

Chairman's Statement

I am pleased to present the Annual Report of the Group for the year ended 31 December 2005 and extend my gratitude to all the shareholders on behalf of the Board of Angang New Steel Company Limited.



OPERATING RESULTS FOR 2005

In accordance with IFRSs, the Group recorded a profit attributable to equity shareholders of Rmb2,117,397,000 for the year ended 31 December 2005, representing a year-on-year increase of 17.79%, and the basic earnings per share was Rmb0.715.

In accordance with PRC Accounting Rules and Regulations, the Group recorded a net profit of Rmb2,079,485,000 for the year ended 31 December 2005, representing a year-on-year increase of 17.07%, and the basic weighted average earnings per share was Rmb0.702.

PROFIT APPROPRIATION

In accordance with the PRC laws and regulations and the articles of association, the Company contributed Rmb209,127,000 and Rmb209,127,000 from its net profit of Rmb2,091,268,000 for 2005 under PRC Accounting Rules and Regulations to each of the statutory surplus reserve fund and the statutory public welfare fund. Together with the undistributed profits of Rmb2,960,225,000 at the beginning of the year, the profits attributable to shareholders amounted to Rmb4,633,239,000. Deducting the dividend of Rmb889,095,000 for 2004, the Company's profits distributable to shareholders was Rmb3,744,144,000 as at the end of 2005. The Board recommended a dividend of Rmb0.36 per share (inclusive of tax) for 2005 based on the total share capital of 2,962,985,697 shares as at 31 December 2005. The additional 2,970,000,000 shares issued to Anshan Iron & Steel Group Complex ("Angang Holding") in 2006 will not be entitled to such dividend. This dividend proposal is subject to shareholders' approval at the 2005 Annual General Meeting.

BUSINESS REVIEW

1. Rapid Growth in Production

In 2005, the Group produced 6,047,300 tonnes of steel products, representing a year-on-year increase of 8.87%. Of which, cold rolled sheets accounted for 1,842,200 tonnes, representing a year-on-year increase of 1.22%; galvanized steel sheets and colour coated plates accounted for 854,300 tonnes, representing a year-on-year increase of 44.87%; wire rods accounted for 880,800 tonnes, representing a year-on-year increase of 4.46%; thick plates accounted for 1,150,100 tonnes, representing a year-on-year increase of 3.82%; and large steel products and continuous rolled steel products accounted for 1,319,900 tonnes, representing a year-on-year increase of 10.54%. Production volume of the steel smelting plant amounted to 3,380,200 tonnes, representing a year-on-year increase of 2.56%.

2. Substantial Achievements in Technology Development

In 2005, the Company strengthened the development and technique improvement of key products including volute steel, pipeline steel, all-steel cord, O5-class panel, high-speed rail and military steel. A total of 15,400 tonnes of volute steel were produced to meet the requirement from the construction project of Three Gorges. X80 pipeline steel passed the appraisal by the experts of PetroChina, making the Company the first one in China which has passed such appraisal. The cold rolled vehicle panels have obtained the quality certification of Volkswagen and Dongfeng Peugeot Citroen Automobile. Continuing cooperation agreements were entered into with Volkswagen and Faw-Volkswagen. In addition, the Company developed fingerprint-proof hot-galvanized steel sheets and non-chrome passivated products. "ANGANG" branded heavy rails were honoured as "Famous Brand in China". The high-class shipbuilding plates have obtained extended certifications of CCS, LR, KR and NK. During the year, a total of 103 new products were developed and 5 technical development projects were completed.



BUSINESS REVIEW *(continued)*

3. Outstanding Performance in Marketing Management

The Company focused on developing direct customers. During the year, the orders placed by direct customers accounted for 58.56% of the total number of orders, representing a year-on-year increase of 3.66 percentage points.

Sales volume of high quality steel products was further increased by 11% on a year-on-year basis to 3,570,000 tonnes, accounting for 59.03% of the total sales volume.

Capturing the market opportunities, the Company strengthened product export and recorded a total of 1,198,800 tonnes of exported steel products in 2005, representing a year-on-year increase of 12.99%. As a result, the Company further increased its international market share.

4. Smooth Progress in Technology Renovation

In 2005, the Company completed the design, organization and equipment order for the 2130 cold rolling line project. Some of the production lines have commenced individual test run, which would facilitate in commencing their commercial operation in 2006 ahead of the schedule. The Company substantially strengthened its ability to produce high-class outer panels for sedans and home electrical appliances following the construction and operation of electrolytic cleaning units for the second production line of the cold rolling plant as well as the technology upgrade and renovation of new levelling units for the first production line of the cold rolling plant.

5. Continuing Improvement in Corporate Management

Focusing on capital management, the Company took active efforts in implementing its low-cost strategy, and reinforcing financial budget control through process cost and benchmark review. Efforts were also put in the implementation of rules and regulations and the prevention of accidents. The Company also enhanced its benchmark management. In line with the growing demand for corporate information system, the Company established office automation information network and improved its computer management systems, which in turn, substantially improved its operation efficiency.

6. Moving Forward in the Restructuring of Core Steel Business

The Company moved forward with the restructuring of its core steel business. The Company would be the first listed company to complete its business restructuring after the completion of its state-owned shares reform. Following the acquisition of Angang New Steel and Iron Company Limited ("ANSI"), the Company would substantially improve its production capacity, technique, product mix and ability against risks.

CORPORATE GOVERNANCE OF THE COMPANY

1. Structure of Corporate Governance of the Company

The Company has carried out its operations and developed a comprehensive corporate governance system strictly in accordance with Company Law, Securities Law, the relevant rules of China Securities Regulatory Commission ("CSRC") and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") (the "Listing Rules") and the Rules Governing the Listing of Shares on the Shenzhen Stock Exchange.

Four special committees have been set up by the Board, of which the Remuneration and Review Committee, the Audit Committee and the Nomination Committee are all chaired by independent non-executive Directors. The majority of the members of the committees are independent 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. The independent non-executive Directors have discharged their duties in accordance with the relevant laws and regulations, and provided their independent opinions on significant matters of the Company in order to safeguard the interests of the Company and the minority shareholders.

Attendance of the independent non-executive Directors at the Board meetings of the Company in 2005 was as follows:

Name of independent non-executive Director	Required attendance at the Board meetings in 2005	Attendance in person (number of times)	Attendance by proxy (number of times)	Absence (number of times)	Remark
Wang Linsen	10	10	0	0	-
Yao Weiting	10	10	0	0	-
Liu Yongze	10	10	0	0	-
Francis Li Chak Yan	10	10	0	0	-
Wang Xiaobin	7	7	0	0	Appointed as an independent non-executive Director of the Company on 9 May 2005

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.

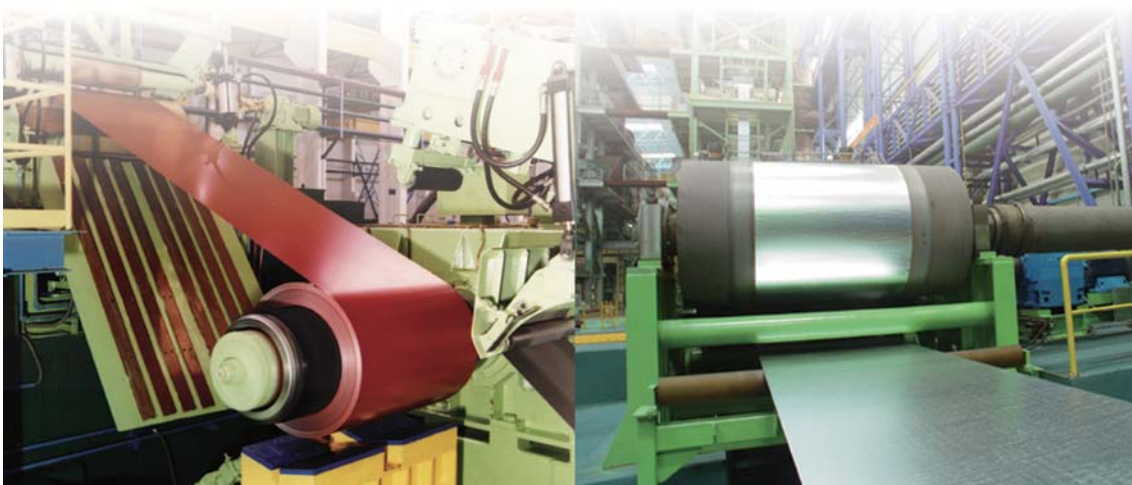
4. Appraisal and Incentive Mechanism for the Senior Management

The Company has set up position-based and risk-based salary schemes for the 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

The iron and steel market in 2006 is expected to maintain a large divergence in supply and demand with increasingly intensified competition. However, the iron and steel industry will move forward on a sound track following the implementation of the State Development Policy for the Iron and Steel Industry promulgated by the central government.

2006 will be the first year following the completion of the Company's restructuring and a critical year for its 5,000,000-tonne steel project in the west area to come into full operation. Following its restructuring, the Company will realise the integration of its principal iron and steel output, mix and quality and production efficiency. The commencement of operation of the project in the west area following the completion of its construction will facilitate the realisation of the consistent, large-scale and centralised operation management.



DEVELOPMENT PLAN FOR THE NEW YEAR (continued)

1. Operation Plan for the Year 2006

- (1) to reform and enhance the innovation mechanism to improve the creativity and core competitiveness of the Company;
- (2) to improve the marketing management system and further market expansion;
- (3) to speed up technology renovations and enhance equipment management in order to lay a solid foundation for building high-quality production base and world-famous brands;
- (4) to strengthen the production and organisation and optimise the product mix in line with the market developments;
- (5) to further the corporate reform and enhance the corporate development momentum; and
- (6) to reinforce the corporate management and overall strength of the Company.

2. Capital Requirement, Utilisation Plan and Funding Sources for 2006

In 2006, the Company will complete the acquisition of the entire equity interest in ANSI from Angang Holding. Pursuant to the acquisition agreement, the total amount of the deferred consideration shall be paid by three installments in equal amounts within the three years following the completion of the acquisition. The deferred consideration payable by the Company in 2006 is approximately Rmb2.3 billion. In 2006, the Company's working capital will be mainly financed by cash inflow from operating activities and bank loans.

Chairman
Liu Jie

Anshan, the PRC
10 April 2006