

The Board is pleased to present this annual report and the audited financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Company is a major steel manufacturing enterprise in the PRC. It is principally engaged in the production and sale of billets, wire rods, thick plates, cold rolled sheets, galvanized steel sheets, colour coating plates and large steel products. The domestic market share of the Company's cold rolled sheets, galvanized steel sheet, colour coated plates, thick plates, wire rods and large steel products (including H type steel) are 10.83%, 5.33%, 2.03%, 4.14%, 1.52% and 0.58%, respectively.

Income and profit from principal operations of the Group for 2005 by industry and product (Prepared in accordance with PRC Accounting Rules and Regulations)

Unit: Rmb'000

	Principal activities by industry					Percentage change of			
	Income from principal operations	Cost of principal operations	Business tax and surcharges of principal operations	Profit from principal operations	Profit margin from principal operations	change of income from principal operations compared with previous year	change of cost of principal operations compared with previous year	change of profit of principal operations compared with previous year	profit margin from principal operations compared with previous year
						Percentage change of income from principal operations compared with previous year	Percentage change of cost of principal operations compared with previous year	Percentage change of profit of principal operations compared with previous year	Percentage change of profit margin from principal operations compared with previous year
Steel pressing and processing	26,488,115	22,642,123	90,660	3,755,332	14.18	14.04	14.27	11.65	(0.30)
Including: connected transactions	2,968,322	2,471,815	10,234	486,273	16.38	5.99	(2.79)	93.24	7.39

PRINCIPAL ACTIVITIES (continued)

Income and profit from principal operations for 2005 by industry and product
(Prepared in accordance with PRC Accounting Rules and Regulations) (continued)

	Principal activities by products					Percentage			
	Income from principle operations	Cost of principle operations	Business tax and surcharges of principal operations	Profit from principal operations	Profit margin from principle operations	Percentage change of income from principal operations compared with previous year Increase / (decrease) (%)	Percentage change of cost of principal operations compared with previous year Increase / (decrease) (%)	Percentage change of profit from principal operations compared with previous year Increase / (decrease) (%)	Percentage change of profit margin of principal operations compared with previous year Increase / (decrease) (percentage points)
Cold rolled sheets	8,705,672	7,864,904	24,928	815,840	9.37	7.17	4.12	46.59	2.52
Galvanized steel sheets and colour coated plates	4,278,473	4,051,140	23,178	204,155	4.77	47.66	53.77	(18.83)	(3.91)
Thick Plates	5,282,019	3,670,983	18,998	1,592,038	30.14	10.09	12.28	4.67	(1.56)
Wire rods	2,799,155	2,411,148	16,928	371,079	13.26	0.76	9.65	(34.33)	(7.08)
Large steel products	4,598,695	3,963,941	5,891	628,863	13.67	18.23	14.97	43.26	2.38
Billets	824,101	680,007	737	143,357	17.40	11.20	(4.24)	370.87	13.29
Including: connected transactions	2,968,322	2,471,815	10,234	486,273	16.38	5.99	(2.79)	93.24	7.39

The pricing policy for
connected transactions

Not less than the average of the selling prices between
the Company and independent third parties in the previous month.

PRINCIPAL ACTIVITIES (continued)

Income and profit from principal operations for 2005 by industry and product (Prepared in accordance with PRC Accounting Rules and Regulations) (continued)

Note:

- 1) For cold rolled sheets, the increase in each of the income, profit from and profit margin of the principal operations was mainly attributable to a proportional increase in sales of high value-added products and an increase in product prices.
- 2) For galvanized steel sheets and colour coated plates, the increase in the income from principal operations was attributable to an increase of 47.51% in sales volume over the last year. The increase in the cost of principal operations was mainly attributable to the increased sales volume and a price hike of raw materials; and the decrease in each of the profit from and profit margin of principal operations was due to the increase in the cost which could not be set off by the increase in the income.
- 3) For thick plate, the increase in the cost of principal operations was mainly attributable to the increased sales volume and a price hike of raw materials; and the decrease in each of the profit from and profit margin of principal operations was due to the increase in the cost which could not be set off by the increase in the income.
- 4) For wire rods, the increase in the cost of principal operations was mainly attributable to the increased sales volume and a price hike of raw materials; and the decrease in each of the profit from and profit margin of principal operations was due to the decreased selling prices of products and a price hike of raw materials.
- 5) For large steel products, the increases in income and profit from principal operations were mainly attributable to an increase in sales volume, a proportional increase in high value-added products and an increase in product prices; the increase in the cost of principal operations was attributable to the increased sales volume and a price hike of raw materials; and the increase in the profit margin of principal operations was attributable to the higher growth of income than that of cost.
- 6) For billets and connected transactions, the increases in the income, profit from and the gross profit margin of principal operations were mainly attributable to a change in product mix and a rise product prices; and the decrease in the cost of principal operations was due to the decreased sales volume.

PRINCIPAL ACTIVITIES (continued)

Segmental information of principal activities by geographical locations (Prepared in accordance with PRC Accounting Rules and Regulations)

Unit: Rmb'000

	Income from principal operations in 2005	Profit from principal operations in 2005	Income from principal operations in 2004	Profit from principal operations in 2004	Increase/ (decrease) of income from principal operations compared with previous year (%)	Increase/ (decrease) of profit from principal operations compared with previous year (%)
Northeast China	12,216,289	1,903,718	10,807,484	1,493,924	13.04	27.43
North China	1,992,783	241,541	1,579,175	224,276	26.19	7.70
East China	4,244,604	431,478	3,549,083	392,813	19.60	9.84
South China	1,846,822	142,054	1,699,174	134,107	8.69	5.93
Central south China	380,918	63,340	609,090	83,055	(37.46)	(23.74)
Northwest China	147,407	19,177	225,111	28,505	(34.52)	(32.72)
Southwest China	171,940	41,388	154,335	32,654	11.41	26.75
Export sales	5,487,352	912,636	4,604,165	974,154	19.18	(6.32)
Total	26,488,115	3,755,332	23,227,617	3,363,488	14.04	11.65

There was neither material change in principal operations or their structure nor the profitability of principal operations in the reporting period as compared with the previous reporting period.

PROFIT DISTRIBUTION PROPOSAL FOR THE YEAR

The Board recommends a cash dividend of Rmb0.36 inclusive of tax per share for 2005 based on the total share capital of 2,962,985,697 shares as at 31 December 2005. The 2.97 billion shares issued by the Company to Angang Holding in 2006 will not be entitled to such dividend. The proposal is subject to the approval at the Company's Annual General Meeting for 2005. Having been approved at the Annual General Meeting, the dividend will be payable to the holders of H Shares of the Company whose names appear on the register of members of the Company at the close of trading on 19 May 2006.

PROFIT DISTRIBUTION FOR THE REPORTING PERIOD

The Company held its Annual General Meeting for 2004 on 9 May 2005, at which the profit distribution proposal for 2004 was passed. It was resolved that a cash dividend of Rmb3 for every 10 shares be paid. On 20 May 2005, the Company paid such cash dividend to the holders of its H shares at the applicable exchange rate of HK\$100 to Rmb106.1609, being the average basic exchange rate between Renminbi and Hong Kong dollar as announced by the Bank of China in one calendar week preceding the date appointed for the holding of the Annual General Meeting for 2004. The cash dividend actually paid to holders of H Shares was HK\$ 0.28259 per share. On 18 May 2005, the Company paid cash dividend to the holders of its tradable A shares and state-owned legal person shares. As at the record date of 17 May 2005, the Company had 753,985,697 tradable A shares and 1,319,000,000 state-owned legal person shares. A total cash dividends of Rmb3 for every 10 shares were distributed.

SHARES HELD BY DIRECTORS, SUPERVISORS, AND SENIOR MANAGEMENT

As at 31 December 2005, interests in the Company's issued share capital held by Directors, supervisors and senior management were as follows:

Name	Position	Gender	Terms of appointment	Number of	Number of	Reason of
				shares held	shares held	
				as at	as at	
				1 January	31 December	Change
				2005	2005	
				(share)	(share)	
LIU Jie	Chairman of the Board	Male	2003.05 - 2006.06	5,000	6,250	Receipt of consideration shares under the State-owned Share Reform Plan
TANG Fuping	Director General Manager	Male	2005.12 - 2006.06 2005.05 - present	0	0	
YANG Hua	Vice Chairman	Male	2003.05 - 2006.06	0	0	
CAI Denglou	Vice Chairman	Male	2003.05 - 2005.08	0	0	
YAO Lin	Director	Male	2003.05 - 2006.06	5,000	6,250	Receipt of consideration shares under the State-owned Share Reform Plan
HUANG Haodong	Director	Male	2005.12 - 2006.06	0	0	

SHARES HELD BY DIRECTORS, SUPERVISORS, AND SENIOR MANAGEMENT
(continued)

Name	Position	Gender	Terms of appointment	Number of	Number of	Reason of
				shares held	shares held	
				as at	as at	
				1 January	31 December	Change
				2005	2005	
				(share)	(share)	
FU Wei	Director Deputy General Manager	Male	2003.05 - 2006.06 2000.08 - present	9,000	11,250	Receipt of consideration shares under the State-owned Share Reform Plan
FU Jihui	Director, Board Secretary Deputy General Manager	Male	2003.05 - 2006.06 1997.05 - 2006.03	5,000	6,250	Receipt of consideration shares under the State-owned Share Reform Plan
ZHANG Lifan	Director Deputy General Manager	Female	2003.05 - 2006.06 2000.08 - 2006.03	0	0	
LI Zhongwu	Director Deputy General Manager	Male	2003.05 - 2005.08 2000.08 - 2006.03	0	0	
YU Wanyuan	Non-executive Director	Male	2003.05 - 2006.06	0	0	
WANG Linsen	Independent non-executive Director	Male	2003.05 - 2006.06	0	0	
YAO Weiting	Independent non-executive Director	Male	2003.05 - 2006.06	0	0	
LIU Yongze	Independent non-executive Director	Male	2003.05 - 2006.06	0	0	
Francis LI Chak Yan	Independent non-executive Director	Male	2003.05 - 2006.06	0	0	
WANG Xiaobin	Independent non-executive Director	Female	2005.05 - 2006.06	0	0	
QI Cong	Chairman of the Supervisory Committee	Male	2003.05 - 2006.06	0	0	
ZHOU Fa	Supervisor	Male	2003.05 - 2006.06	5,000	6,250	Receipt of consideration shares under the State-owned Share Reform Plan
XING Guibin	Supervisor	Male	2003.05 - 2006.06	0	0	
MA Lianyong	Chief Accountant	Male	2002.03 - present	0	0	
Total	—	—	—	29,000	36,250	—

SHARES HELD BY DIRECTORS, SUPERVISORS, AND SENIOR MANAGEMENT (continued)

Name	Number of warrants for the shares of the Company held as at 1 January 2005	Number of warrants for the shares of the Company held as at 31 December 2005	Reason of change
LIU Jie	0	750	Receipt of consideration shares under the State-owned Share Reform Plan
YAO Lin	0	750	Receipt of consideration shares under the State-owned Share Reform Plan
FU Wei	0	1,350	Receipt of consideration shares under the State-owned Share Reform Plan
FU Jihui	0	750	Receipt of consideration shares under the State-owned Share Reform Plan
ZHOU Fa	0	750	Receipt of consideration shares under the State-owned Share Reform Plan
Total	0	4,350	—

Note: All the shares mentioned above are tradable A shares and the warrants were for the domestic shares of the Company. Such shares and warrants were held by the persons mentioned above in the capacity of individual beneficial owners.

INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Save as disclosed above, as at 31 December 2005, none of the Directors, Supervisors or Senior Management of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept under Section 352 of the SFO, or which were notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 of the Listing Rules.

POSITIONS HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN THE SHAREHOLDERS OF THE COMPANY

Mr. Liu Jie, Chairman of the Company, has served as the General Manager of Angang Holding, the controlling shareholder of the Company, since December 1994.

Mr. Yang Hua, Vice-Chairman of the Company, has served as the General Affairs Officer of the Party Committee of Angang Holding since December 2001.

Mr. Yao Lin, Executive Director of the Company, has served as a Deputy General Manager of Angang Holding since May 2005.

Mr. Yu Wanyuan, Non-executive Director of the Company, has served as the Deputy General Manager of Angang Holding since December 2001.

Mr. Qi Cong, Chairman of the Supervisory Committee of the Company, has served as the Secretary to the Discipline Committee of Angang Holding since November 1998.

REMUNERATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The remuneration of each of the Directors, Supervisors and senior management was proposed by the Remuneration and Review Committee under the Board and the Supervisory Committee respectively. Such remuneration has been approved by the Board and the Supervisory Committee and will be proposed for approval by the shareholders at the general meeting. Such remuneration was determined according to the business performance of the Company and the offered by similar enterprises in the PRC.

Name	Total remuneration ⁽²⁾ received from the Company during the reporting period <i>(Rmb)</i>	Whether receiving remuneration from the holding company or other associated entities
LIU Jie	0	Yes
TANG Fuping	218,750	Yes before the appointment of as the General Manager of the Company
YANG Hua	0	Yes
CAI Denglou	0	Yes
YAO Lin	253,354	Yes after the resignation from the General Manager of the Company and the appointment of as a Deputy General Manager of Angang Holding
HUANG Haodong	0	Yes
FU Wei	264,715	No
FU Jihui	255,435	No
ZHANG Lifan	288,887	No
LI Zhongwu	243,711	No
YU Wanyuan	0	Yes
WANG Linsen	63,235	No
YAO Weiting	63,235	No
LIU Yongze	63,235	No
Francis LI Chak Yan	65,713 ⁽¹⁾	No
WANG Xiaobin	43,613 ⁽¹⁾	No
QI Cong	0	Yes
ZHOU Fa	255,941	No
XING Guibin	134,203	No
MA Lianyong	254,335	No
Total	2,468,362	

Note: ⁽¹⁾ Assuming that HK\$1 equals to Rmb1.0337. It is paid in Hong Kong dollar.

⁽²⁾ The total remuneration did not include the Company's contribution to retirement schemes and other welfare funds.

RESIGNATION, APPOINTMENT OR DISMISSAL OF THE COMPANY'S DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

The Company's Annual General Meeting for 2004 was held on 9 May 2005 at which the appointment of Ms. Wang Xiaobin as an independent non-executive director of the Company was considered and approved.

The 19th meeting of the third Board was held on 30 May 2005 at which the appointment of Mr. Tang Fuping as the general manager of the Company and the resignation of Mr. Yao Lin as the general manager of the Company were considered and approved.

The 20th meeting of the third Board was held on 12 August 2005 at which the resignation of each of Mr. Cai Denglou and Mr. Li Zhongwu as a Director of the Company was approved.

The Company's second extraordinary general meeting for 2005 was held on 28 December 2005 at which the appointment of each of Mr. Tang Fuping and Mr. Huang Haodong as a director of the Company was considered and approved.

OPERATIONS AND RESULTS OF THE MAJOR CONTROLLED OR INVESTED COMPANIES

ANSC-TKS Galvanizing Co., Ltd. ("ANSC-TKS"), is a jointly controlled entity established by the Company and ThyssenKrup Stahl AG to be engaged in the production of galvanized steel sheets. ANSC-TKS has registered capital of US\$60 million and each of the Company and ThyssenKrup Stahl AG owns 50% equity interest in it. The production facilities of ANSC-TKS commenced commercial operation in December 2003. As at 31 December 2005, its total assets and shareholders' funds amounted to Rmb1,656,079,000 and Rmb301,169,000, respectively. For 2005, it recorded an income from the principal operations of Rmb1,951,897,000 and a net loss of Rmb57,442,000. (Prepared in accordance with PRC Accounting Rules and Regulations)

In November 2004, ANSC - Xinchuan Heavy Industries Dalian Steel Product Processing and Distribution Company Limited ("ANSC-Xinchuan"), was established by the Company and Dalian Xinchuan Heavy Industries Company Limited as a jointly controlled entity, in which each party has a 50% equity interest. It has an initial registered capital of Rmb40,000,000. ANSC-Xinchuan is mainly engaged in the processing of steel products, and the manufacturing, distribution and sales of structural steel. The production facilities of ANSC-Xinchuan are still under construction.

MAJOR SUPPLIERS AND CUSTOMERS

The cost of purchase from the Group's five largest suppliers amounted to Rmb19.346 billion, representing 87.98% of the Group's total purchase for the year of which purchases from the largest supplier represented 85.36% of the Group's total purchases. The sales to the Group's five largest customers aggregated to Rmb12.572 billion, representing 47.46% of the Group's total turnover for the year and the largest customer accounted for 24.10%.

ANSI is a wholly-owned subsidiary of Angang Holding, the controlling shareholder of the Company and the largest supplier of materials to the Group. Except for those disclosed in this report, none of the Directors, supervisors and their associates nor any shareholder (which to the knowledge of the Directors hold 5% or more of shares in the Company) had any interest in any of the aforementioned suppliers and customers of the Group during 2005.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the Directors and supervisors of the Company has entered into a service contract with the Company which is valid till 20 June 2006. No Director or supervisor has entered into any service contract with the Company which may not be terminated by the Company within one year without compensation other than statutory compensation.

PURCHASE, SALE AND REDEMPTION OF SECURITIES

In 2005, the Company issued 43,451 A shares upon conversion of the convertible debentures issued by the Company in March 2000. Other than the A shares issued upon such conversion, there was no other purchase, sale or redemption by the Company or any of its subsidiaries of its securities during the year.

PRE-EMPTIVE RIGHTS

In accordance with the articles of association of the Company and the laws of the PRC, no pre-emptive rights exist that require the Company to offer new shares to the existing shareholders in proportion to their shareholdings.

DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS

In 2005, none of the Directors or supervisors of the Company had any material interests in any contracts in which the Company, or the holding Company or any of its subsidiaries were involved in.

FIXED ASSETS

Movements in the fixed assets during the year are set out in note 13 on the financial statements prepared in accordance with IFRSs included in this report.

CONVERTIBLE DEBENTURES

Details of the convertible debentures are set out in note 23 on the financial statements prepared in accordance with IFRSs included in this report.

OPERATING RESULTS

The results of the Group for the year ended 31 December 2005 and its financial position as at that date are set out in the financial statements prepared in accordance with IFRSs included in this report.

SHARE CAPITAL

Movements in share capital during the year are set out in note 25 on the financial statements prepared in accordance with IFRSs included in this report. Increase in share capital during the year was attributable to the conversion of convertible debentures.

RESERVES

Movements in the reserves during the year are set out in notes 26 to 28 on the financial statements prepared in accordance with IFRSs included in this report.

EMPLOYEE RETIREMENT SCHEME

Details of the employee retirement scheme of the Company are set out in note 33 on the financial statements prepared in accordance with IFRSs included in this report.

CONTINUING CONNECTED TRANSACTIONS

Details of continuing connected transactions for the year are set out on pages 65 to 68 of this report.

FIVE-YEAR SUMMARY

A summary of the results and of the asset and liabilities of the Company for the past five years is set out on page 204 of this report.

CHAPTER 13 DISCLOSURE

The Directors confirmed that there were no matters occurring in 2005 which would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing rules. The Company's controlling shareholder did not pledge any of its shares in the Company to secure any debts, guarantees or other support of obligations of the Company, nor make any loan agreements imposing specific obligations on the controlling shareholders.

SUFFICIENT PUBLIC SHAREHOLDINGS

According to the information obtained by the Company through public channels, and so far as the Directors are aware of as at the latest practical date before the publishing of this annual report, the Company has been maintaining sufficient public shareholdings to comply with the Listing Rules during the year.

AUDITORS

KPMG (Certified Public Accountants in Hong Kong) and KPMG Huazhen (Registered Accountants in the PRC) were appointed as the Company's international and domestic auditors respectively in 2005. A resolution for the reappointment of KPMG and KPMG Huazhen as the Company's international and domestic auditors respectively, for 2006 will be proposed at the 2005 Annual General Meeting to be held on 20 June 2006.

WORKING REPORT OF THE BOARD

The Board meetings during the reporting period

- (1) The 14th meeting of the third Board was held on 11 January 2005, at which the proposed proposal in relation to the retirement of certain assets in a total amount of Rmb3,655,500 was considered and approved.
- (2) The 15th meeting of the third Board was held on 16 March 2005. An announcement of the resolutions passed at the meeting was published on China Securities Journal, Securities Times, Shanghai Securities News, Hong Kong Economic Times, The Standard and the website (www.cninfo.com.cn) on 17 March 2005.
- (3) The 16th meeting of the third Board was held on 18 April 2005, at which the 2005 First Quarterly Report of the Company was considered and approved.
- (4) The 17th meeting of the third Board was held on 9 May 2005, at which the proposed distribution of ANSI's profit for the period from 1 September 2004 to the last day of the month immediately preceding the completion date (as defined in the agreement in relation to the acquisition of 100% equity interest in ANSI entered into between the Company and Angang Holding) was considered and approved.
- (5) The 18th meeting of the third Board was held on 25 May 2005. An announcement of the resolutions passed at the meeting was published on China Securities Journal, Securities Times, Shanghai Securities News, Hong Kong Economic Times, The Standard and the website (www.cninfo.com.cn) on 26 May 2005.
- (6) The 19th meeting of the third Board was held on 30 May 2005. An announcement of the resolutions passed at the meeting was published on China Securities Journal, Securities Times, Shanghai Securities News, Hong Kong Economic Times, The Standard and the website (www.cninfo.com.cn) on 31 May 2005.

WORKING REPORT OF THE BOARD (continued)

The Board meetings during the reporting period (continued)

- (7) The 20th meeting of the third Board was held on 12 August 2005. An announcement of the resolutions passed at the meeting was published on China Securities Journal, Securities Times, Shanghai Securities News, Hong Kong Economic Times, The Standard and the website (www.cninfo.com.cn) on 15 August 2005.
- (8) The 21st meeting of the third Board was held on 20 October 2005. An announcement of the resolutions passed at the meeting was published on China Securities Journal, Securities Times, Shanghai Securities News, Hong Kong Economic Times, The Standard and the website (www.cninfo.com.cn) on 21 October 2005.
- (9) The 22nd meeting of the third Board was held on 26 October 2005, at which the 2005 Third Quarterly Report of the Company was considered and approved.
- (10) The 23rd meeting of the third Board was held on 1 December 2005, at which the following matters were considered and approved:
- i) the transfer of 20% interests held by Wuhan Zhongren Ruizhong Auto Parts Industry Co., Ltd in TKAS (Changchun) Tailored Blanks Ltd to ThyssenKrupp Tailored Blanks GmbH and the Company and the acquisition of the 6% interests in TKAS (Changchun) Tailored Blanks Ltd by the Company.
 - ii) the contribution of additional capital to TKAS (Changchun) Tailored Blanks Ltd by the Company.

On behalf of the Board

Liu Jie

Chairman

10 April 2006