fair value. If its fair value cannot be obtained in a reliable way, it shall be measured at its nominal amount.

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

(iii) If it is necessary to refund any government subsidy which has been recognized, it shall be treated respectively in accordance with the circumstances as follows:

If there is the deferred income concerned, the book balance of the deferred income shall be offset against, but the excessive part shall be included in the current profits and losses; and

If there is no deferred income concerned to the government subsidy, it shall be directly included in the current profits and losses.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(22) Income tax

(a) **the group' income tax is calculated on the basis of balance sheet liability method.**

(b) **Temporary Difference**

The "temporary difference" shall refer to the difference between the carrying amount of an asset or liability and its tax base. As for an item that has not been recognized as an asset or liability, if its tax base can be determined in light of the tax law, the difference between the tax base and its carrying amount shall also be a temporary difference. Pursuant to the effect of temporary differences on taxable amounts during future periods, they can be classified into taxable temporary differences and deductible temporary differences.

(c) **Recognition of deferred income tax assets**

As for any deductible loss or tax deduction that can be carried forward to the next year, the corresponding deferred income tax assets shall be determined to the extent that the amount of future taxable income to be offset by the deductible loss or tax deduction to be likely obtained.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(22) Income tax (Continued)

(c) Recognition of deferred income tax assets *(Continued)*

Where the deductible temporary difference related to the investments of the subsidiary companies, associated enterprises and joint enterprises can meet the following requirements simultaneously, The Group shall recognize the corresponding deferred income tax assets:

(i) The temporary differences are likely to be reversed in the expected future;

(ii) It is likely to acquire any amount of taxable income tax that may be used for making up the deductible temporary differences.

(d) Deferred income tax liabilities

Except for the deferred income tax liabilities arising from the following transactions, an enterprise shall recognize the deferred income tax liabilities arising from all taxable temporary differences:

(i) The initial recognition of good will; or the initial recognition of assets or liabilities arising from the following: The transaction is not business combination, and at the same time of transaction, the accounting profits will not be affected, nor will the taxable amount (or the deductible loss) be affected.

(ii) The taxable temporary differences related to the investments of subsidiary companies, associated enterprises and contractual enterprises: The investing enterprise can control the time of the reverse of temporary differences; and the temporary differences are unlikely to be reversed in the excepted future.

4. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTIONS OF PRIOR PERIOD ERRORS *(Continued)*

(22) Income tax (Continued)

(e) Impairment:

The carrying amount of deferred income tax assets shall be reexamined on balance sheet day. If it is unlikely to obtain sufficient taxable income taxes to offset the benefit of the deferred income tax assets, the carrying amount of the deferred income tax assets shall be written down. When it is probable to obtain sufficient taxable income taxes, such write-down amount shall be subsequently reversed.

(23) Segment reporting

Segment information is presented on the basis of Group's operating segments.

(24) Consolidated financial statements

(See note 6).

(25) Significant changes of accounting policies and estimates:

In terms of the requirement of document "Interpretation of accounting standards No.3"(cai kuai [2009] No.8), safety production expenses should be recognized in the special reserves . As a result of retrospective adjustment of safety production expense, the beginning balance of shareholders equity is totally increased by RMB5 million.

5. TAXATION

(1) Value added tax (VAT)

The Group is VAT General taxpayer°Athe vat payables are output tax minus input tax during the current period. The VAT rate is 17%or 13%.Angang Wuhan is a small-scale taxpayer, VAT rate is 3%.

(2) Business tax

Business tax rate: 5%

(3) City construction and maintenance tax, education surcharge and local education surcharge

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

(4) Income tax

The income tax rate applicable to The Group for the year is 25% (2008: 25%).

(5) Others

In accordance with prevalent taxation laws of PRC

6. CONSOLIDATED FINANCIAL STATEMENTS

(1) *Consolidated scope*

(a) Recognition principle:

The scope of consolidation of consolidated financial statements shall be determined on the basis of control power. The term "control" refers to the power of an entity to govern the financial and operating policies of another entity so as to obtain benefits from it. The company consolidated all entity in which the company holds more than 50% share capital or even less than 50% but essentially control its financial and operation activities.

(b) Particulars of the subsidiary as at 30 June 2009 are as follows:

Name	Form of business structure	Place of Incorporation and operation	Registered and paid up capital	Percentage of equity interest held by the Group	Principal activities
Angang Steel Distribution (Wuhan) Company Limited	Limited liability company	PRC	RMB60 million	100%	Not yet commence business

6. CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(2) Preparation of consolidated financial statements

(a) Principle preparation of consolidated financial statements

The consolidated financial statements shall, on the basis of the financial statements of the parent company and its subsidiaries, be prepared by the parent company after the long term equity investments in the subsidiaries are adjusted through the equity method. The long-term equity investments of a parent company in its subsidiaries shall be offset against its portion of owner's equities in the subsidiaries, after the effects of the internal transactions and the items of credits and debts between the parent company and its subsidiaries are offset. Minority interest is presented separately in the consolidated balance sheet within equity. Net profit or loss attributable to minority shareholders is presented separately in the consolidated income statement below the net profit line item.

(b) Accounting treatment of newly adding of subsidiary or disposal of a subsidiary

If the parent company has a new subsidiary due to business combination under a same control during a reporting period, it shall adjust the beginning balance in the consolidated balance sheets when preparing consolidated balance sheets. If it is not under a same control the parent company shall not adjust the beginning balance in the consolidated balance sheets when preparing consolidated balance sheets. If the parent company disposes of a subsidiary within a reporting period, when it prepares consolidated balance sheets, it shall not adjust the beginning balance in the consolidated balance sheets.

6. **CONSOLIDATED FINANCIAL STATEMENTS *(Continued)***

(2) Preparation of consolidated financial statements (Continued)

(b) **Accounting treatment of newly adding of subsidiary or disposal of a subsidiary *(Continued)***

If the parent company obtained the subsidiaries under the same control, the sales, expenses and profits of the subsidiaries from the acquisition date to the end of the reporting period are included in the parent company's consolidated Profit statements; If it is not under the same control, the sales, expenses and profits of the subsidiaries from the acquisition date to the end of the reporting are not included in the parent company's consolidated profit statements. If the parent company disposes of a subsidiary within reporting period, the sales, expenses and profits of the subsidiaries from the beginning of the reporting period to the disposal date are included in the parent company's consolidated profit statements.

If the parent company obtained the subsidiaries under the same control, the cash flow of the subsidiaries from the acquisition date to the end of the reporting period are included in the parent company's consolidated cash flow statements; If it is no under the same control, the cash flow of the subsidiaries from the acquisition date to the end of the reporting period are included in the parent company's consolidated cash flow statements. If the parent company disposes of a subsidiary within reporting period, the cash flow of the subsidiaries from the beginning of the reporting period to the disposal date are included in the parent's consolidated cash flow statements.

6. CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(2) Preparation of consolidated financial statements (Continued)

(c) Accounting treatment of the differences of accounting policies and accounting period between parent company and its subsidiary

There are no differences of accounting policies between parent company and it subsidiary.

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In the notes below(including notes to parent financial statements), unless otherwise indicated ,the beginning of the period is 31 December 2008,the ending of the period is 30 June 2009 ,the current period is six months ended at 30 June 2009, the prior period is six months ended at 30 June 2008

(1) CASH IN BANK AND ON HAND

Items	**Ending balance**	Beginning balance
Cash on hand	**1**	1
Cash in bank	**1,645**	2,973
Total	**1,646**	2,974

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(2) BILLS RECEIVABLE

(a) Analysis of bills receivable

The types of bills	Ending balance	Beginning balance
Bank acceptance bills	**2,540**	2,583
Total	**2,540**	2,583

(b) There is no bill used for impawning by 30 June 2009

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

(d) Endorsed but not expiring bills

Issuer	Issuing date	Expire date	Amount	*Notes*
Dalian Shipbuilding Industry Co., Ltd, etc, Numbers to 373	4 Jan 2009 to 18 Jun 2009	1 July 2009 to 12 Dec 2009	2,233	

(e) No amount due from shareholders who hold 5% or more of the voting rights of the Group is included in the above balance of bills receivable

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(3) ACCOUNTS RECEIVABLE

(a) Accounts receivable by risk type

	Ending balance				
Items	Book value	%	Bad debt provision	Carrying value	Percentage of bad debt provision
Single significant accounts receivable	759	92		759	
Insignificant single amounts but will be riskier as they be put into a portfolio by credit risk features.					
Other not significant accounts receivable	66	8		66	
Total	825	100		825	

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(3) ACCOUNTS RECEIVABLE (Continued)

(a) Accounts receivable by risk type *(Continued)*

	Beginning balance				
Items	Book value	%	Bad debt provision	Carrying value	Percentage of bad debt provision
Single significant accounts receivable	1,119	91		1,119	
Insignificant single amounts but will be riskier as they be put into a portfolio by credit risk features					
Other not significant accounts receivable	116	9		116	
Total	1,235	100		1,235	

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(3) ACCOUNTS RECEIVABLE (Continued)

(b) The aging analysis of Accounts receivable is as follows

	Ending Balance			Beginning Balance		
Aging	**Book value**	**%**	**Bad debt Provision**	Book value	%	Bad debt Provision
Within 1 year (inclusive)	**821**	**100**		1,231	100	
1 and 2 years (inclusive)				1		
2 and 3 years (inclusive)	**1**			1		
Over 3 years	**3**			2		
Total	**825**	**100**		1,235	100	

Note:

(i) The ending balance decreased by 33% comparing with beginning balance due to decrease of accounts receivable by exporting products.

(ii) The management considers that major accounts receivable can be recovered, and the debtors have repayment capabilities, so proportion of bad debt provision is low.

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(3) ACCOUNTS RECEIVABLE (Continued)

(c) **At 30 June 2009, the total amounts of accounts receivable due from the Group's top five debtors are as follows:**

Debtor	Amount	Percentage to total(%)	Due within
The first automobile group company purchasing center	264	32	Four month
Angang Group International Trade Corporation("Angang Trade")	237	29	One month
Angang thyssenkrupp steel distribution (changchun) Co., LTD	101	12	One month
China petroleum chemical industry Co., LTD. Supplies equipment department	89	11	One month
The Daqing oilfield materials group	40	5	Two month
Total	731	89	

(d) There is no accounts receivable being written off in the current period.

(e) There is no accounts receivable with recourse in the current period.

(f) There is amount of 11 million in ending balance which is due from Angang holding, which account for 1% of accounts receivable, that related party transaction disclosed in Note: 9 (3)(g)

(g) There is amount of 358 million in ending balance which is due from other related parties, which account for 43% of accounts receivable, that related party transaction disclosed in Note: 9 (3)(g)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(4) PREPAYMENTS

(a) The aging analysis of prepayments

Aging	Ending Balance Amount	%	Beginning Balance Amount	%
Within 1 year (inclusive)	**3,700**	**75**	1,579	58
1 and 2 years (inclusive)	**1,171**	**24**	1,152	42
2 and3 years (inclusive)	**43**	**1**		
Over 3 years				
Total	**4,914**	**100**	2,731	100

Note:

(i) The prepayments over one year are that be prepaid to Angang Trade for importing equipment and spare parts .

(ii) The ending balance increased by 80% comparing with beginning balance due to increased prepayments for the purchase of raw materials from Angang trade.

(b) Single prepayment which is 30% or above of ending balance

Debtors	Ending Balance	Reason for prepayment
Angang Trade	3,884	Construction equipment and raw materials
Total	3,884	

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(4) PREPAYMENTS (Continued)

(c) There is amount of 4,087 million in ending balance which is prepaid to other related parties, which account for 83% of accounts receivable, that related party transaction disclosed in Note: 9 (3)(g)

(5) OTHER RECEIVABLES

(a) Other receivables by risk type

Items	Ending balance				
	Book value	%	Bad debt provision	Carrying value	Percentage of bad debt provision
Single significant other receivables					
Insignificant single amounts but will be riskier as they be put into a portfolio by credit risk features.					
Other not significant accounts receivable	17	100		17	
Total	17	100		17	

Angang Steel Company Limited

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(5) OTHER RECEIVABLES (Continued)

(a) Other receivables by risk type *(Continued)*

	Beginning balance				
Items	Book value	%	Bad debt provision	Carrying value	Percentage of bad debt provision
Single significant other receivables	60	77		60	
Insignificant single amounts but will be riskier as they be put into a portfolio by credit risk features					
Other not significant accounts receivable	18	23		18	
Total	78	100		78	

Note: The ending balance decreased by 78% comparing with beginning balance due to the amount that due from Heilongjiang Longmay Group Co. ,LTD transferred to long-term equity investment during the current period.

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(5) OTHER RECEIVABLES (Continued)

(b) **The aging analysis of other receivables is as follows:**

	Ending Balance			Beginning Balance		
Aging	**Book value**	**%**	**Bad debt Provision**	Book value	%	Bad debt Provision
Within 1 year (inclusive)	17	100		18	23	
1 and 2 years (inclusive)						
2 and 3 years (inclusive)				10	13	
Over 3 years				50	64	
Total	17	100		78	100	

(c) **At 30 June 2009, the total amount of other receivables due from the Company's top five debtors were as follows:**

	Ending balance	Beginning balance
Amount	**15**	75
Years past due	**Within 1 year**	1-4year
Percentage to total (%)	**89**	96

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(5) OTHER RECEIVABLES (Continued)

(d) There are no other receivables to be written off in the current period.

(e) There are no other receivables with recourse in the current period.

(f) There is amount of 1 million in ending balance which is due from Angang Group, which account for 6% of other receivables, that related party transaction disclosed in Note: 9 (3)(g)

(6) INVENTORIES

(a) An analysis of inventories by types

Items	Book value	Ending balance therein: capitalized borrowing cost	Provisionfor diminution in value of inventories	Carrying value
Raw materials	2,060		37	2,023
Work in progress	2,832		100	2,732
Finished goods	1,084		43	1,041
Consumables	1,235			1,235
Spare parts	2,082			2,082
Materials in transit	3			3
Materials in outsourcing	1			1
Total	9,297		180	9,117

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(6) INVENTORIES (Continued)

(a) An analysis of inventories by types *(Continued)*

Items	Book value	Beginning balance therein: capitalized borrowing cost	Provisionfor diminution in value of inventories	Carrying value
Raw materials	4,284		978	3,306
Work in progress	3,866		644	3,222
Finished goods	1,234		382	852
Consumables	1,084			1,084
Spare parts	1,906			1,906
Materials in transit	2			2
Materials in outsourcing				
Total	12,376		2,004	10,372

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(6) INVENTORIES (Continued)

(b) An analysis of provision for diminution in value of inventories is as follows

Items	Beginning balance	Provision Made for the period	Decline during the year: Written back	Decline during the year: Written off	Decline during the year: Total	Ending balance
Raw materials	978	156		1,097	1,097	37
Work in progress	644	343		887	887	100
Finished goods	382	113		452	452	43
Consumables						
Spare parts						
Materials in transit						
Total	2,004	612		2,436	2,436	180

Note: due to steel products' price is low, realizable value of Finished goods and relevant Raw materials is lower than their costs, so provision for diminution in value of inventories is made.

Provision for diminution in value of inventories decreased duo to products that provision made have been sold, so at the end of the current period written off the relevant provision for diminution in value of inventories.

(c) There are no inventories used for debt guarantee at the end of the period.

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(7) AVAILABLE-FOR-SALE FINANCIAL ASSETS

(a) Analysis of available-for-sale financial assets

	Ending balance	Beginning balance
Available-for-sale equity instrument	**135**	45
Total	**135**	45

Note: The closing balance increased by 200% due to the increase of market value of 10 million A share common stock of Zhuzhou Smelter Company Ltd which were subscribed by the Company through non-public offering. From 45 million at the beginning of the period.(RMB4.49 per share) to 135 million at the end of the period.(RMB13.49 per share)

(b) The Group has no long-term-term debt investment at the end of the period.

(8) LONG-TERM EQUITY INVESTMENTS

(a) Analysis of the movement of long-term equity investment

Items	Beginning balance	Increase of the period	Reduction of the period	Ending balance
Investment in jointly controlled enterprises	864	16	14	866
Investment in associates	1,388	43	94	1,337
Other equity investment	10	220		230
less: Provision for impairment of long-term equity investment				
Total	2,262	279	108	2,433

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(8) LONG-TERM EQUITY INVESTMENTS (Continued)

(b) Particulars of jointly controlled enterprises and associates of the Group

(i) Particulars of jointly controlled enterprises of the group.

Name Of investee	Registration Place	Business nature	Year of investment	Registered capital	The company's shareholding	Voting right
ANSC-TKS Galvanizing Co., Ltd ("ANSC-TKS")	Dalian	Steel processing	50years	USD 132 million	50	50
ANSC-Dachuan Heavy Industries Dalian Steel Product Processing and Distribution Company Limited (formally" ANSC-Xinchuan", "ANSC-Dachuan")	Dalian	Steel processing and sale	50years	RMB3,800 million	50	50
Changchun FAM Steel Processingand Distribution Company Limited("Changchun FAM")	Changchun	Steel production processing and service	50years	RMB90.374 million	50	50
ANSC-TKS Changchun Steel Logistics Co., Ltd. ("TKAS-SSC")	Changchun	Steel processing and sale	50years	USD12 million	50	50

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(8) LONG-TERM EQUITY INVESTMENTS (Continued)

(b) Particulars of jointly controlled enterprises and associates of the Group *(Continued)*

(i) Particulars of jointly controlled enterprises of the group. *(Continued)*

Name Of investee	Total Net asset at the end of the year	Total revenue Of the current year	Net profit Of the current year
ANSC-TKS	1,220	769	(7)
ANSC-Dachuan	390	287	8
Changchun FAM	100	193	4
TKAS-SSC	64	136	(2)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(8) LONG-TERM EQUITY INVESTMENTS (Continued)

(b) Particulars of jointly controlled enterprises and associates of the Group *(Continued)*

(ii) Particulars of associates of the Group

Name Of investee	Registration Place	Business nature	Year of investment	Registered capital	The company's shareholding	Voting right
(Changchun) Tailored Blanks Ltd("TKAS")	Changchun	Tailored Blanks processing	50years	USD 10 million	45	45
Angang Shenyang Steel Product Processing and Distribution Company Limited ("Angang Shenyang")	Shenyang	Steel processing and logistic	50 years	RMB48 million	30	30
Angang entity group packing belt Co. ltd ("Entity packing")	Anshan	Packaging steel belt and Steel processing	20 years	RMB35.73 million	30	30
Angang finance corporation ("Angang finance")	Anshan	Deposit finance	20 years	RMB1,000 million	20	20
Tianjin Angang tantie cold rolled sheets co.,LTD ("Tianjin tantie")	Tianjin	Steel processing	50 years	RMB3,700 million	41	41

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(8) *LONG-TERM EQUITY INVESTMENTS (Continued)*

(b) Particulars of jointly controlled enterprises and associates of the Group *(Continued)*

(ii) Particulars of associates of the Group *(Continued)*

Name Of investee	Total Net asset at the end of the year	Total revenue Of the current year	Net profit Of the current year
TKAS	85	75	4
Angang Shenyang	49	280	1
Entity packing	30		(2)
Angang finance	1,806	317	205
Tianjing tantie	1,816	1,102	(167)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(8) LONG-TERM EQUITY INVESTMENTS (Continued)

(c) Long-term equity investment accounted for under equity method

Name of investee	Initial investment cost	Beginning balance	Addition (Reduction) of investment cost	Addition (Reduction) of Investee equity (excluding cash dividend)	Unrealized inter-company profit adjustment	Cash dividend received	Ending balance
ANSC-TKS	533	587		(3)	(9)		593
ANSC-Dachuan	190	191		4			195
Changchun FAM	45	54		2	2	4	50
TKAS-SSC	48	32		(1)	3		28
TKAS	37	40		2		3	39
Angang Shenyang	14	17			2		15
Entity packing	11	10		(1)			9
Angang finance	315	346		41		30	357
Tianjin tantie	975	975		(58)			917
Total	2,168	2,252		(14)	(2)	37	2,203

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(8) LONG-TERM EQUITY INVESTMENTS (Continued)

(d) Long-term equity investment accounted for under cost method

Name Of investee	Initial investment cost	Beginning balance	Addition of current year	Reduction Of current year	Ending balance
WISDRI Engineering Research Incorporation Limited("WISDRI")	10	10			10
Heilongjiang Longmay Mining GROUP CO. LTD	220		220		220
Total	230	10	220		230

(e) Provision for Impairment of long-term equity investment

As at 30 June 2009, there is no indication that carrying value of long-term equity investment is lower than recoverable value.

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(9) FIXED ASSETS

(a) Analysis of fixed assets

Items	Beginning balance	Addition of current period	Reduction of current period	Ending balance
Cost				
Buildings and plant	16,685	2,379	2	19,062
Machinery and equipment	40,820	6,881	102	47,599
Others	2,985	273	45	3,213
Total	60,490	9,533	149	69,874
Accumulated depreciation				
Buildings and plant	3,089	505	1	3,593
Machinery and equipment	12,763	2,223	76	14,910
Others	1,230	197	42	1,385
Total	17,082	2,925	119	19,888
Provision for impairment				
Buildings and plant	23			23
Machinery and equipment	127		17	110
others	6		3	3
Total	156		20	136
Net book value				
Buildings and plant	13,573			15,446
Machinery and equipment	27,930			32,579
others	1,749			1,825
Total	43,252			49,850

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(9) FIXED ASSETS (Continued)

(b) Fixed assets transferred in from construction in progress

Items	Transferred-in date	amount
3rd furnace renovation	Jun 2009	258
4#silicon steel furnace	May 2009	170
chemical plant renovation	Jan-Apr 2009	167
Technology centre lab	May 2009	23
Other project	Jan-Jun 2009	5
Bayuquan project	Jan-Jun 2009	8,909
Total		9,532

(c) Fixed asset that not in use temporally

Items	cost	Accumulated depreciation	Provision for impairment	Net book value
House building				
Machinery and equipment	79	45	30	4
Others	14	10	3	1
Total	93	55	33	5

(d) The group has no financial leased in/ out fixed asset in the current period

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(9) FIXED ASSETS (Continued)

(e) Operating leased out fixed asset

Items	cost	Accumulated depreciation	Provision for impairment	Net book value
Buildings	1			1
Total	1			1

(f) The company has no fixed asset that has no right certificate at the end of the period.

(g) The company has no mortgaged fixed assets at the end of the period.

(h) Provision for impairment of fixed assets

			Provided In current year			
Items	Beginning balance	Reduction in current year	Written back	Written off	total	Ending balance
Buildings and plant	23					23
Machinery and equipment	127			17	17	110
Others	6			3	3	3
Total	156			20	20	136

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(10) CONSTRUCTION IN PROGRESS

(a) Analysis of construction in progress

Projects	Budget	Beginning balance	Addition of the period	Transferred to fixed assets	Other reductions	Ending balance	Source of funds	Percentage of input to budget
Bayuquan project	33,800	8,475	4,647	8,909		4,213	Operating fund, bank loan rights issue fund	78
1450 cold rolling production line	2,900	122	118			240	Operating fund, bank loan	100
cold rolling silicon steel line	2,800	1,267	1,298			2,565	Operating fund	88
Chemical plant renovation	2,589	310	100	167		243	Operating fund	85
New 4#, 5#furnace	2,302	837	182			1,019	Operating fund	93
3# casting machine	955	16	3			19	Operating fund	2
Seamless 177 petroleum pipeline	817	20	43			63	Operating fund	80
Wire production line renovation	776	58	57			115	Operating fund	14
oxygen producer	518	262	62			324	Operating fund	84
central power station	350	142	31			173	Operating fund	54
continuous rolling line of western district	273	5				5	Operating fund	75

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(10) CONSTRUCTION IN PROGRESS (Continued)

(a) Analysis of construction in progress *(Continued)*

Projects	Budget	Beginning balance	Addition of the period	Transferred to fixed assets	Other reductions	Ending balance	Source of funds	Percentage of input to budget
3rd furnace renovation	249	143	115	258			Operating fund	100
Subtotal		11,657	6,656	9,334		8,979		
Others		890	427	198		1,119	Operating fund, bank loan	
Total	14,529	12,547	7,083	9,532		10,098		

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(10) CONSTRUCTION IN PROGRESS (Continued)

(b) Capitalized borrowing cost

Projects	Capitalization rate	Beginning balance	additions	Transferred to Fixed assets	Other Reductions	Ending balance
Bayuquan project	6.64	689	279	516		452
1450 cold rolling production line	6.32	6				6
cold rolling silicon steel line	5.98	86	69			155
Chemical plant renovation	5.98	17	7	10		14
New 4#, 5#furnace	5.98	37	26			63
3# casting machine	5.98					
Seamless 177 petroleum pipeline	5.98	1	3			4
Wire production line renovation	5.98	3	4			7
oxygen producer	5.98	18	13			31
central power station	5.98	4	6			10
continuous rolling line of western district	5.98					
3rd furnace renovation	5.98	5	4	9		
Others	5.18-5.98	1	39	10		30
Total		867	450	545		772

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(10) CONSTRUCTION IN PROGRESS (Continued)

(c) Provision for impairment of construction in progress

As at 30 June 2009, there is no indication that carrying value of construction in progress is lower than recoverable value:

(11) CONSTRUCTION MATERIAL

	Ending balance			Beginning balance		
Project	Book value	Provision for impairment	Net value	Book value	Provision for impairment	Net val ue
Bayuquan project	**2,277**		**2,277**	4,998		4,998
1450 cold rolling production line	**1**		**1**	96		96
cold rolling silicon steel line	**56**		**56**	645		645
chemical plant renovation	**5**		**5**	82		82
New 4#, 5#furnace	**6**		**6**	24		24
3# casting machine	**1**		**1**	1		1
Seamless 177 petroleum pipeline	**67**		**67**	60		60
Wire production line renovation	**3**		**3**			
oxygen producer	**143**		**143**	143		143
central power station	**25**		**25**	26		26
3rd furnace renovation				18		18
Others	**59**		**59**	149		149
Total	**2,643**		**2,643**	6,242		6,242

Note: As at 30 June 2009, there is no indication that carrying value of construction material is lower than recoverable value.

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(12) INTANGIBLE ASSETS

(a) Analysis of intangible assets

	Initial cost at the beginning of the period	Beginning balance	Additions for the period	Decrease for the period	Charge for the period	Accumulated amortization	Ending balance
Land use rights	7,182	6,739			73	516	6,666
Acquired software	9	4			1	6	3
Industrial technology	32	18			3	17	15
Total	7,223	6,761			77	539	6,684

Note :

(i) *Land use rights of the Group include contribution of RMB227 million made by Angang Holding, the amount of RMB6,955 million acquired by the Company. Land use rights are amortized over a remaining period of 38 to 49years.*

(ii) *Up to the date of this report, the Company was in the process of applying for or changing registration of the title certificates of certain of its land use rights, which was related to acquisition of ANSI. As at 30 June 2009, the carrying amount of such land use rights is RMB20 million (31 December 2008: RMB20 million). Pursuant to the acquisition agreement of ANSI, the directors are of the opinion that the Company is entitled to lawfully and validly occupy or use the above mentioned land use right.*

(iii) *Up to the date of this report, the company was in the process of applying for changing registration of the title certificates of the land use right of land in Bayuquan acquired from Angang Group. On the balance sheet day, the carrying amount of such land use rights is RMB1,283 million*

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(12) INTANGIBLE ASSETS (Continued)

(b) Provision for impairment of intangible assets

As at 30 June 2009, there, no indication carrying value of intangible assets is lower than recoverable value.

(13) DEFERRED TAX ASSETS

(a) Schedule of Deferred tax assets

Items	**Ending balance**	Beginning balance
Deferred tax assets due to the difference between the carrying amount of assets and its tax base.	**104**	566
Deferred tax assets due to the difference between the carrying amount of liabilities and its tax base.	**86**	93
Deferred tax assets due to the difference between the carrying amount of equity and its tax base.	**10**	5
Deferred tax assets due to deductible loss	**1,085**	438
Total	**1,285**	1,102

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(13) DEFERRED TAX ASSETS (Continued)

(b) Temporal differences

Items	**Ending balance**	Beginning balance
Provision for diminution in value of inventories	**180**	2,004
Provision for impairment against fixed assets	**136**	156
Accumulated depreciation of fixed asset	**22**	22
Wages payable	**157**	169
Termination benefits	**124**	146
Safety production expense	**40**	21
Employee training expenses	**28**	22
Fair value change on available-for-sale financial asset		36
Government grant	**36**	36
Adjustment for unrealized inter-company profit	**79**	45
Deductible losses	**4,339**	1,753
Total	**5,141**	4,410

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(14) PROVISIONS FOR IMPAIRMENT

Items	Beginning balance	Reduction In the Period	Reduction Written back	Reduction Written off	Subtotal	Ending balance
1. Provision for diminution in value of inventories	2,004	612		2,436	2,436	180
Therein:						
Finished goods	382	113		452	452	43
Work in process	644	343		887	887	100
Raw material	978	156		1,097	1,097	37
2. Provision for impairment of fixed assets	156			20	20	136
Therein:						
Buildings and plant	23					23
Machinery and equipment	127			17	17	110
Total	2,160	612		2,456	2,456	316

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(15) SHORT-TERM LOANS

(a) Analysis of short-term loans

Items	Ending balance	Beginning balance
Credit loan	**11.700**	7,570
Total	**11,700**	7,570

Note: The closing balance increased by 55% due to increase of short-term loan arising from increase of operational capital requirement.

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

(c) Over-due short-term loans

There is no over-due short-term loan at the end of the period.

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(16) BILLS PAYABLE

Classification of bills	Ending balance	Beginning balance	Due before the end of this year
bank acceptance bills	4,486	4,585	4,486
Total	4,486	4,585	4,486

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

(17) ACCOUNTS PAYABLE

(a) Aging analysis of accounts payable

Aging	Ending balance amount	Ending balance percentage (%)	Beginning balance amount	Beginning balance percentage (%)
Within 1 year (inclusive)	**3,616**	**99**	3,366	98
1 and 2 years (inclusive)	**4**		5	
2and 3 years (inclusive)	**3**		3	
Over 3 years	**44**	**1**	53	2
Total	**3,667**	**100**	3,427	100

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(17) ACCOUNTS PAYABLE (Continued)

(b) The closing balance includes amount of 9 millions owing to Angang group which is 0.25% of total closing balance.

(d) The closing balance includes amount of 62 millions account payable for products and project owing to other related parties which is 2% of total closing balance.

(e) No individually significant account payable of the Company are more than one year past due as at 30 June 2009.

(18) ADVANCES FROM CUSTOMERS

(a) Aging analysis of Advances from customers

Aging	Ending balance amount	%	Beginning balance amount	%
Within 1 year (inclusive)	**4,393**	**100**	3,614	100
1 and 2 years (inclusive)	**5**		3	
2and 3 years (inclusive)	**4**		4	
Over 3 years	**1**		8	
Total	**4,403**	**100**	3,629	100

(b) The closing balance includes amount of 1 million owing to Angang group.

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(18) ADVANCES FROM CUSTOMERS (Continued)

(c) The closing balance includes amount of 1,489 million advances from customers for products owing to other related parties which is 34% of total closing balance.

(d) No individually significant advances from customers of the Company as at 30 June 2009 are more than one year past due.

(19) EMPLOYEE BENEFITS PAYABLE

Items	Beginning balance	Accrued during The year	Paid during The year	Ending balance
Salaries, bonus, and allowance	235	652	650	237
Staff welfare		63	63	
Social insurance		248	248	
therein:				
1. Basic pension		149	149	
2. Unemployment insurance		15	15	
3. medical insurance		73	73	
4. Staff and worker' injury insurance		11	11	
Housing fund		100	100	
Labor union fee and staff training fee	50	23	17	56
Termination benefits	44	51	73	22
Others		62	62	
Total	329	1,199	1,213	315

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(20) TAX AND SURCHARGE PAYABLE

Items	Rate *(%)*	Ending balance	Beginning balance
VAT	17,13	(2,098)	(1,836)
Pending deductible VAT on purchase	17,13		(6)
Enterprise income tax	25	(984)	(985)
City maintenance and construction tax	7	5	15
House tax	12,1.2	5	9
Land use tax		1	
Individual income tax		28	9
Education surcharge	3	2	6
Local education surcharge	1	1	2
Stamp tax		10	15
Total		(3,030)	(2,771)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(21) OTHER PAYABLES

(a) Analysis of other payable

Items	Ending balance	Beginning balance
Construction costs	**1,394**	1,686
Guarantee -project/spare parts	**1,082**	1,359
Land use tax	**109**	
Deposit for steel shelves	**84**	60
Performance guarantee	**80**	94
Freight charges	**72**	78
Withholding tax payable	**2**	44
Land use fee		92
Others	**101**	110
Total	**2,924**	3,523

(b) The closing balance includes amount of 8 million owing to Angang group

(c) The closing balance includes amount of 719 million owing to other related parties which is 25% of total closing balance.

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(21) OTHER PAYABLES (Continued)

(d) The other payables with aging of over one year

Creditor	Ending balance	Reasons	Whether paid after balance date
Angang construction group	237	guarantee -project and Project funds	no
Zhongyiejiaonai engineering Co.,Ltd.	87	guarantee -project and Project funds	no
Zhongyie northeast construction Co.,Ltd	69	guarantee -project and Project funds	no
Angang heavy machine Co.,Ltd	37	guarantee -project equipment and Project funds	no
Dongbei geotechnical investigation Co.,Ltd	42	guarantee -project and Project funds	no
Taiyaun heavy industry Co.,Ltd	22	guarantee -project	no
Others	496		
Total	990		

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(22) NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

(a) Long-term liability due within one year

Items	Ending balance	Beginning balance
Long term loans due within 1 year	**5,453**	1,031
Total	**5,453**	1,031

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

	currency	Terms of reference	Ending balance	Beginning balance
Bank loan	RMB	Credit loan	**5,330**	700
Bank loan	RMB	Guarantee loan		200
Bank loan	Euro	Credit loan	**1**	1
Bank loan	Yen	Credit loan	**122**	130
Total			**5,453**	1,031

Note: The closing balance increased by 429% due to part of the loan due over 1 year at the beginning of the current period but will be repaid before the end of this year, so this part of loan is transferred to long-term loans due within one year.

(c) There is no over-due long-term loan at the end of the period.

(d) There is no debenture payables that will due within 1 year at the end of the period.

(e) There is no long-term payables that will due within 1 year at the end of the period.

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(23) LONG-TERM LOANS

(a) Long-term loans

	currency	Terms of reference	Ending balance	Beginning balance
Bank loan	RMB	Credit loan	**10,330**	15,860
Bank loan	RMB	Guarantee loan	**1,000**	1,000
Bank loan	Euro	Credit loan	**9**	10
Bank loan	Yen	Credit loan	**122**	195
Angang finance	RMB	Credit loan	**500**	500
Total			**11,961**	17,565

Note:

1. The closing balance decreased by 32% due to part of the loan due over 1 year at the beginning of the current period but will be repaid before the end of this year, so this part of loan is transferred to long-term loans due within one year.

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

(b) The group has no long-term loan over-due

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(24) DEFERRED TAX LIABILITIES

(a) Analysis of deferred tax liabilities

	Ending balance	Beginning balance
Deferred tax liabilities due to the difference between the carrying amount of assets and its tax base	**57**	47
Deferred tax liabilities due to the difference between the carrying amount of liabilities and its tax base		
Total	**57**	47

(b) Temporal difference

	Ending balance	Beginning balance
Fair value change on available-for-sale financial asset	**54**	
Capitalized borrowing cost of general purpose loan	**173**	189
Total	**227**	189

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(25) SHARE CAPITAL

Items	Beginning balance amount	%	**Changes (+ -)**	**Ending balance amount**	**%**
(1) Ordinary A shares issued with restricted condition					
State-owned shares	4,341	60		**4,341**	**60**
(2) Shares issued with no restricted condition					
a. Ordinary A shares	1,808	24.99		**1,808**	**24.99**
b. Overseas-listed foreign invested ordinary shares ("H shares")	1,086	15.01		**1,086**	**15.01**
Total	7,235	100		**7,235**	**100**

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(26) CAPITAL RESERVE

Items	Beginning balance	Addition During the year	Reduction During the year	Ending balance
Share premium	31,439			31,439
Other capital reserve	(16)	67		51
Total	31,423	67		31,490

Note: the increase of Other capital reserve is due to fair value change of Available-for-sale financial assets see in the note: 7 (7)

(27) SURPLUS RESERVE

Items	Beginning balance	Addition During the year	Reduction During the year	Ending balance
Statutory surplus reserve	3,280			3,280
Total	3,280			3,280

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(28) SPECIAL RESERVE

Items	Beginning balance	Addition During the year	Reduction During the year	Ending balance
Special reserve	21	19		40
Total	21	19		40

Note: the increase of special reserve is safety production provision accrued this year.

(29) UNDISTRIBUTED PROFIT

Items	Ending balance	Beginning balance
Balance at the end of last year	**11,144**	12,446
add: amount arising from change of accounting policy	**5**	
Amount arising from correction on error of previous years		
Balance at the beginning of the year	**11,149**	12,446
add: consolidated net profit	**(1,563)**	2,981
Compensation to loss from surplus reserve		
Other transferred-in		
less: appropriation of Statutory surplus reserve		299
appropriation of reserve fund		
Distributed to shareholder	**1,519**	3,979
Minority interest		
Balance at the end of the year	**8,067**	11,149

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(29) UNDISTRIBUTED PROFIT (Continued)

Notes:

(a) For adjustment for change of accounting policy, see note 4 (25)

(b) Pursuant to the shareholder's approval at the Annual General Meeting of 2007 on 12 June 2008, the Company was authorized to declare cash dividend of RMB0.55 per share to ordinary shareholders. On 27 June 2008, the Company paid cash dividend for the year 2007 totaling RMB3, 382 million to ordinary A shareholders and RMB597 million to H shareholders respectively.

(c) Pursuant to the shareholder's approval at the Annual General Meeting of 2008 on 12 June 2009, the Company was authorized to declare cash dividend of RMB0.21 per share to ordinary shareholders. On 26 June 2009, the Company paid cash dividend for the year 2008 totaling RMB1, 291 million to ordinary A shareholders; On 30 June 2009, the Company paid cash dividend for the year 2008 totaling RMB228 million to H shareholders.

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(30) OPERATING INCOME

(a) Operating income and operating cost

Items	Current period	Prior period
Operating income from principle operation	**30,023**	39,865
Other operating income	**19**	303
Total	**30,042**	40,168

(b) The group divided into one operating segment. The main type of business is production and sale of steel products.

Items	Current balance	Prior balance
Segment revenue	**30,042**	40,168
Therein: Income from external segment	**30,042**	40,168
1. Income from china	**29,272**	34,223
2. Income from abroad	**770**	5,945
Segment profit/loss	**(1,563)**	5,980
Segment assets	**92,187**	92,184
Therein: Current assets	**19,059**	19,973
Non-current assets	**73,128**	72,211
Therein: The non-current assets located in china	**73,128**	72,211

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(30) OPERATING INCOME (Continued)

(b) **The group divided into one operating segment. The main type of business is production and sale of steel products.** ***(Continued)***

Items	Current balance	Prior balance
Segment liabilities	**42,075**	39,076
Therein: Current liabilities	**29,918**	21,323
Non-current liabilities	**12,157**	17,753
Therein: The non-current liabilities located in china	**12,157**	17,753

(c) **The Company's sales to the top five customers for the period amounted to RMB5,579 million which accounted for 19% of the total sales income of the Company for the six months ended 30 June 2009. (17% for prior period)**

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(31) OPERATING COST

Items	Current period	Prior period
Operating cost of principle operation		
Sales of goods	**28,961**	29,000
Other operation	**21**	346
Total	**28,982**	29,346

Note: The Group's operating cost of principle operation mainly refers to the cost of producing and sale of steel.

(32) BUSINESS TAXES AND SURCHARGES

Items	**Current period** Taxation basi and rate	Amount	Prior period Taxation basis and rate	Amount
City maintenance and construction tax and Business	**7% of VAT Tax payable**	**41**	7% of VAT and Business Tax payable	209
Education surcharge and local education surcharge	**3% and 1% of VAT and Business Tax payable**	**24**	3% and 1% of VAT and Business Tax payable	119
Custom duty	**5%-10% of FOB**	**5**	5%-10% of FOB	195
Resources tax and Business Tax		**2**		2
Total		**72**		525

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(33) SALES EXPENSE

Sales expense that amount of 434 million during current period decrease 49% comparing with that of 845 million during prior period. The main reason was due to decrease of export expenses which depend on export amounts.

(34) FINANCIAL EXPENSES

Item	Current period	Prior period
Interest expenditure	**341**	353
less: interest income	**4**	26
Foreign currency exchange losses	**18**	41
less: foreign currency exchange gains	**36**	34
Bank Charges	**2**	3
Total	**321**	337

(35) IMPAIRMENT LOSSES

Item	Current period	Prior period
Provision for diminution in value of inventories	**612**	38
Provision for impairment of fixed assets		30
Total	**612**	68

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(36) INVESTMENT INCOME

Investee	Current period	Prior period
TKAS-SSC	**(1)**	(3)
ANSC-TKS	**(3)**	87
ANSC-Dachuan	**4**	
Changchun FAM	**2**	4
Angang finance	**41**	
Entity packing	**(1)**	
TKAS	**2**	2
TianJin TianTie	**(58)**	
Zhuyie group		1
Total	**(14)**	91

Note: There are no severe restrictions in the transfer of investment income to the Company.

(37) NON-OPERATING INCOME

Item	Current period	Prior period
Gain on disposal of non-current assets	**28**	12
therein: gains on scrap fixed assets	**28**	12
Fine	**3**	
Government grant	**2**	
accounts payable needless to pay	**36**	
Others		2
Total	**69**	14

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(38) NON-OPERATING EXPENSES

Item	**Current period**	Prior period
Loss on disposal of non-current assets	**13**	25
therein: loss on scrap fixed assets	**13**	25
Others		6
Total	**13**	31

Note: Non-operating expense decrease 43% in 2008 due to net loss on disposal of fixed assets decreased.

(39) INCOME TAX EXPENSE

(a) Income tax expenses for the period represent:

Item	**Current period**	Prior period
Current tax expense	**3**	1,617
Deferred tax expense	**(195)**	(72)
Total	**(192)**	1,545

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(39) INCOME TAX EXPENSE (Continued)

(b) **Reconciliation between income tax expenses and accounting profits is as follows:**

Item	Current period	Prior period
Accounting profit	**(1,755)**	7,525
Add : adjustment to accounting profit	**(870)**	(1,037)
Taxable income	**(2,625)**	6,488
Current tax expense	**3**	1,617
Deferred tax expense	**(195)**	(72)
therein: change of Deferred income tax assets	**(192)**	(69)
change of Deferred income tax liabilities	**(3)**	(3)
Total	**(192)**	1,545

(40) BASIC EPS AND DILUTED EPS

Item	Current period	Prior period
Basic EPS	**(0.216)**	0.827
Diluted EPS	**(0.216)**	0.827

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(40) BASIC EPS AND DILUTED EPS (Continued)

Note: (a) computation of basic EPS

Basic EPS=net profit attributable to ordinary shareholders divided by average amount of issued ordinary shares weighted average amount of issued ordinary shares= $S_0 + S_1 + S_i \times M_i \div M_0 - S_j \times M_j \div M_0 - S_k$

S_0 refers to the sum of shares at the beginning of period

S_1 refers to the increases of shares due to transferred from capital reserve or share dividend

S_i refers to the increases of shares due to right issue or convertible bond.

S_j refers to the decreases of shares due to shares repurchase

S_k refers to the decreases of shares due to stock reserve split-up in the reporting period

M_0 refers to the amount of month in reporting period

M_i refers to the amount of months from the next month of that increase of shares to the end of the period

M_j refers to the amount of months from the next month of that decrease of shares to the end of the period

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(40) BASIC EPS AND DILUTED EPS (Continued)

Note (Continued):

(b) Computation of diluted EPS

diluted EPS= net profit attributable to ordinary shareholders+(interest derived from dilatable potential ordinary shares that has been recognized as expense-conversion cost) (1-income tax rate)/S_0+S_1+S_i $\times$$M_i$$\div$$M_0$-$S_j$+$M_j$$\div$$M_0$-$S_k$+increase of weighted average amount of ordinary shares due to warrant, share option or convertible bond)

S_0 refers to the sum of shares at the beginning of period

S_1 refers to the increases of shares transferred from capital reserve or share dividend

S_i refers to the increases of shares due to right issue or convertible bond.

S_j refers to the decreases of shares due to shares repurchase

S_k refers to the decreases of shares due to stock reserve split-up in the reporting period

M_0 refers to the amount of month in reporting period

M_i refers to the amount of months from the next month of that increase of shares to the end of the period

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(41) OTHER COMPREHENSIVE INCOME

Item	Current period	Prior period
Available for sale financial asset		
Current gains(loss)	**90**	(179)
Effect of income tax	**(23)**	44
Total	**67**	(135)

(42) SUPPLEMENT TO CASH FLOW STATEMENT

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

Item	Current period	Prior period
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	**(1,563)**	5,980
Add: provision for impairment	**612**	68
Depreciation of fixed assets	**2,925**	2,249
Amortization of intangible assets	**77**	70

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(42) SUPPLEMENT TO CASH FLOW STATEMENT (Continued)

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

Item	Current period	Prior period
Amortization of deferred expense		
Loss on disposal of fixed assets, Intangible assets and other non-current assets		
Loss on scrap of fixed assets	**(15)**	13
Loss on fair value change		
Financial expenses	**318**	336
Investment loss	**14**	(91)
Increase in deferred tax assets	**(192)**	(69)
Decrease in deferred tax liabilities	**(3)**	(3)
decrease in inventories	**(267)**	(2,199)
Decrease in operating receivables	**(712)**	(83)
Increase in operating payables	**206**	643
Others	**15**	
Net cash inflow from operating activities	**1,415**	6,914

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(42) SUPPLEMENT TO CASH FLOW STATEMENT (Continued)

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

Item	**Current period**	Prior period
2. significant investing and financing activities that not involving cash		
Debt transferred to equity		
Convertible company bond due within one year		
Leased in fixed asset		
3. Change in cash and cash equivalents:		
Cash at the end of the year	**1,646**	1,730
Less: Cash at the beginning of the year	**2,974**	(7,733)
Add: cash equivalents at the end of the year		
Less: cash equivalents at the beginning of the year		
Net increase in cash and cash equivalents	**(1,328)**	(6,003)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(42) SUPPLEMENT TO CASH FLOW STATEMENT (Continued)

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

Item	**30 June 2009**	30 June 2008
1. Cash at bank and on hand	**1,646**	1,730
therein: Cash	**1**	1
Bank deposits available on demand	**1,645**	1,729
Other deposits available on demand		
2. cash equivalents		
therein: bond due within 3 months		
3. Closing balance of cash and cash equivalents	**1,646**	1,730
Including: restricted cash and cash equivalent in parent or subsidiary		

8. NOTES TO PRINCIPLE ITEMS OF PARENT'S FINANCIAL REPORT

(1) ACCOUNTS RECEIVABLE

See Note: 7 (3)

(2) OTHER RECEIVABLES

See Note: 7 (5)

(3) LONG-TERM EQUITY INVESTMENT

(a) Analysis of long-term equity investment

Item	Opening balance	Increase of the year	Reduction of the year	Closing balance
Investment in subsidiaries	60			60
Investment in jointly controlled enterprises	864	16	14	866
Investment in associates	1,388	43	94	1,337
Other equity investment	10	220		230
less: Provision for impairment of long-term equity investment				
Total	2,322	279	108	2,493

8. NOTES TO PRINCIPLE ITEMS OF PARENT'S FINANCIAL REPORT *(Continued)*

(3) LONG-TERM EQUITY INVESTMENT (Continued)

(b) Investment in jointly controlled enterprises and associates

See Note: 7 (8)(b)

(c) Long-term equity investment accounted for under equity method

See Note: 7 (8)(c)

(d) Long-term equity investment accounted for under cost method

Name of investee	Initial investment cost	Beginning balance	Addition of current year	Reduction Of current year	Ending balance
Angang Wuhan	60	60			60
WISDRI Engineering Research Incorporation Limited ("WISDRI")	10	10			10
Heilongjiang longmay mining GROUP CO. LTD	220		220		220
Total	290	70	220		290

(e) Provision for impairment of long-term equity investment

As at 30 June 2009, there is no indication that carrying value of long-term equity investment is lower than recoverable value.

8. NOTES TO PRINCIPLE ITEMS OF PARENT'S FINANCIAL REPORT *(Continued)*

(4) OPERATING INCOME

See Note: 7 (30)

(5) OPERATING COST

See Note: 7 (31)

(6) INVESTMENT INCOME

See Note: 7 (36)

(7) PROVISIONS FOR IMPAIRMENT

See Note: 7 (14)

8. NOTES TO PRINCIPLE ITEMS OF PARENT'S FINANCIAL REPORT *(Continued)*

(8) SUPPLEMENT TO CASH FLOW STATEMENT

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

Items	Current period	Prior period
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	**(1,563)**	5,980
Add: Provision for impairment	**612**	68
Depreciation of fixed assets	**2,925**	2,249
Amortization of intangible assets	**77**	70
Amortization of deferred expense		
Loss on disposal of fixed assets, Intangible assets and other non-current assets		
Loss on scrap of fixed assets	**(15)**	13
Loss on fair value change		
Financial expenses	**318**	336
Investment loss	**14**	(91)
Increase in deferred tax assets	**(192)**	(69)
Decrease in deferred tax liabilities	**(3)**	(3)

8. NOTES TO PRINCIPLE ITEMS OF PARENT'S FINANCIAL REPORT *(Continued)*

(8) SUPPLEMENT TO CASH FLOW STATEMENT (Continued)

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

Items	Current period	Prior period
Decrease in inventories	**(267)**	(2,199)
Decrease in operating receivables	**(712)**	(83)
Increase in operating payables	**206**	643
Others	**15**	
Net cash inflow from operating activities	**1,415**	6,914
2. Significant investing and financing activities that not involving cash		
Debt transferred to equity		
Convertible company bond due within one year		
Leased in fixed asset		

8. NOTES TO PRINCIPLE ITEMS OF PARENT'S FINANCIAL REPORT *(Continued)*

(8) SUPPLEMENT TO CASH FLOW STATEMENT (Continued)

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

Items	**Current period**	Prior period
3. Change in cash and cash equivalents:		
Cash at the end of the year	**1,586**	1,670
Less: Cash at the beginning of the year	**2,914**	(7,733)
Add: cash equivalents at the end of the year		
Less: cash equivalents at the beginning of the year		
Net increase in cash and cash equivalents	**(1,328)**	(6,063)

8. NOTES TO PRINCIPLE ITEMS OF PARENT'S FINANCIAL REPORT *(Continued)*

(8) SUPPLEMENT TO CASH FLOW STATEMENT (Continued)

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

Items	30 June 2009	30 June 2008
1. Cash at bank and on hand	**1,586**	1,670
Therein: Cash	**1**	1
Bank deposits available on demand	**1,585**	1,669
Other deposits available on demand		
2. cash equivalents		
Therein: bond due within 3 months		
3. Closing balance of cash and cash equivalents	**1,586**	1,670
Including: restricted cash and cash equivalent in parent or subsidiary		

9. RELATED PARTY RELATIONSHIP AND TRANSACTION

(1) Related party relationship

(a) Criteria on related party

The company's criteria on related party is: when a party control ,jointly control or exercise significant influence over another party, or when two or more parties are under control ,jointly control or significant influence of the same party, the related party relationship are constituted .

(b) Information on the parent of the Company

Company name	Organization Code	Registered place	Business nature	Registered Capital	The company's shareholding %	proportion of voting rights %
Angang Holding	24142001-4	Tie Xi District Anshan Liaoning Province	Production and sale of steel and metal products, steel filament Tubes, and metal structures	10,794	67.30	67.30

(c) Information on the subsidiary of the Company

See Note: 6 (1) b

9. RELATED PARTY RELATIONSHIP AND TRANSACTION *(Continued)*

(1) Related party relationship (Continued)

(d) Related parties without control relationship

Name of enterprise	Organization code	Relation with the company
ANSC-TKS	71093688-2	Jointly controlled enterprise
TKAS-SSC	785926056	Jointly controlled enterprise
Changchun FAM	76717649-0	Jointly controlled enterprise
TKAS	767159789	associate
Tianjin tiantie	5224243-2	associate
Angang Trade	24142372-5	Fellow subsidiary
Angang Finance	1188857-2	Fellow subsidiary
Angang Construction Group	94129158-3	Fellow subsidiary
Angang Heavy machine Co., Ltd	24150326-6	Fellow subsidiary
Angang Fire-resistant material Co	94126547-3	Fellow subsidiary
Angang Steel rope Co., Ltd.	94126496-4	Fellow subsidiary
Angang Anshan Mining Co	24150404-X	Fellow subsidiary
Angang Entity Group	24142765-4	Fellow subsidiary
Angang House Property Co.	94126840-4	Fellow subsidiary

9. RELATED PARTY RELATIONSHIP AND TRANSACTION *(Continued)*

(1) Related party relationship (Continued)

(d) Related parties without control relationship *(Continued)*

Name of enterprise	Organization code	Relation with the company
Angang Railway transport facilities Construction Co.	94121854-6	Fellow subsidiary
Angang real estate Co., Ltd	11886337-0	Fellow subsidiary
Angang mechanized loading Co	94126489-2	Fellow subsidiary
Angang mine construction	664557266	Fellow subsidiary
Angang Design and Research	79159132-8	Fellow subsidiary
Angang Electric Co., Ltd	94126485-X	Fellow subsidiary
Angang Automatism Co	94126643-3	Fellow subsidiary
Angang Auto Transport Co., Ltd	94126444-6	Fellow subsidiary
Angang Reception Service Co.	94121967-X	Fellow subsidiary

9. RELATED PARTY RELATIONSHIP AND TRANSACTION *(Continued)*

(2) Pricing policy

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

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

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

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

(b) Sales of assets

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

(c) Purchase of raw materials

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

The purchase price is mainly not higher than the average prices quoted to the Company for importing principal raw materials of similar quality plus freight charges in the previous interim period and adjustment for grade, or the average prices charged by independent suppliers plus 10% mark up of processing costs (if applicable)

9. RELATED PARTY RELATIONSHIP AND TRANSACTION *(Continued)*

(2) Pricing policy (Continued)

(d) Purchase of ancillary materials and spare parts

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

(e) Energy and power supplies

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

(f) Fees paid for supporting services

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

Service fees were charged at applicable state prices, market prices, fixed rate commission or free of charge.

(g) Asset acquisition

The company acquires assets from Angang Group at the rate of market price.

9. RELATED PARTY RELATIONSHIP AND TRANSACTION *(Continued)*

(2) Pricing policy (Continued)

(h) Interest income/expenses

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

(3) Related party transaction

(a) Purchase from Angang Holding and its subsidiaries

Items	Current period Amount	Current period Percent of related transactions	Prior period Amount	Prior period Percent of related transactions
Raw materials	**8,011**	**80.71**	8,640	78.19
Ancillary materials and spare parts	**738**	**16.19**	1,025	13.59
Energy and power supplies	**979**	**38.80**	798	38.06
Total	**9,728**		**10,463**	

9. RELATED PARTY RELATIONSHIP AND TRANSACTION *(Continued)*

(3) Related party transaction (Continued)

(b) Accept service from Angang Holding and its subsidiaries

	Current period		Prior period	
Items	**Amount**	**Percent of related transactions**	Amount	Percent of related transactions
support services	**2,715**	**51.94**	4,768	46.90
Total	**2,715**		4,768	

(c) Sales to Angang Holding and its subsidiaries

	Current period		Prior period	
Items	**Amount**	**Percent of related transactions**	Amount	Percent of related transactions
product	**1,968**	**6.71**	2,332	5.98
Scrap materials and Minus sieve powder	**77**	**91.01**	223	82.26
Total	**2,045**		2,555	

9. RELATED PARTY RELATIONSHIP AND TRANSACTION *(Continued)*

(3) *Related party transaction (Continued)*

(d) Provide service to Angang Holding and its subsidiaries

Items	Current period		Prior period	
	Amount	Percent of related transactions	Amount	Percent of related transactions
General service	**269**	**42.55**	234	40.62
Total	**269**		234	

(e) Other material related parties transactions

(i) Accept agency service from Angang Trade

The Company accepts agency services for domestic sales and export of products amount to 4.03 million tons and 0.17 million tons respectively for the six months ended 30 June 2009 (2.04 million tons and 1.2 million tons for the six months ended 30 June 2008)

(ii) Sales of products from the Company to the jointly controlled enterprises and the associates:

Sales of products from the Company to ANSC-TKS

The Company sold products to ANSC-TKS totaling RMB548 million for the six months ended 30 June 2009 (for the six months ended 30 June 2008: RMB1, 055 million.)

9. RELATED PARTY RELATIONSHIP AND TRANSACTION *(Continued)*

(3) Related party transaction (Continued)

(e) Other material related parties transactions *(Continued)*

(ii) Sales of products from the Company to the jointly controlled enterprises and the associates *(Continued)*:

Sales of products from the Company to Changchun FAM

The Company sold products to Changchun FAM totaling RMB34 million for the six months ended 30 June 2009 (for the six months ended 30 June 2008: 52 million.)

Sales of products from the Company to TKAS-SSC

The Company sold products to TKAS-SSC totaling RMB125 million for the six months ended 30 June 2009 (for the six months ended 30 June 2008: 7 million.)

The Company sold products to TKAS totaling RMB1 million for the six months ended 30 June 2009 (for the six months ended 30 June 2008: 1 million.)

Sales of products from the Company to Tianjin tiantie

The Company sold products to Tianjin tiantie totaling RMB593 million for the six months ended 30 June 2009 (for the six months ended 30 June 2008: none.)

9. RELATED PARTY RELATIONSHIP AND TRANSACTION *(Continued)*

(3) Related party transaction (Continued)

(e) Other material related parties transactions *(Continued)*

(iii) Guarantee of loans

As at 30 June 2009 total bank loans of the Company amounts to RMB1, 000 million (As at 30 June 2008: RMB1, 200 million) were guaranteed by Angang Holding.

(iv) Sales of assets

The Company didn't sell assets to Angang Holding for the six months ended 30 June 2009 (for the six months ended 30 June 2008: RMB4 million.)

(v) Asset acquisition

The Company acquired assets from Angang Holding for the six months ended 30 June 2009 amount to RMB85 million.(for the six months ended 30 June 2008: RMB1,289 million.)

(vi) Loan deposit interest paid in and to Angang Finance

	Annul interest rate	Beginning balance	Addition of current period	Reduction of current period	Ending balance	Terms of reference
Loan from Angang Finance	4.374%-6.804%	3,100	9,000	3,100	9,000	credit
Deposit in Angang Finance		2,878			1,541	N/A

9. RELATED PARTY RELATIONSHIP AND TRANSACTION *(Continued)*

(3) Related party transaction (Continued)

(e) Other material related parties transactions *(Continued)*

(vi) Loan deposit interest paid in and to Angang Finance *(Continued)*

The Company's interest income of deposit in Angang finance is 4 million (for the six months ended 30 June 2008: RMB12 million) and the cost of borrowing and note discounted is RMB123 million (for the six months ended 30 June 2008 RMB95 million)

(f) Remuneration to key management staff

The Company paid Remuneration to key management staff amounting to 1 million. (for the six months ended 30 June 2008: RMB2 million).

9. RELATED PARTY RELATIONSHIP AND TRANSACTION *(Continued)*

(3) Related party transaction (Continued)

(g) The balances of transactions with related parties

Items	Ending balance	Beginning balance	Terms Of reference	Mortgage
Account receivables				
Angang Trade	**237**	643	N/A	No
TKAS-SSC	**101**		N/A	No
Angang Holding	**11**	97	N/A	No
Angang Fire-resistant material Co.		40	N/A	No
Angang House Property Co.		19	N/A	No
Angang Heavy machine Co., Ltd	**10**		N/A	No
Angang Steel rope Co., Ltd.	**6**	14	N/A	No
Angang Electric Co., Ltd	**3**	2	N/A	No
Other related parties	**1**	3	N/A	No
Total	**369**	818		

9. RELATED PARTY RELATIONSHIP AND TRANSACTION *(Continued)*

(3) Related party transaction (Continued)

(g) The balances of transactions with related parties *(Continued)*

Items	Ending balance	Beginning balance	Terms Of reference	Mortgage
prepayment				
Angang Trade	**3,884**	1,692	N/A	No
Angang Design and Research	**80**	10	N/A	No
Angang Construction Group	**57**	71	N/A	No
Angang Automatism Co	**37**	41	N/A	No
Angang Heavy machine Co., Ltd.	**26**	29	N/A	No
Angang Entity Group	**2**	7	N/A	No
Angang Electric Co., Ltd	**1**	3	N/A	No
Other related parties		2	N/A	No
Total	**4,087**	1,855		

9. RELATED PARTY RELATIONSHIP AND TRANSACTION *(Continued)*

(3) *Related party transaction (Continued)*

(g) The balances of transactions with related parties *(Continued)*

Items	Ending balance	Beginning balance	Terms Of reference	Mortgage
Other receivable				
Angang Holding	**1**		N/A	No
Total	**1**			
Account payable				
Angang Entity Group	**21**	23	N/A	No
Angang Auto Transport Co., Ltd	**14**	12	N/A	No
Angang Holding	**9**	5	N/A	No
Angang Trade	**7**	110	N/A	No
Angang Construction Group	**5**	8	N/A	No
Angang Heavy machine Co., Ltd.	**4**	1	N/A	No
Angang Railway transport facilities Construction Co.	**4**		N/A	No
Angang House Property Co.	**3**	3	N/A	No

9. RELATED PARTY RELATIONSHIP AND TRANSACTION *(Continued)*

(3) Related party transaction (Continued)

(g) The balances of transactions with related parties *(Continued)*

Items	Ending balance	Beginning balance	Terms Of reference	Mortgage
Angang Anshan Mining Co	**2**		N/A	No
Angang Steel rope Co., Ltd.	**1**	2	N/A	No
Angang Electric Co., Ltd	**1**	1	N/A	No
Angang Fire-resistant material Co.		36	N/A	No
Angang Automatism Co.		4	N/A	No
Other related parties		2	N/A	No
Total	**71**	207		
Advance from customer				
Angang Trade	**1,130**	902	N/A	No
ANSC-TKS	**162**	11	N/A	No
Tianjin tiantie	**151**	42	N/A	No
Angang Construction Group	**23**	8	N/A	No
Changchun FAM	**11**	14	N/A	No
Angang Entity Group	**6**	9	N/A	No

9. RELATED PARTY RELATIONSHIP AND TRANSACTION *(Continued)*

(3) Related party transaction (Continued)

(g) The balances of transactions with related parties *(Continued)*

Items	Ending balance	Beginning balance	Terms Of reference	Mortgage
Angang Anshan Mining Co.	**4**	3	N/A	No
Angang Fire-resistant material Co.	**1**		N/A	No
Angang Heavy machine Co., Ltd	**1**		N/A	No
Angang Holding	**1**	1	N/A	No
Angang Heavy machine Co., Ltd.		21	N/A	No
Total	**1,490**	1,011		
Other payable				
Angang Construction Group	**361**	317	N/A	No
Angang Trade	**108**	335	N/A	No
Angang Heavy machine Co., Ltd.	**94**	91	N/A	No
Angang Automatism Co.	**41**	65	N/A	No
Angang Entity Group	**37**	45	N/A	No
Angang mine Construction Co.	**24**	32	N/A	No

9. RELATED PARTY RELATIONSHIP AND TRANSACTION *(Continued)*

(3) Related party transaction (Continued)

(g) The balances of transactions with related parties *(Continued)*

Items	Ending balance	Beginning balance	Terms Of reference	Mortgage
Angang Electric Co., Ltd	**20**	20	N/A	No
Angang Design and Research	**19**	16	N/A	No
Angang House Property Co.	**10**	12	N/A	No
Angang Holding	**8**	5	N/A	No
Angang Auto Transport Co., Ltd	**3**	5	N/A	No
Angang Railway transport facilities Construction Co.	**1**	2	N/A	No
Angang Anshan Mining Co		1	N/A	No
Other related parties	**1**		N/A	No
Total	**727**	946		

9. RELATED PARTY RELATIONSHIP AND TRANSACTION *(Continued)*

(3) Related party transaction (Continued)

(h) The New Supply of Materials and Services Agreement

The company signed “Agreement on raw material providing and service rendering” with Angang Group which take effectiveness from 1 Jan.2008 to 31 Dec. 2009. six months prior to termination of the agreement, two parties could discuss new agreement to ensure normal operation of both parties. Relevant pricing policy is seen Note: 9 (2)

If either of two parties ask the other party provide extra raw material ,ancillary material ,spare parts ,energy and power, supportive service, finance service, product, scrap materials and minus sieve powder and general service (if applicable), the other should do it’s best to provide required product or service on terms of reference that not worse than to third party.

10. ACCOUNTING TREATMENT OF SECURITIZED ASSETS

The Company has no securitized assets transaction for the six months ended 30 June 2009

11. SHARE-BASED PAYMENT

The Company has no Share-based payment for the six months ended 30 June 2009

12. CONTINGENCIES

As at 30 June 2009, there are no contingencies that need to be disclosed.

13. CAPITAL COMMITMENT

As at 30 June 2009, the capital commitments of the Company are summarized as follows:

	30 Jun 2009	31 Dec 2008
investment contracts entered into but not performed or performed partially	**432**	915
Construction and renovation contracts entered into but not performed or performed partially	**3,056**	4,867
Total	**3,488**	5,782

Notes: Tianjin tiantie, the company's associate, approved the decision at the third shareholders' meeting on the 12th June 2009, the company proposed to increase investment of RMB432 million to Tianjin tiantie. After investment addition, Tianjin tiantie's share capital amounts to RMB2,814 million, which held 50% by the company and Tianjin tiantie metallurgical group co., LTD respectively.

14. EVENTS AFTER BALANCE SHEET DAY

The company approved the following decisions during the 2nd meeting of 5th board of directors on 22 July 2009:

(a) According to the need of business development ,the company proposed to issue 217,160,000 new H shares and list on main board of The Stock Exchange of Hong Kong Limited. This issue should be approved by the EGM, the Domestic shareholders Class Meeting and the H Shareholders Class Meeting, respectively; the exercise of the Specific Mandate by the Company is further subject to the approval of CSRC and other relevant PRC authorities. The actual amount of the new H Shares to be issued under the Specific Mandate shall be determined by the Board and the underwriter pursuant to the market conditions.

(b) In order to improve the Company's debt structure and lower its financing cost. The company proposed to issue short-term debentures with an aggregate principal amount of not more than RMB6 billion to the institutional investors in the PRC inter-bank debenture market. The Debentures will be offered in two tranches, each with an aggregate principal amount of RMB3 billion and a term of maturity of not more than 365 days. The interest rate is estimated to be between the ranges of 2% to 2.5%. The actual interest rates shall depend on the SHIBOR at the time of issue of the Debentures.

15. OTHER SIGINIFICANT TRANSACTION

The company held 1st general meeting of shareholder in 6 Feb. 2009 in Anshan Liaoning, in which approving "proposal on public offering company debenture which total amount not exceeding 10 billion" this work is in progress.

SUPPLEMENTARY DOCUMENT

1. EXTRAORDINARY GAIN AND LOSS

In accordance with Questions and Answers on the Preparation of Information Disclosures of Companies Issuing Public Shares No. 1 Extraordinary Gain and Loss (2007 revised), the extraordinary gain and loss of the Company is listed as follows:

Monetary unit: RMB million

Items	Current period *RMB (million)*	Last period *RMB (million)*
Gains/losses from disposal of non-current assets including written-down of provision for impaired assets	**15**	(13)
Tax refund or exemption from unauthorized approval or non-official approved document or contingency		
Government grant which recorded into profit/loss of current period except that relevant to enterprise operation and according with government policies	**2**	
Capital occupation income from non-financial enterprise credited to current income statement		
gains from the excess of the enterprise share of the net fair value of identifiable net assets over the cost of acquisition of the subsidiary ,jointly controlled entity, associate		
gains/losses from the exchange of non-monetary assets		
gains/losses from trusted investment or assets of management		

1. EXTRAORDINARY GAIN AND LOSS *(Continued)*

Items	Current period *RMB (million)*	Last period *RMB (million)*
Losses of provision of impairment of assets due to force majeure i.e. natural disaster		
Debt restructuring gains/loss		
Reorganization expense		
Gains/losses from the excess over fair value of an unfair transaction		
Current net profit/loss of subsidiary under the common control from beginning day to acquisition day		
gains/losses from contingencies which is irrelevant to principle business		
investment income from disposal of tradable financial assets, tradable financial liabilities, available-for-sale financial assets and gains/losses from variation of fair value of tradable financial assets, tradable financial liabilities, available-for-sale financial assets except hedging relevant to principle business		
Reversal of provision for impairment of receivable under independent test		
Gains/losses from trusted loan		
Gains/loss of fair value change of investment property		

1. EXTRAORDINARY GAIN AND LOSS *(Continued)*

Items	**Current period** ***RMB (million)***	Last period *RMB (million)*
Effects of One-off adjustment on profit/loss in accordance with taxation accounting regulation		
Agency fee		
Other non-operating income and expense Except above	**39**	(4)
Other extraordinary gains/ losses		
subtotal	**56**	(17)
less: effect on taxation	**14**	(4)
Net extraordinary gain and loss	**42**	(13)
Net extraordinary gain and loss attributable to minority interest		
Net extraordinary gain and loss attributable to shareholder of parent	**42**	(13)
Net profit attributable to shareholder of the company after deducting extraordinary gain and loss	**(1,605)**	5,993
Effects of extraordinary gain and loss on net profit	**(2.62%)**	(0.22%)

2. RETURN ON NET ASSETS OF THE COMPANY

In accordance with "Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares No.9-Calculation and Disclosure of the Return on Net Assets and Earnings Per Share" (2007 revised) issued by the CSRC, the Company's return on net assets is calculated as follows:

Profit	Period	RONA Fully diluted	RONA Weighted average	EPS Basic EPS	EPS Diluted EPS
Net profit attributable to shareholder of the parent	**Current period**	**(3.12%)**	**(2.99%)**	**(0.216)**	**(0.216)**
	Last period	10.66%	10.46%	0.827	0.827
Net profit attributable to shareholder of the company after deducting extraordinary gain and loss	**Current period**	**(3.20%)**	**(3.07%)**	**(0.222)**	**(0.222)**
	Last period	10.68%	10.48%	0.828	0.828

3. THE DIFFERENCE BETWEEN IFRS AND PRC GAAP

	notes	Net assets **2009. 6.30**	Net assets 2008. 12.31	Net profit **for the current period**	Net profit for the last period
Under PRC GAAPs		**50,112**	53,108	**(1,563)**	5,980
adjustment:					
— revaluation of land use right	1	**(174)**	(176)	**2**	2
— production safety expense	2			**19**	15
— deferred income tax assets	3	**34**	39	**(5)**	(5)
Under IFRSs		**49,972**	52,971	**(1,547)**	5,992

3. THE DIFFERENCE BETWEEN IFRS AND PRC GAAP *(Continued)*

Note:

1. *According the Old PRC GAAP, pre-operating expenses are capitalized in long-term deferred expenses before the commencement of operation and will be charged to expense in the month when operations commence. However, after the adoption of New Standards, pre-operating expenses are expensed when incurred, which is same to the treatment under IFRSs. Adjustment for the year represents the reversal of the balance of pre-operating expenses as at 1 January 2007 charged to income statement.*

2. *According to caiqi(2006)478 regulatory document, enterprise which operating in mining construction production of dangerous material and road transportation shall recognize safety expense according to specific percentage of output or revenue ,and under IFRSs., expense shall be recognized only if it actually occurred*

3. *According above 12 adjustments, recognized income tax expense under liability method in IFRSs and recognized relevant deferred income tax assets.*

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

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

— Credit risk

— Liquidity risk

— Interest rate risk

— Foreign currency risk

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

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

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

(1) Credit risk

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

In respect of receivables, the Company has established a credit policy under which individual credit evaluations are performed on all customers requiring credit over a certain amount. The Company requires most of the customer prepay full amount either in cash or by issuing bills before delivering goods to them. Receivables are due within 1 to 4 months from the date of billing. Debtors with balances that are more than one months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Company does not obtain collateral from customers.

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

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

(1) Credit risk (Continued)

At 30 June 2009, there were no significant debtors that were past due and impaired.

At the balance sheet day, the Company had a certain concentration of credit risk, as 87.41% of the total accounts receivable and other receivables was due from the Company's five largest customers.

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

(2) Liquidity risk

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

The Group's analysis of repaid limit of long-term debts see note: 7 (23).

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

(3) Interest rate risk

The interest-bearing financial instruments held by the Company at 30 Juner 2009 are set out at Note 7(1), (15), (22) and (23).

Sensitivity analysis:

In managing interest rate and foreign currency risks the Company aims to reduce the impact of short-term fluctuations on the Company's earnings. Over the longer term, However, permanent changes in foreign exchange and interest rates would have an impact on earnings.

At 30 June 2009, it is estimated that a general increase of one percentage point in interest rates of cash at bank and on hand, short-term loans, non-current liabilities due within one year, long-term borrowings and long-term payables, with all other variables held constant, would decrease the Company's net profit and equity by RMB78 million (2008 RMB51 million).

The above sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet day and had been applied to the Company's exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The one percentage point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet day. The analysis is performed on the same basis for 2008.

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

(4) Foreign currency risk

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

(a) **The Company's exposure to currency risk based on nominal amounts at 30 June 2009 is set out at Note 7(22) and (23).**

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

	Average rate		Reporting date mid-spot rate	
	Current Period	Last Period	**Current Period**	Last Period
Japanese yen	**0.0715**	0.067	**0.0711**	0.0645
EUR	**9.15**	10.84	**9.64**	10.83

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

(4) Foreign currency risk (Continued)

(c) Sensitivity analysis

A 5% appreciation of the RMB against the Japanese yen, Euro and HK dollar at 30 June 2009 would have decreased / increased equity and profit or loss by the amount shown below:

	Shareholder's equity	Profit and loss
30 Jun 2009		
Japanese yen	**(11)**	**(11)**
EUR	**(1)**	**(1)**
31 Dec 2008		
Japanese yen	(17)	(17)
EUR	(1)	(1)

A 5% depreciation of the RMB against the Japanese yen, Euro at 30 June 2009 would have had the equal but opposite effect on them to the amounts shown above, on the basis that all other variables remain constant.

The above sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet day and had been applied to the Company's exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date. The stated changes represent management's assessment of a reasonably possible change in foreign exchange rates over the period until the next annual balance sheet day. The analysis is performed on the same basis for 2008.

VIII. DOCUMENTS AVAILABLE FOR INSPECTION

1. Counterpart of 2009 interim report of the Company signed by the Chairman;

2. Counterpart of financial report of the Company signed and affixed with the seal by the Legal Representative, person in change of accounting and Head of the Accounting Department of the Company;

3. Counterpart of all documents disclosed by the Company in the China Securities Journal and the Securities Times during the reporting period;

4. Counterpart of the Articles of Association of the Company;

5. Interim report of the Company disclosed in the Hong Kong stock market.

The above documents are available for inspection at the secretarial office of the Board of Angang Steel Company Limited, at 1 Qianshan Road West, Qianshan District, Anshan City, Liaoning Province, the PRC.

Board of Directors
Angang Steel Company Limited

17 August 2009

鞍 鋼 股 份 有 限 公 司
ANGANG STEEL COMPANY LIMITED*