



**鞍 鋼 股 份 有 限 公 司**  
**ANGANG STEEL COMPANY LIMITED\***

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

(Stock Code: 347)

**2008 INTERIM RESULTS ANNOUNCEMENT**

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

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

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

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

## I. COMPANY PROFILE

1. Legal Name of the Company  
(in Chinese) : 鞍鋼股份有限公司  
(in English) : ANGANG STEEL COMPANY LIMITED
2. Registered and Business  
Address of the Company : Production Area of Angang Steel,  
Tie Xi District, Anshan City,  
Liaoning Province,  
the People's Republic of China (the "PRC")  
Postal Code : 114021  
Website : <http://www.ansteel.com.cn>  
E-mail : ansteel@ansteel.com.cn
3. Legal Representative  
of the Company : Mr. Zhang Xiaogang
4. Secretary to the Board  
of the Company : Mr. Fu Jihui  
Correspondence Address : 1 Qianshan Road West, Qianshan District,  
Anshan City, Liaoning Province, the PRC  
Telephone : (86) 412-8419192/8417273  
Fax : (86) 412-6727772  
E-mail : ansteel@ansteel.com.cn
5. Company's Designated PRC  
Newspapers for Disclosure  
of Information : China Securities Journal, Securities Times  
Website for Interim Report  
download designated by CSRC : <http://www.cninfo.com.cn>  
Website for Disclosure of  
the Company's Information  
in Hong Kong : <http://www.hkex.com.hk> and  
<http://www.angang.wspr.com.hk>  
Company's Interim Report  
Available at : 1 Qianshan Road West, Qianshan District,  
Anshan City, Liaoning Province, the PRC

6. Stock Exchange Listings	:	A shares: Shenzhen Stock Exchange
		H shares: The Stock Exchange of
		Hong Kong Limited
		(the “Hong Kong
		Stock Exchange”)
7. Abbreviation of the Company’s Shares and Stock Code	:	A shares: Angang Steel 000898
		H shares: Angang Steel 0347
8. The subsidiaries under the Company’s control	:	As at 30 June 2008, the Company controlled a subsidiary, namely Angang Steel Logistics (Wuhan) Company Limited. On 26 June 2008, the Company exclusively contributed RMB60 million to establish Angang Steel Logistics (Wuhan) Company Limited, which has been included in the consolidated statements of the Group since 26 June 2008.

## II. MAJOR FINANCIAL DATA AND INDICES (UNAUDITED)

## 1. Major financial data

## Prepared under International Financial Reporting Standards

Unit: RMB million

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

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

**Prepared under the PRC Accounting Standards for Business Enterprises**

*Unit: RMB million*

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

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

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

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

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

Explanations on differences (1.) Adjustment in net profit:

- a. An increase of RMB2 million in net profit due to amortisation of revaluation of land use rights;
- b. An increase of RMB15 million in net profit due to write-off of provision for production safety expenses;
- c. A decrease of RMB5 million in net profit due to an increase of deferred income tax assets resulting in an increase of income tax.

(2.) Adjustments in shareholders' equity:

- a. A decrease of RMB179 million in shareholders' equity due to revaluation of land use rights.
- b. An increase of RMB26 million in shareholders' equity due to write-off of provision for production safety expenses.
- c. An increase of RMB37 million in shareholders' equity due to an increase of deferred income tax assets.

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

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

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

### III. DIRECTOR'S REPORT

#### 1. Business review:

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

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

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

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

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

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

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

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

*(4) Substantial progress in marketing*

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

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

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

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

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

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

*(6) Solidifying corporate foundation and continuing improvement*

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

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

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

Principal business of the Group by industry and products

*Unit: RMB million*

Operating revenue	Operating cost	Gross profit margin	Increase/ decrease of operating revenue compared with the same		Increase/ decrease of operating cost compared with the same		Increase/ decrease of gross profit margin compared with the same	
			period of previous year	(%)	period of previous year	(%)	period of previous year	(%) (percentage points)

Principal activities by industry

Steel pressing and processing	38,689	27,862	27.98	22.18	24.84	(1.54)
Including: connected transactions	2,259	1,607	28.86	9.93	9.69	0.15

Principal activities by products

Hot rolled sheets	12,893	9,004	30.16	8.85	8.56	0.18
Cold rolled sheets	8,731	6,313	27.69	34.18	46.47	(6.07)
Galvanized steel sheets and colour coated plates	4,187	3,352	19.94	26.27	17.37	6.07
Including: connected transactions	1,747	1,249	28.51	16.16	13.44	1.71

Pricing policy for connected transactions      Selling prices between the Company and independent third parties

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

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

*Explanations:*

- (1) The increase in operating revenue of hot rolled sheets was mainly due to higher prices of products and adjusted product mix; the increase in operating cost was mainly due to a hike in the cost of raw materials.
- (2) The increase in operating revenue of cold rolled sheets was attributable to (i) commencement of operation of the 1450 cold rolled sheet production line of the Company which resulted in growth of sales volume of cold rolled sheets; and (ii) increase in price of products and adjustment of product mix. The increased operating cost was due to (i) growth of sales volume of cold rolled sheets; and (ii) increase in the cost of raw materials. The decrease in gross profit margin was mainly due to the increase in product cost surpassing the increase in product prices as a result of hiking cost of raw materials.
- (3) The increase in operating revenue of galvanized steel sheets and colour coated plates was due to (i) growth in sales volume; and (ii) increase in prices of products. The increased operating cost was due to (i) increase in sales volume; and (ii) increase in cost of raw materials.
- (4) Increases in operating revenue and operating cost of connected transactions were attributable to (i) change in product mix; and (ii) increase in price of products.

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

Unit: RMB million

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

### 3. Problems and difficulties in the operation

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

#### 4. Investment of the Company

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

*Unit: RMB million*

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

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

Explanation on failure in completion as scheduled and conforming to estimated proceeds

—

Explanation on reason for change and change procedures

—

Application of unused  
funds raised

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

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

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

*Unit: RMB million*

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

- 5. No substantial change from the previous year in principal business and its structure**
- 6. No substantial change from the previous year in profitability (gross profit margin)**
- 7. No substantial change from the previous year in profit composition**

## 8. Analysis of Financial Condition of the Group

(Prepared in accordance with IFRSs, unaudited)

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

*Unit: RMB million*

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

*Explanations:*

- a. Increase in turnover as compared to the same period last year was mainly attributable to the higher product price, increase in sales volume and change in product mix;
- b. Increase in profit before tax and net profit as compared to the same period last year was mainly attributable to (i) hiking prices of products; (ii) enlarged production and sales as a result of a series of work, such as, technology renovation; (iii) adjustment in product mix; (iv) increase in net profit due to lower enterprise income tax rate;
- c. Decrease in net increase in cash and cash equivalents as compared to the same period last year was due to (i) the increase of RMB1,259 million in net cash inflow from operating activities as a result of increased net profit; (ii) the increase in net cash outflow of RMB3,010 million arising from investing activities as a result of acquisition of fixed assets and increased expenditure of construction in progress, acquisition of intangible assets and increased external investment; (iii) the increase in net cash outflow of RMB3,996 million arising from financing activities as a result of decrease in loan and increased dividends.

(2.) Items of Balance Sheet

*Unit: RMB million*

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

*Explanations:*

- a. The increase in total assets and shareholders' equity was attributable to the net profit generated from operations;
- b. The decrease in monetary fund was attributable to 2007 cash dividend distribution and the increase in monetary fund from rights issue being used for expenditure of Bayuquan project in the first half of 2008;
- c. The decrease in trade receivables was attributable to fewer bank acceptances received by the Company from sales and releasing of mature bank acceptances;
- d. The increase in construction in progress was attributable to the increased expenditures of Bayuquan project and other projects;
- e. The decrease in trade payables was due to amount of released mature bank acceptances exceeding the amount of bank acceptances issued.

## **9. Business plan for the second half of the year**

- (1.) To fully focus on production commencement of the Bayuquan project. By taking advantage of its integrated production management and control, the Company will be able to expedite the progress to realize effective production. In the meantime, the Company will optimize management mode, rationalize resources allocation and maintain effective coordination in production management, information exchange and logistics and transportation arrangements.
- (2.) To continue improving the Company's management by further implementing and enhancing the program of benchmarking management for performance excellence and optimizing such benchmarking system.
- (3.) To further strengthen investment management and increase investment amount in scientific research and development, and attain further achievements in technology renovation.
- (4.) To further implement energy saving and emission reduction measures. The Company will initiate comprehensively the first batch of 36 energy saving projects, push forward environmental protection project for year 2008 and realize the energy saving and emission reduction targets.
- (5.) To devote more efforts in enhancing product mix, optimizing product selling price and controlling raw materials cost.
- (6.) To enhance comprehensive financial management and establish standard production cost management model and capital operation and management model.

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

- (1.) As at 30 June 2008, the Group had long-term loans of RMB13,313 million, which was mainly used for equipment renovation project and construction of Bayuquan project. The loans are for a term of 2 to 22 years at an annual interest rate of 5.427% to 7.047%.
- (2.) As at 30 June 2008, the Group had cash and cash equivalents of RMB1,730 million, compared with RMB7,733 million at the end of 2007.
- (3.) As at 30 June 2008, the total assets less current liabilities of the Group amounted to RMB69,464 million as compared with RMB66,570 million at the end of 2007. The equity attributable to equity shareholders of the Group amounted to RMB56,005 million as at 30 June 2008 as compared with RMB54,127 million at the end of 2007.

## **11. Pledged assets**

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

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

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

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

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

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

## **14. Foreign exchange risk**

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

## **15. Employees**

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

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

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

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

## IV. EXPLANATIONS ON SIGNIFICANT MATTERS

### 1. Corporate governance

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

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

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

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

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

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

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

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

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

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

**3. Implementation of profit distribution plan**

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

#### **4. Material litigation and arbitration**

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

#### **5. Material acquisition, sale or disposal of assets**

The other party and the assets acquired	Date of acquisition	Acquisition Price	of acquisition to the year-end (RMB million)	Net profit contributed	Whether to the Company since date	Whether transaction (if yes, state or not title	Whether or not all claims and obligations transferred
				Nil	Yes	No	No claims and obligations
Land of Angang Holding	22 April 2008	1,265		Nil	Yes	No	No claims and obligations

#### **6. Material connected transactions in the reporting period**

##### *(1.) Continuing connected transactions*

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

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

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

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

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

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

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

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

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

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

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

Items	Pricing principle	Price (RMB million)	Amount (RMB million)	As a percentage of the contractual amount of similar transactions (%)
Cold rolled sheets	The selling price offered by the Company and its subsidiaries to the independent third parties;	RMB4,796/tonne	692	6.10
Heavy plates	For provision of new products developed for the other party, the price is based on the market price if the market price exists; if the	RMB5,512/tonne	127	3.57
Wire rods	the market price does not exist, the	RMB4,258/tonne	90	5.66
Large steel products	Colour coating sheets	RMB4,680/tonne	36	3.38
Hot rolled plates	Seamless steel pipes	RMB4,274/tonne	916	7.09
Medium plates	Molten iron	RMB4,929/tonne	226	9.46
Galvanized steel sheets	Coke	RMB4,600/tonne	125	3.43
Colour coating sheets	Chemical by-products	RMB6,153/tonne	14	2.47
Seamless steel pipes		RMB4,367/tonne	27	1.99
Molten iron		RMB4,591/tonne	6	100.00
Coke		RMB646/tonne	26	100.00
Chemical by-products		—	47	8.11
Sub-total		—	2,332	5.98

Items	Pricing principle	Price (RMB million)	Amount (RMB million)	As a percentage of the contractual amount of similar transactions (%)
Scrap steel material	Market price	—	91	89.84
Abandoned material		—	4	9.04
Minus sieve powder	Base price of sinter ore for the current period minus the cost of sintering process of Angang Holding	RMB765.50/tonne	128	100.00
Sub-total		—	223	82.26
Total		—	2,555	6.50

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

Items	Pricing principle	Price (RMB million)	Amount (RMB million)	As a percentage of the contractual amount of similar transactions (%)
New water	State price	RMB2.94/tonne	25	99.89
Clean recycled water	Production cost plus a profit margin of 5%	RMB0.74/tonne	14	99.98
Soft water		RMB2.84/tonne	—	—
Gas		RMB43.15/GJ	147	84.40
Blast furnace gas		RMB4.00/GJ	15	100.00
Steam		RMB39.50/GJ	21	98.88
Nitrogen		RMB70.00/1,000M <sup>3</sup>	—	—
Oxygen		RMB501.86/1,000M <sup>3</sup>	1	7.92
Argon		RMB600.00/1,000M <sup>3</sup>	—	—
Compressed air		RMB89.50/1,000M <sup>3</sup>	1	100.00
Unused hot water		RMB5.60/GJ	9	83.34
Product testing service	Market price	—	—	—
Transportation service		—	1	100.00
Total	—	—	234	40.62

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

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

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

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

a. Acquisition of assets

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

b. Investment

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

## 7. Claims and obligations between related parties and the Company

Unit: RMB million

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

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

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

## **8. Material contracts and their performance**

- (1.) The Company did not enter into custody, contracting or lease arrangement in respect of the assets of other companies nor did other companies enter into any custody, contracting or lease arrangement in respect of the assets of the Company during the reporting period;
- (2.) There was no material security matter involved by the Company during the reporting period;
- (3.) The Company did not entrust any party with the management of any of its assets during the reporting period;
- (4.) The Company did not enter into any other material contracts during the reporting period;
- (5.) The Company did not entrust any party for financial management during the reporting period.

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

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

- (1.) During the reporting period, the Company did not provide any external guarantee to its controlling shareholders and other related parties, any legal person entities or individuals.
- (2.) During the reporting period, none of the controlling shareholders or other related parties had occupied the Company’s capital.

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

## **10. Undertakings of Controlling Shareholder**

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

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

- a. The shares held by Angang Holding following the completion of the state-owned share reform plan will be subject to a trading moratorium of 36 months from the listing date of such shares except for the shares to be transferred to any holders of tradable ordinary domestic shares upon his/her/its exercise of the warrants.
- b. For new circulating A Shares of the Company issued to Angang Holding for the acquisition of the entire equity interest in ANSI subject to the approval of the shareholders' meeting and regulatory authorities, it is undertaken by Angang Holding that such shares will also be subject to a trading moratorium of 36 months from the day on which the shares are issued to Angang Holding.
- c. Angang Holding will maintain a minimum of 60% shareholding in the Company following the completion of the acquisition of the entire equity interest in ANSI till 31 December 2010.
- d. Angang Holding assures that it will compensate other shareholders for any loss arising from its failure to fulfill the whole or part of such undertakings.

- e. Angang Holding will arrange for the deposit of the relevant shares of the Company held by it as compensation for implementation of consideration arrangement with China Securities Depository and Clearing Corporation Limited, Shenzhen Branch to ensure fulfillment of its obligations under the consideration arrangement.
- f. Angang Holding will be responsible for all the costs and expenses arising from the implementation of the Non-tradable Shares Reform.

Angang Holding further states that:

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

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

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

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

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

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

## **12. Securities transactions of directors**

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

## **13. Independent non-executive directors**

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

## **14. Audit committee**

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

The Audit Committee, along with the management, has reviewed the accounting standards, principles and methods adopted by the Group, and considered matters regarding auditing, internal control and financial reporting, including the unaudited interim report for the six months ended 30 June 2008.

## **15. Change of auditors**

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

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

The Chinese name of RSM Nelson Wheeler has been changed to 中瑞岳華(香港)會計師事務所 on 1 May 2008.

## 16. Shareholding in other listed companies

*Unit: RMB million*

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

## V. INTERIM FINANCIAL REPORT (UNAUDITED)

### A. Prepared in accordance with International Financial Reporting Standards

#### Condensed consolidated income statement (unaudited)

For the six months ended 30 June 2008

(Expressed in Renminbi)

		<b>Six months ended 30 June</b>	
		<b>2008</b>	<b>2007</b>
	<i>Note</i>	<b>RMB million</b>	<b>RMB million</b>
<b>Revenue</b>	2, 3	<b>39,865</b>	32,698
Cost of sales		(29,796)	(23,894)
Sales related taxes		(525)	(331)
<b>Gross profit</b>		<b>9,544</b>	8,473
Other operating loss, net		(82)	(84)
Distribution and			
other operating expenses		(845)	(741)
Administrative expenses		(828)	(525)
<b>Profit from operations</b>		<b>7,789</b>	7,123
Net finance costs		(337)	(354)
Share of profits less losses			
of jointly controlled entities		88	38
Share of profits less losses			
of associates		2	1
<b>Profit before tax</b>	4	<b>7,542</b>	6,808
Income tax expense	5	(1,550)	(2,006)
<b>Profit for the period and attributable to equity shareholders of the Company</b>		<b>5,992</b>	4,802
<b>Earnings per share</b>	7		
Basic		<b>RMB0.828</b>	RMB0.809

**Condensed consolidated balance sheet at 30 June 2008 (unaudited)**

*(Expressed in Renminbi)*

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

## Current liabilities

Trade payables	11	<b>2,429</b>	2,718
Amount due to ultimate parent		<b>143</b>	41
Amounts due to fellow subsidiaries		<b>1,421</b>	1,898
Amounts due to jointly controlled entities		<b>304</b>	147
Income tax payable		<b>249</b>	102
Other payables		<b>7,322</b>	6,255
Bank and other loans	12	<b>7,362</b>	7,326
Current portion of long-term payable to ultimate parent	13	<b>2,324</b>	2,324
		<b>21,554</b>	20,811

<b>Net current assets</b>		<b>5,739</b>	10,140
		<b>-----</b>	-----

## Total assets less current liabilities

**69,464** 66,570

## Non-current liabilities

Bank and other loans	12	<b>13,313</b>	12,297
Provisions		<b>146</b>	146
		<b>-----</b>	-----
		<b>13,459</b>	12,443

<b>NET ASSETS</b>		<b>56,005</b>	54,127
		<b>-----</b>	-----

## Capital and reserves

Share capital		<b>7,235</b>	7,235
Share premium		<b>31,414</b>	31,414
Reserves		<b>2,822</b>	2,957
Retained profits		<b>14,534</b>	12,521

## TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

**56,005** 54,127

**Consolidated statement of changes in equity (unaudited)**

For the six months ended 30 June 2008

(Expressed in Renminbi)

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

**Condensed consolidated cash flow statement (unaudited)**

For the six months ended 30 June 2008

(Expressed in Renminbi)

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

**Notes on the interim financial report (unaudited)**

For the six months ended 30 June 2008

(Expressed in Renminbi)

**1. Basis of preparation**

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

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

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Company and its subsidiary (the “Group”) since the 2007 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”) promulgated by the IASB. IFRSs includes all applicable International Financial Reporting Standards (“IFRS”), IAS and related interpretations.

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

IASB has issued a number of new and revised IFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2008. The Board of Directors has determined the accounting policies to be adopted in the preparation of the Group’s annual financial statements for the year ending 31 December 2008, on the basis of IFRSs currently in issue.

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

The IFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2008 may be affected by the issue of additional interpretation(s) or other changes announced by the IASB subsequent to the date of issuance of this interim financial report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

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

## 2. Segment reporting

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

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

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

### 3. Turnover

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

### 4. Profit before tax

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

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

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

## 5. Income tax expense

Income tax expense in the consolidated income statement represents:

	<b>Six months ended 30 June</b>	
	<b>2008</b>	<b>2007</b>
	<i><b>RMB million</b></i>	<i><b>RMB million</b></i>
Current tax expense — PRC income tax	<b>1,617</b>	2,006
Deferred taxation	<b>(67)</b>	—
	<hr/>	<hr/>
	<b>1,550</b>	<b>2,006</b>
	<hr/>	<hr/>

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

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

## 6. Dividends

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

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

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

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

## 7. Earnings per share

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB5,992 million (six months ended 30 June 2007: RMB4,802 million) and the weighted average number of shares in issue during the six months ended 30 June 2008 of 7,235 million (six months ended 30 June 2007: 5,933 million).

### (b) Diluted earnings per share

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

## 8. Construction in progress

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

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

## 9. Trade receivables

	<b>At</b>	<b>At</b>
	<b>30 June</b>	31 December
	<b>2008</b>	2007
	<b>RMB million</b>	<b>RMB million</b>
Accounts receivable	<b>956</b>	412
Bills receivable	<b>3,605</b>	6,083
	<hr/>	<hr/>
	<b>4,561</b>	<b>6,495</b>
	<hr/>	<hr/>

The ageing analysis of trade receivables is as follows:

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

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

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

## 10. Cash and cash equivalents

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

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

## 11. Trade payables

	At <b>30 June</b> <b>2008</b> <i>RMB million</i>	At 31 December 2007 <i>RMB million</i>
Accounts payable	<b>1,864</b>	1,666
Bills payable	<b>565</b>	1,052
	<b>2,429</b>	<b>2,718</b>

The ageing analysis of trade payables is as follows:

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

## 12. Bank and other loans

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

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

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

### 13. Long-term payable to ultimate parent

According to the acquisition agreement dated 20 October 2005 (“Acquisition Agreement”), the Company acquired the entire equity interest of Angang New Steel & Iron Limited Company (“ANSI”) (“Acquisition”) from Angang Holding, for RMB19.69 billion plus final adjustments as stated in the Acquisition Agreement. The Acquisition was completed in January 2006 and the total final consideration amounted to RMB19.712 billion.

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

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

### 14. Commitments

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

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

## 15. Related party transactions

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

### (A) Significant transactions and balances with Angang Group

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

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

*Notes:*

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

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

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

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

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

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

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

- (g) Angang Group provided certain supporting services to the Group. These services include railway and road transportation services; agency services for import of raw materials, equipment, spare parts and ancillary materials; agency services for domestic sales and export of products; equipment examination, repair and maintenance; design and engineering services; construction project agency and management services and other employees' supporting services. Service fees were charged at applicable prices fixed by the State, market prices, price at no higher than 1.5% of commission, price at depreciation and repair and maintenance, price with no higher than 5% mark up of processing costs.
- (h) The Group has acquired certain property, plant and equipment from Angang Group during the year at consideration based on the market price.
- (i) Angang Group provided financial services in the form of deposit taking, settlement, borrowing and discounting services at State prices.

As at 30 June 2008, the deposit placed with Angang Finance amounted to RMB1,467 million (31 December 2007: RMB1,878 million) and the loans from Angang Finance amounted to RMB 3,100 million (31 December 2007: RMB500 million).

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

(ii) Bank loans

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

(iii) Amount due from/to ultimate parent

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

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

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

(iv) Amounts due from/to fellow subsidiaries

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

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

(v) Long-term payable to ultimate parent

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

(vi) New Supply of Materials and Services Agreement

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

(vii) Investment contracts

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

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

(B) Significant transactions 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 amounting to RMB1,055 million for the six months ended 30 June 2008 (six months ended 30 June 2007: RMB818 million) to ANSC-TKS for further processing.

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

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

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

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

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

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

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

(5) Transactions with key management personnel

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

	<b>Six months ended 30 June</b>	
	<b>2008</b>	<b>2007</b>
	<b>RMB million</b>	<b>RMB million</b>
Directors’ and supervisors’ fees	—	—
Salaries, allowance and other benefits in kind	<b>1.73</b>	1.55
Retirement scheme contributions	<b>0.29</b>	0.26
	<hr/>	<hr/>
	<b>2.02</b>	<b>1.81</b>
	<hr/>	<hr/>

## 16. Comparative figures

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

### Income statement

For the six months ended 30 June 2007

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

Profit before tax	6,808	—	6,808
Income tax expense	(2,006)	—	(2,006)
	<hr/>	<hr/>	<hr/>
Profit for the period and attributable to equity shareholders of the Company	<u>4,802</u>	<u>—</u>	<u>4,802</u>
	<hr/>	<hr/>	<hr/>

### Cash flow statement

For the six months ended 30 June 2007

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

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

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

**Consolidated Balance Sheet (unaudited)**

As at 30 June 2008

*(Expressed in RMB million)*

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

**Liabilities and  
shareholders' equity**

**Current liabilities**

Short-term loans	<b>5,650</b>	4,512
Bills payable	<b>565</b>	1,052
Accounts payable	<b>1,939</b>	1,908
Advances from customers	<b>5,691</b>	4,569
Employee benefits payable	<b>337</b>	310
Taxes payable	<b>(625)</b>	(251)
Interest payables	<b>81</b>	—
Other payables	<b>2,489</b>	2,737
Non-current liabilities due within one year	<b>4,036</b>	5,138
Total current liabilities	<b>20,163</b>	19,975
	-----	-----

**Non-current liabilities**

Long-term loans	<b>13,313</b>	12,297
Long-term payables	<b>26</b>	11
Deferred tax liabilities	<b>53</b>	102
Employee benefits payable more than one year	<b>146</b>	146
Total non-current liabilities	<b>13,538</b>	12,556
	-----	-----

**Total liabilities**

<b>33,701</b>	32,531
	-----

**Shareholders' equity**

Share capital	<b>7,235</b>	7,235
Capital reserve	<b>31,458</b>	31,593
Surplus reserve	<b>2,981</b>	2,981
Retained earnings	<b>14,447</b>	12,446

**Total shareholders' equity**

<b>56,121</b>	54,255
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**Total liabilities and**

**shareholders' equity**

<b>89,822</b>	86,786
	-----

**Consolidated Income Statement (unaudited)**

For the Six months ended 30 June 2008

(Expressed in RMB million)

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
Operating income	<b>40,168</b>	32,735
Less: Operating costs	<b>29,346</b>	23,206
Business taxes and surcharges	525	331
Selling expenses	845	741
Administrative expenses	1,596	1,238
Financial expenses	337	354
Impairment losses on assets	68	55
Add: Investment income	<b>91</b>	40
Including:    Income from investment in jointly controlled enterprises and associates	90	36
Operating profit	<b>7,542</b>	6,850
Add: Non-operating income	<b>14</b>	20
Less: Non-operating expenses	<b>31</b>	60
Including:    Loss from disposal of non-current assets	25	59

Profit before income tax	<b>7,525</b>	6,810
Less: Income tax expense	<b>1,545</b>	2,006
Net profit	<b>5,980</b>	4,804
Earnings per share		
Basic earnings per share	<b>0.827</b>	0.810
Diluted earnings per share	<b>0.827</b>	0.810

By Order of the Board

**Fu Jihui**

*Secretary to the Board*

Anshan City  
 Liaoning Province, the PRC  
 11 August 2008

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

<i>Executive Directors</i>	<i>Non-executive Director</i>
Zhang Xiaogang	Yu Wanyuan
Tang Fuping	
Yang Hua	<i>Independent Non-executive Directors</i>
Huang Haodong	Wu Xichun
Wang Chunming	Wang Linsen
Lin Daqing	Liu Yongze
Fu Wei	Francis Li Chak Yan
Fu Jihui	Wang Xiaobin

\* *For identification purposes only*