

Significant Events

1. MATERIAL LITIGATION AND ARBITRATION

The Group was not involved in any material litigation or arbitration in 2005.

2 ACQUISITION AND DISPOSAL OF ASSETS

Assets acquired	Date of acquisition	Consideration	Net profit contributed to the Company since date of acquisition to the year-end	Whether a connected transaction (if so, state the basis of pricing)	Whether ownership of assets transferred	Whether debts transferred
The entire equity interests in ANSI held by Angang Holding	1 January 2006	Consideration of Acquisition = Initial Consideration + Final Adjustment Amount, where Initial Consideration was Rmb19.69 billion; and Final Adjustment Amount = the audited book value of net assets of ANSI as at the completion date - the audited net asset value of ANSI as at the valuation base date - depreciation, amortisation and other factors resulting from an increase (or decrease) in net asset value of ANSI for the period commencing on the valuation base date and ending on the completion date.	0	A connected transaction Pricing principle: Initial Consideration is based on the net asset value of ANSI as assessed by the PRC Domestic Valuer in its valuation report which is filed with SASAC, as adjusted by Final Adjustment Amount.	Yes	Yes

The said acquisition was approved at the Company's 2005 second extraordinary general meeting, the second class meeting for holders of domestic shares and the second class meeting for holders of H shares on 28 December 2005 and was approved by the CSRC on 25 January 2006.

The Company expects to achieve the integration of its core steel business through the acquisition of upstream facilities for steel production, so as to significantly strengthen its competitiveness as a listed company.

3. MATERIAL CONNECTED TRANSACTIONS

(1) Continuing connected transactions

In 2005, the Company purchased most of the raw materials, energy and utilities necessary for its production operations from, and sold some of its products to Angang Holding and its subsidiaries. The transactions carried out were in accordance with the provisions (including the pricing) of the Materials and Services Supply Agreement entered into between the parties.

1) Purchase of products and receipt of services from connected parties

Items	Pricing principle	Price	Amount (Rmb'000)	As a percentage of the contractual amount of similar transactions (%)
Billets	Not higher than the minimum sales price for the preceding month offered by Angang Holding and its subsidiaries to their independent third party customers and the average prices of batch raw materials quoted to the Company by five independent suppliers in the PRC	Rmb2,416 / tonne	894,420	100
Slabs		Rmb3,048 / tonne	247,400	100
Hot rolled coils		Rmb3,609 / tonne	10,414,143	100
Molten iron		Rmb1,855 / tonne	6,373,485	100
Scrap steel		Rmb1,933 / tonne	481,045	100
Water for industrial use	At cost	Rmb0.86 / tonne	11,463	98.93
Recycled water		Rmb0.39 / tonne	7,777	100
Soft water		Rmb2.96 / tonne	2,728	100
Mixed gas		Rmb21.13 / GJ	175,558	100
Nitrogen		Rmb0.06 / M3	10,852	100
Oxygen		Rmb0.4 / M3	75,770	100
Argon		Rmb1.15 / M3	4,304	100
Hydrogen		Rmb1.55 / M3	15,582	100
Compressed air		Rmb0.08 / M3	16,658	100
Steam		Rmb31.35 / GJ	38,060	95.08
Lime	Not higher than the average selling prices for the preceding month offered by Angang Holding and its subsidiaries to independent third parties	Rmb423 / tonne	83,078	100
Refractory materials		Rmb3,915 / tonne	24,395	10.51
Other ancillary materials		—	52,510	7.08
Total	—	—	18,929,228	—

3. MATERIAL CONNECTED TRANSACTIONS *(continued)*

(1) Continuing connected transactions *(continued)*

1) Purchase of products and receipt of services from connected parties *(continued)*

Items	Pricing principle	Amount (Rmb'000)	As a percentage of the contractual amount of similar transactions (%)
Railway transportation	State price	50,179	100
Road transportation	Market price	33,574	69.64
Export agency	1.5% as commission	58,996	100
Import of components and accessories		2,913	100
Testing and analysis of products		17,598	33.57
Repair and maintenance of equipment	State price	225,737	40.33
Design and engineering services		120,260	4.73
Heat supply to staff quarters		611	5.84
Telephone / fax / TV services		2,346	74.92
Total		512,214	—
Interest received from Angang Group Financial Company Limited	Interest rates published by the People's Bank of China from time to time	3,778	26.92
Maximum deposit of the Company at Angang Group Financial Company Limited for settlement purpose	—	990,178	—

3. MATERIAL CONNECTED TRANSACTIONS (continued)

(1) Continuing connected transactions (continued)

2) Sales of products and provision of services to connected parties

Items	Pricing principle	Price	Amount (Rmb'000)	As a percentage of the contractual amount of similar transactions (%)
Billets		Rmb2,834 / tonne	18,188	25.50
Slabs		Rmb3,032 / tonne	326,559	40.38
Cold rolled sheets	The average selling prices for the preceding month offered by the Company to its independent third parties	Rmb5,810 / tonne	10,354	0.12
Galvanized sheets		Rmb6,001 / tonne	78	0.00
Thick plates		Rmb3,805 / tonne	54,566	1.08
Wire rods		Rmb3,257 / tonne	25,087	0.91
Large steel products		Rmb3,346 / tonne	7,970	0.32
Scrap steel		Rmb1,491 / tonne	767,030	88.49
Pipe billets		Production cost plus a margin not less than 9%	Rmb3,073 / tonne	1,758,490
Total	—	—	2,968,322	—

Items	Pricing principle	Amount (Rmb'000)	As a percentage of the contractual amount of similar transactions (%)
Material processing service	Processing of cold rolled silicon steel per tonne amounted to Rmb622 Packaging fee for cold rolled silicon steel per roll amounted to Rmb350	90,503	100

3. MATERIAL CONNECTED TRANSACTIONS *(continued)*

(1) Continuing connected transactions *(continued)*

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

In 2005, the gross profit margin of the pipe billets sold by the Company to ANSI was 18.38%.

Reason for the continuing connected transactions:

Due to the continuity of steel production, the Company purchases most of raw materials from and sell some of its products to Angang Holding and its subsidiaries. As such continuing connected transactions are necessary to ensure the continuous and steady production and operation of the Company.

The above connected transactions, as confirmed by the independent non-executive Directors of the Board who are independent of the controlling shareholder, were entered into (a) in the ordinary and usual course of business of the Company; (b) on normal commercial terms; (c) in accordance with the terms of the Materials and Services Supply Agreement; and (d) in accordance with the terms and conditions under the conditional waiver granted by the Hong Kong Stock Exchange.

The auditors to the Company have reviewed the above connected transactions and provided a letter to the Board confirming that the above continuing connected transactions (a) have received the approval of the Board; (b) so far as they are aware, there is no instance of non-compliance with provisions of the Materials and Services Agreement; and (c) the actual amounts of such connected transactions did not exceed the relevant caps under the waiver.

(2) Connected transactions related to asset and equity transfer

On 20 October 2005, the acquisition of the entire equity interest in ANSI held by Angang Holding was considered and approved at the 21st meeting of the third Board of the Company. The acquisition constituted a connected transaction, details of which are set out in the paragraph headed "2. ACQUISITION AND DISPOSAL OF ASSETS" under the section "XI. Significant Events" of this annual report.

As at the valuation date being 30 June 2005, the book value and the appraisal value of the acquired assets were Rmb14,606,708,400 and Rmb19,691,566,500, respectively.

3. MATERIAL CONNECTED TRANSACTIONS *(continued)*

(2) Connected transactions related to asset and equity transfer *(continued)*

The Final Consideration (as defined below) of the acquisition mentioned above comprising, a cash payment of RMB6,950.3 million and the issuance of 2.97 billion consideration shares at RMB4.29 per share for the acquisition is based on the following formula:

Final Consideration = Initial Consideration + Final Adjustment Amount

“Initial Consideration” being the amount of RMB19,691.6 million, which is the net asset value of ANSI as at 30 June 2005 as assessed by the PRC domestic valuer in its valuation report.

“Final Adjustment Amount” means an amount equal to the net asset value of ANSI as at the completion audit date as audited by KPMG Huazhen under the PRC Accounting Rules and Regulations, less the net asset value of ANSI (before taking into account the change in net asset value resulting from the asset appraisal) as at 30 June 2005 and subject to further adjustments for depreciation, amortisation and other factors resulting from an increase (or decrease) in net asset value of ANSI following the assets appraisal for the period commencing on 1 July 2005 and ending on the completion audit date.

The Initial Consideration has been arrived at based on arm’s length negotiations between the Company and Angang Holding. In addition to the cash payment of RMB6,950.3 million, 2.97 billion consideration shares have been issued to Angang Holding as payment for the Initial Consideration. The consideration shares have been issued to Angang Holding at a subscription price of RMB4.29 per consideration share, being the average closing price of the tradable A Shares for the 20 business days up to and including 14 October 2005 (being the last business day prior to the suspension of trading of the tradable A shares on the Shenzhen Stock Exchange in connection with the State-owned Share Reform Plan). The cash payment of RMB6,950.3 million and the Final Adjustment Amount, to be funded by internally generated cash flow and bank loans, will be deferred and paid to Angang Holding in three installments within three years following the completion date of the Acquisition (“Deferred Consideration Payment”). Interest will be payable on the Deferred Consideration Payment at the prevailing interest rate quoted by the People’s Bank of China and will be payable together with the relevant annual installment payment of the Deferred Consideration Payment.

(3) Guarantee provided from connected parties to the Company

As at 31 December 2005, Rmb900,000,000 of the Company’s bank loan was guaranteed by Angang Holding.

4. MATERIAL CONTRACTS AND THEIR IMPLEMENTATION

(1) The Group did not enter into any trust, contractual or lease arrangement during the reporting period.

(2) Material guarantee

The Board passed a resolution on 22 October 2002 to approve the Company to establish a jointly controlled entity with Thyssen Krupp Stahl AG (“Thyssen”). In connection with this jointly controlled entity, the Board also approved the Equity Pledge Agreement, the Equity Retention and Subordination Agreement, the Completion Support Agreement and the Fund Shortage Support Agreement with the Bank of China. Pursuant to these agreements, the Company and Thyssen jointly provided a pledge for the jointly controlled entity in relation to a loan of Rmb1.08 billion from the Bank of China, of which, the Company shall provide such pledge to the extent of Rmb540 million. As at 31 December 2005, the Company provided security for a total amount of Rmb462 million, representing 4.08% of the net assets of the Group as at 31 December 2005 (prepared in accordance with the PRC Accounting Rules and Regulations).

(3) The Group did not entrust the management of any of its assets during the reporting period.

(4) There were no other material contracts entered into by the Group during the reporting period.

5. UNDERTAKINGS OF CONTROLLING SHAREHOLDER

- (1) Angang Holding, the controlling shareholder of the Company, in addition to the undertakings required under the relevant laws and regulations, has made the following undertakings in relation to the State-owned Share Reform Plan:
- 1) 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 on the Shenzhen Stock Exchange except for the shares to be transferred to any holder of tradable A shares upon his / her / its exercise of the warrants.
 - 2) For the tradable A shares of the company issued to Angang Holding for the acquisition of the entire equity interests in ANSI, 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.
 - 3) Angang Holding will maintain a minimum of 60% shareholding in the Company following the completion of the acquisition of the entire equity interests in ANSI till 31 December 2010.
 - 4) Angang Holding will compensate other shareholders for any loss arising from its failure to fulfil the whole or part of its undertakings.
 - 5) Angang Holding will arrange for the deposit of the relevant shares as compensation under the state-owned share reform plan with China Securities Depository and Clearing Corporation Limited, Shenzhen Branch to ensure fulfillment of its obligations under the state-owned share reform plan.
 - 6) Angang Holding will be responsible for all the costs and expenses arising from the implementation of the State-owned Share Reform Plan.

Angang Holding further undertakes that:

“Angang Holding will perform its undertakings on a good faith basis and accepts the liabilities thereunder. Unless the transferee agrees and is eligible to make the undertakings, Angang Holding will not transfer any share held by it.”

During the reporting period, none of breach of Angang Holding’s undertakings was found.

5. UNDERTAKINGS OF CONTROLLING SHAREHOLDER *(continued)*

- (2) Angang Holding made an undertaking to the Company on 25 May 2005 that, following the completion of the acquisition of the entire equity interest in ANSI, will provide a discount equal to 10% of the Average Import Price (as defined below) on the highest amount as determined under the pricing formula set out in the Supply of Materials and Services Agreement, being 10% of the average import price of iron concentrate reported to the PRC customs in the preceding half-year reported period (the "Average Import Price").

6. SUBSEQUENT EVENTS

- (1) On 25 January 2006, China Securities Regulatory Commission approved the Company to issue a total of 2.97 billion tradeable A shares (the "Consideration Shares") to Angang Holding as payment for part of the consideration for the acquisition of the entire equity interest of ANSI. On 23 February 2006, the Consideration Shares were deposited to the account of Angang Holding with China Securities Depository and Clearing Corporation Limited, Shenzhen Branch. The acquisition has been completed.

6. SUBSEQUENT EVENTS (continued)

The following table sets out the shareholding structure of the Company :

	Before the issue of Consideration Shares		After the issue of Consideration Shares		
	Number of shares	Percentage (%)	Number of shares	Percentage (%)	
Shares subject to trading moratorium:					
1) State-owned Shares (held by Angang Holding)	1,130,503,576	38.15	1) State-owned Shares (held by Angang Holding)	4,100,503,576	69.11
2) Shares held by senior management	36,250	—	2) Shares held by senior management	36,250	—
Sub-total	1,130,539,826	38.15	Sub-total	4,100,539,826	69.11
Shares not subject to trading moratorium:					
1) A Shares	942,445,871	31.81	1) A Shares	942,445,871	15.89
2) H Shares	890,000,000	30.04	2) H Shares	890,000,000	15.00
Sub-total	1,832,445,871	61.85	Sub-total	1,832,445,871	30.89
Total	2,962,985,697	100.00	Total	5,932,985,697	100.00

- (2) On 20 March 2006, the third Board of Directors convened its 25th meeting to consider and approve the following matters:
- 1) Appointment of each of Mr. Huang Haodong and Mr. Lin Daqing as a deputy general manager of the Company;
 - 2) Termination of the appointment of each of Mr. Li Zhongwu, Mr. Fu Jihui and Ms. Zhang Lifen as a deputy general manager of the Company.