

" I am pleased to submit the Annual Report of the Group for the year ended 31 December 2004 and extend my gratitude to all the shareholders on behalf of the Board of Angang New Steel Company Limited. "



OPERATING RESULTS FOR 2004

In accordance with IFRS, the Group recorded a net profit of Rmb1,797,587,000 for the year ended 31 December 2004, representing an increase of 25.44% as compared with Rmb1,433,000,000 for the previous year, and basic weighted average earnings per share was Rmb0.607 in 2004.

In accordance with the PRC Accounting Rules and Regulations, the Group recorded a net profit of Rmb1,776,337,000 for the year ended 31 December 2004, representing an increase of 24% as compared with Rmb1,474,662,000 for the previous year, and basic weighted average earnings per share was Rmb0.600.

PROFIT APPROPRIATION

In accordance with the PRC laws and regulations and the articles of association of the Company, the Group contributed Rmb177,633,000 from its net profit of Rmb1,776,337,000 for 2004 under the PRC Accounting Rules and Regulations to the statutory surplus reserve and Rmb177,633,000 to the statutory public welfare fund. Together with the undistributed profit of Rmb2,131,717,000 at the beginning of the year, the profit attributable to shareholders amounted to Rmb3,552,788,000. After the deduction of the payable dividend of Rmb592,563,000 for 2003, the profit distributable to shareholders was Rmb2,960,225,000 as of the year ended 2004. The Board has recommended a dividend of Rmb0.3 per share (inclusive of tax) for 2004. This dividend proposal is subject to shareholders' approval at the 2004 Annual General Meeting to held on 9 May 2005.

BUSINESS REVIEW

1. Rapid Growth in Production and Operation

Leveraging on its existing centralized and unified management system, the Company effectively managed its production and fully utilized its production capacity in 2004.

The Company produced 5,554,800 tonnes of steel products, representing an increase of 26.2% as compared with the amount produced in the previous year. Of which, cold rolled sheets accounted for 1,820,000 tonnes, representing an increase of 5.27% as compared with the amount produced in the previous year; galvanized steel sheets and colour coated plates accounted for 589,700 tonnes; wire rods accounted for 843,200 tonnes, representing an increase of 16.5% as compared with the amount produced in the previous year; thick plates accounted for 1,107,800 tonnes, representing an increase of 30.33% as compared with the amount produced in the previous year; and large steel products and continuous rolled steel products accounted for 1,194,100 tonnes, representing an increase of 8.66% as compared with the amount produced in the previous year. The Company's steel smelting plant produced 3,295,700 tonnes of steel in 2004, representing an increase of 15.41% as compared with the amount produced in the previous year.

2. Outstanding Performance of Marketing Management

During 2004, the Company focused on developing direct customers, enhancing the sales of customised high quality products and optimizing our product mix with increasing our sales volume of customised high quality products amounting to 3,088,800 tonnes, representing a year-on-year increase of 1,091,200 tonnes.

The Company also focused on major state construction projects such as domestic railways, bridges, hydroelectricity and the West-To-East Pipeline project, successfully bidding for 7 projects and having secured orders in total of 84,000 tonnes of steel products in 2004. The Company's products were utilized in major state construction projects such as the West-To-East Pipeline, Three Gorges, Nanjing Third Bridge and Riverside Pipeline projects.

The Company kept abreast of market trends to adjust its prices on a continual basis for maximum efficiency.

The Company strengthened product exports and production in order to decrease its reliance on imported products. The Company successfully introduced its cold rolled sheets and galvanized sheets into the international market while maintaining the export of its wire rods and thick plates.

In 2004, the Company sold 5,497,000 tonnes of steel products.

BUSINESS REVIEW *(continued)*

3. Achievements in Technological Development

Adhering to the principle of "Parallelize Technological Application, Development and Reserve", the Company integrated its production, sales and research under a development model covering the areas of production, study and research. In 2004, the Company completed 38 scientific research projects. The O5-class vehicle panels were not only used in many domestic sedans, but also sold to the North America market for the first time. The products produced from the Company's joint ventures have been used for panels used in of Ford, Audi and BMW sedans. The steel cord for radial tyre and the all-steel cord representing the highest-end wire developed by the Company were used for the first time and highly regarded by Bekaert Group, the pacemaker in the global all-steel cord industry. The 50- meter steel rail laid in accordance with the 350 km technological requirement has passed the appraisal by the Expressway Office of the Ministry of Railway. To date, 21 of the Company's products were awarded gold medals, which demonstrated a leap forward in the Company's product grade and market competitiveness.

4. Implementing the Company's Systematic Innovative Management Mode (NSI Management Mode) Practice and Innovative Management Projects

To implement NSI Management Mode, the Company carried out 6 innovative management projects including "centralized and unified production management, customer-oriented technological and quality management, scientific research management, customer relation management, comprehensive budget management and comprehensive production maintenance management," leading to the improvement to overall management efficiencies.

5. Strengthening Capital Operation to Facilitate Development of the Company

To realize the integration of core industries and consolidate the resources for the Company's principal business of iron and steel, the Company made a proposal for the acquisition of 100% equity interests in Angang New Steel and Iron Company Limited ("ANSI"). The Company believes that this acquisition would enhance the development of the Company as well as strengthen the solid foundation of shareholders' return.

The Company successfully set up ANSC-Xinchuan Heavy Industries Dalian Steel Product Processing and Distribution Company Limited (鞍鋼新軋-新船重工大連鋼材加工配送有限公司) ("ANSC-Xinchuan") a joint venture with Dalian Xinchuan Heavy Industries Company Limited (大連新船重工有限責任公司) ("Xinchuan"). It is a first of its kind cooperation in the PRC between a major company in the upstream steel sector and another major company in the downstream shipbuilding sector.

In addition, the Company established TKAZ (Changchun) Tailored Blanks Limited (蒂森克虜伯鞍鋼中瑞(長春)激光拼焊板有限公司), the second joint venture with ThyssenKrupp Stahl AG ("Thyssen"), laying a solid foundation for the Company to develop panels for the vehicle panel market.

CORPORATE GOVERNANCE OF THE COMPANY

1. Structure of Corporate Governance of the Company

The Company operates carries out its operations strictly in accordance with the requirements of the Company Law, Securities Law, relevant rules of the China Securities Regulatory Commission as well as the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange of Hong Kong") (the "Listing Rules") and the Rules Governing the Listing of Shares on the Shenzhen Stock Exchange. In addition, the Articles of Association of the Company were amended according to the Rules for Corporate Governance of Listed Companies to establish a sound corporate governance system.

Special committees have been set up by the Board. The Remuneration and Appraisal Committee, the Audit Committee and the Nomination Committee are all chaired by independent non-executive directors. The majority of the members of such committees are independent non-executive directors.

2. Discharge of Duties by Independent Non-executive Directors

The Company has appointed independent non-executive Directors and established guidelines for the independent non-executive Directors in accordance with relevant laws, regulations, the Listing Rules and Rules Governing the Listing of Securities on the Shenzhen Stock Exchange. The independent non-executive Directors have discharged their duties in accordance with the requirements of the relevant laws and regulations, the Listing Rules and Rules Governing the Listing of Securities on the Shenzhen Stock Exchange, and have provided their independent opinions on significant matters of the Company in order to safeguard the interests of the Company as well as the minority shareholders.

Attendance of the independent non-executive Directors at the Board meetings of the Company in 2004 was as follows:

Name of independent non-executive Director	Required attendance at the Board meetings in 2004	Attendance in person (number of times)	Attendance by proxy (number of times)	Absence (number of times)	Remark
Wang Linsen	9	9	0	0	
Yao Weiding	9	9	0	0	
Liu Yongze	9	9	0	0	
Francis Li Chak Yan	9	9	0	0	

CORPORATE GOVERNANCE OF THE COMPANY *(continued)*

3. Independent Operation Capability of the Company

The Company is completely independent of its controlling shareholder in terms of business, staff, assets, organization, finance, etc. Such independent corporate structure and operation are in compliance with the requirements of relevant legislation. The Company has an independent and complete business and is capable of operating independently.

4. Appraisal and Incentive Mechanism for the Senior Management

The Company has set up position-based and risk-based salary schemes for senior management. The position-based salary scheme is linked to the Company's overall operating results while the risk-based salary system is linked to the performance and responsibilities assumed by individuals.

DEVELOPMENT PLAN FOR THE NEW YEAR

During 2005, the last year for the PRC's 10th Five-year Plan and a crucial year for rapid and steady growth of its national economy, steel enterprises will still face both challenges and opportunities in the macro environment.

As far as the unfavorable factors are concerned, the over-growing domestic steel production capacity is believed to bring new problems in the balance between supply and demand of steel products. Moreover, in response to critical competition in domestic and overseas markets, some large-scale steel corporations in China have laid out long-term planning which will give rise to new competitive pressure on the steel market with respect to production capacity and structure. On the other hand, the global leading steel corporations are leveraging their advanced technologies to participate in domestic market competitions more directly by way of establishing joint ventures with domestic steel plants. In addition, the shortage in domestic supply of coal, power, oil and transportation is not expected to be substantially resolved in the short term. As such, it is expected that the rising prices of raw materials, energy and transportation costs will have a huge pressure on costs of steel enterprises.

As far as the favourable factors are concerned, the Company anticipates precious opportunities. Year 2005 could again see the overall upturn of the global economy and the PRC's booming economy in a new cycle. The more rational investments in the steel industry and the upgrading consumption structure under the PRC's macroeconomic control, together with the ongoing implementation of the state policies on developing the western area and reviving the northeast traditional industrial bases, should extend a better niche for development of the steel industry. As to the internal factors, with a series of expansion projects being completed and commencing commercial operations, the Company's major equipment is competitive with those of other leading steel corporations, preparing the Company to be in a better position for the competition in the domestic and overseas markets.

DEVELOPMENT PLAN FOR THE NEW YEAR *(continued)*

Initiatives for production and operations of the Company in 2005 are as follows:

1. To improve production system, make reasonable resource allocation and optimise product mix to maximise production capacity and efficiency.
2. To concentrate more on technological renovations and development to enhance the core competitiveness of the Company on a continuous basis.
3. To strengthen management of marketing to increase market share.
4. To continue further corporate reform in line with the development of the Company.
5. To reinforce corporate management and staff training and enhance overall corporate quality.
6. To speed up the implementation of the Company's integration of the principal operations of iron and steel.

LIU JIE
Chairman

Anshan City, the PRC
16 March 2005

