

六年度
Annual Results A



On behalf of the Board of Angang Steel Company Limited, I am pleased to present the Annual Report of the Group for the year ended 31 December 2006 and hereby extend my gratitude to all the shareholders.

OPERATING RESULTS FOR 2006

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Based on the IFRS, the Group recorded a profit attributable to equity shareholders of Rmb7,094 million for the year ended 31 December 2006, representing an increase of 235.10% as compared with the previous year, and its basic weighted average earnings per share was Rmb1.196.

Based on the PRC GAAP, the Group recorded a net profit of Rmb6,845 million for the year ended 31 December 2006, representing an increase of 229.24% as compared with the previous year, and its basic weighted average earnings per share was Rmb1.204. Its diluted earnings per share was Rmb1.154.

PROFIT APPROPRIATION

In accordance with the PRC laws and regulations and the articles of association of the Company, the Company contributed Rmb684 million out of its net profit of Rmb6,839 million for 2006 based on the PRC GAAP to the statutory surplus reserve fund. Together with the undistributed profits of Rmb3,744 million in the beginning of 2006, the profits attributable to shareholders amounted to Rmb9,899 million. After deducting the dividend of Rmb1,067 million for 2005, the Company's profits available for distribution to shareholders was Rmb8,832 million as at the end of 2006. Rmb6,155 million of profits attributable to shareholders was recorded in 2006. The Board recommended a dividend of Rmb0.58 per share (inclusive of tax) for 2006 based on the total share capital of 5,932,985,697 shares as at 31 December 2006 and Rmb3,441 million of profit attributable to shareholders was distributed to shareholders. After implementation of the distribution plan, the balance of distributable profits attributable to shareholders was Rmb5,391 million. The proposed dividend is subject to shareholders' approval at the 2006 Annual General Meeting.

BUSINESS REVIEW

1. Historical highs in production and operation indexes

During the reporting period, the Group produced 15.152 million tonnes of iron and 15.1668 million tonnes of steel, representing an increase of 348.70% as compared with the previous year. Production volume of steel materials increased by 131.90% to 14.0235 million tonnes, as compared with the previous year, which included 2,385,600 tonnes of cold rolled sheets, 1,004,300 tonnes of galvanized steel sheets and colour coated plates, 1,097,500 tonnes of thick plates, 943,800 tonnes of wire rods, 716,100 tonnes of large steel products, 5,440,300 tonnes of hot rolled sheets, 800,400 tonnes of cold rolled silicon steel, 947,900 tonnes of medium plates, 93,200 tonnes of medium plates, 39,300 tonnes of small sections and 555,100 tonnes of seamless steel pipes.

Both sales income and profit of the Company have reached historical highs. Profit margin of sales, profit margin of cost and earnings per share were maintained at a leading level in the industry of the PRC.



BUSINESS REVIEW (continued)

2. Further achievements in technological development

The Company took efforts to focus on technological improvement and innovation, in order to further develop its strength in advanced technology and equipment. During the year, a total of 3.439 million tonnes of new products were developed, trial produced and launched, representing an increase of 1.43 million tonnes of products over the same period last year. The Company carried out 213 research projects, a historical high for the Company. The Company succeeded in trial production and supplying its own developed 1,900mm pipeline steel plate, being the widest of such product available domestically. The Company's X100 pipeline steel passed the appraisal by Xi'an Pipe Material Research Institute of CNPC, and the Company became the first domestic manufacturer capable of producing X100 pipeline steel. The steel for thick plate hot bending pipes replaced the imported products and were used in the Sichuan-Chongqing Gas Transmission Pipeline Project. The steel for spiral cases were developed and used in the Xiaowan Hydropower Station and Pubugou Hydropower Station, and the Company became a key production and supply base of the steel for spiral cases in the PRC. The strong hot rolled two-facet enamel steel sheet filled a domestic demand and was successfully applied in key projects such as Beijing Olympics and Jiuquan Satellite Launching Complex. With a major breakthrough in the research and development of strong cold rolled steel for motorcars (DP steel and TRIP steel), the Company became a major motorcar plate supplier for Volkswagen around the world. The 70L tire steel cord products passed the certification by Bekaert Group, the largest tire cord product enterprise in the world. The steel products developed by the Company for strong and ultra-strong ship structures and ocean engineered structures passed the stringent certification by shipping societies of 9 countries including UK and Norway. The types of steel supplied by the Company increased from 10 to 128, and the maximum thickness from 40mm to 100mm. The Company's products achieved leading position in the domestic market and achieved international standard while "ANGANG" brand was recognized as a "China Famous Brand".

3. Outstanding marketing management

The Company improved the market-oriented marketing management system which integrated the sale, development and production processes. The Company restructured its product mix to satisfy different customer demands, with a focus on development of markets for specialized steel materials such as hot rolled steel, cold rolled steel, coated plates, silicon steel, medium and thick plates and long steel products. 11.07 million tonnes of specialized steel materials were produced in 2006, representing a year-on-year increase of 4.78 million tonnes.

The Company focused on developing its direct supply business and as a result, the Company's direct sales reached 6.12 million tonnes, accounting for 57.15% of the domestic sales volume. The Company also actively expanded export of its products, and it recorded an export volume of 3.35 million tonnes, which accounted for 23.82% of the commodities. The Company also actively participated in the key domestic construction project to improve "ANGANG" brand image.

BUSINESS REVIEW *(continued)*

4. Smooth progress in technology renovation and achievement of designed output and efficiency

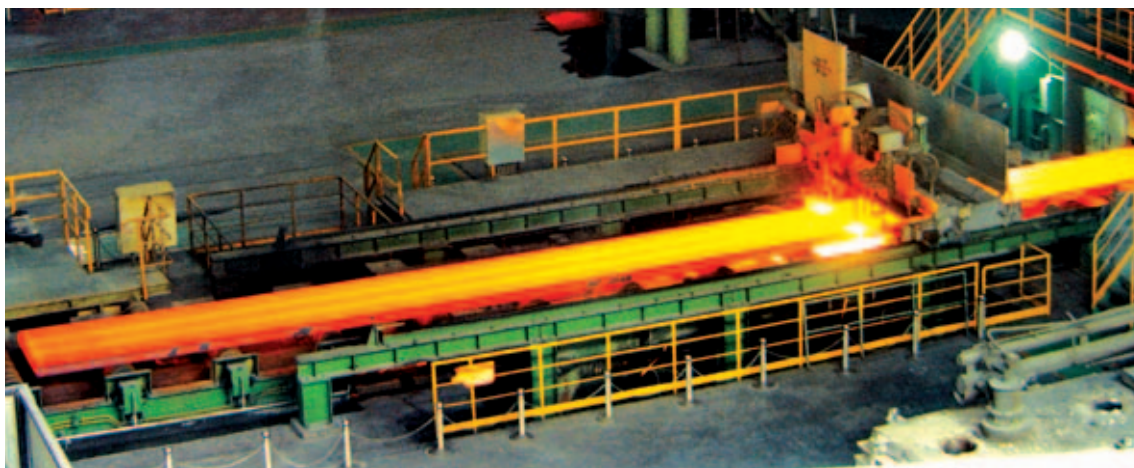
With No. 2 and 3 new blast furnaces, new converters, and production lines 2150 and 2130 as the core production base of the 5,000,000 tonne quality plate in the western region being completed and commercial operation having commenced, the Company's production efficiency has increased significantly.

The construction of Bayuquan Area has also kicked off and achieved the relevant milestones.

5. Remarkable Results of Business Reorganisation

The Company completed the reorganisation of its core steel business.

It also deepened and integrated the management systems and optimised business processes to reserve talents for Bayuquan Area. Pursuant to the reorganisation, the Company established the quality inspection Centre, the medium and thick plate plant, the No. 3 Steel Smelting and Rolling Plant, the raw materials processing, storage and transportation centre and the energy power plant, and terminated the arrangement of having a separate shaped materials factory and a steel smelting factory in the western region. The remuneration management system was improved by the establishment of a methodical and effective incentive mechanism which matched remuneration with employee position. The Company also carried out further reforms to its personnel management system by implementing public election of executive officers and open hiring of management personnel on a competitive basis, and has hence established a HR system that relies on competition, employee fluidity and role mobility.



BUSINESS REVIEW (continued)

6. Improvement in corporate governance

In order to inculcate a "micro management" ideology, clearly define management responsibilities and improve management performance, the Company redeveloped and improved its QEO management systems, established a methodical, efficient, simple and appropriate system and published its QEO management manuals, 59 management procedure documents and 128 managements directives. The Company successfully passed the re-examination and certification on its QEO management system and the TS16949 annual inspection on its motorcar plates.

To strengthen comprehensive budget management, the Company established an index-based assessment system and warning mechanism which allow effective control over all types of expenses. The Company has also fully implemented a standard process-based cost management system, which allows for a more refined cost analysis and improved process cost control. The Company's Establishment and Implementation of Standard Process Cost Management System for Iron and Steel Enterprises won the second prize award for management modernisation and innovation by state-level enterprises.

The Company improved its quality management system and carried out trainings and application of quality management tools, thereby improving overall quality management. By enhancing the process discipline, improving and optimising product process routes and process parameters, the Company aims to reduce quality defects and improve the quality and grade of its products. The percentage of the Company's products which reached international quality standard was 74.25%, an increase of 3.74 percentage points compared with the previous year.

The ERP system was successfully implemented. The production processes such as steel smelting, hot rolling and cold rolling and galvanising in the eastern region were "digitised" and as a result, the whole business process involving sales, quality inspection, production, testing and examination, storage and transportation and settlement management have been accelerated. The Company has achieved its goals of real-time production control, faster access to customers and improved production efficiency.

7. Development in strategic cooperation

The Company places significant importance to the management of external investments and cooperation, and has established a dedicated investment management structure to centralise management of all external investment projects. In order to enlarge the Company's investments in upstream and downstream enterprises of the core steel business, the Company entered into cooperative discussions with large state-owned coal enterprises including Heilongjiang LongMei Mining Group and Shanxi Coking Coal Group and entered into a Framework Agreement on Comprehensive Strategic Cooperation and a 20-year Strategic Cooperation Agreement on Purchase and Sale with Shanxi Coking Coal Group. The Company also entered into agreement with ThyssenKrupp Stahl AG ("ThyssenKrupp") to increase capital in ANSC-TKS Galvanizing Co., Ltd. ("ANSC-TKS") to jointly establish the second production line for galvanised plates and to establish and co-invest in ANSC-TKS Steel Logistics (Changchun) Company Limited ("TKAS-SSC"), a steel product processing centre in Changchun which is currently under construction.

CORPORATE GOVERNANCE OF THE COMPANY

1. Structure of Corporate Governance of the Company

The Company operates 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 ("Listing Rules") and the Rules Governing the Listing of Shares on the Shenzhen Stock Exchange, and establishes a sound corporate governance system.

Four special committees have been set up by the Board with independent non-executive directors acting as conveners of the Remuneration and Appraisal Committee, the Audit Committee and the Nomination Committee, and accounting for the majority of such committees' members.

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 requirements of the relevant laws and regulations, and have expressed 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 2006 are set out as follows:

Name of independent non-executive Director	Required attendance at the Board meetings in 2006	Attendance in person (number of times)	Attendance by proxy (number of times)	Absence (number of times)	Remark
Wu Xichun	6	5	1	—	Appointed as an independent non-executive Director of the Company on 20 June 2006
Wang Linsen	9	9	—	—	—
Liu Yongze	9	9	—	—	—
Francis Li Chak Yan	9	9	—	—	—
Wang Xiaobin	9	8	1	—	—

3. 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 2007

1. Analysis on the Steel Market and Opportunities and Challenges Faced by the Company

Year 2007 will be a crucial year for the Company to achieve new goals as it adapts to new circumstances and faces new challenges and realize new development. The Company will face both growth opportunities and austere challenges.

The global economy is expected to increase by 4.9% in 2007 and the PRC economy is expected to increase by approximately 10%. The overall development trend remains good. The PRC government will continue to implement a series of macro economic control policies to facilitate industry consolidation and encourage consumption structure, which will stimulate further demand of the domestic steel product market. The Company internally considers that the Company's improved product grade and core competitiveness are qualities which will enable the Company to compete with the world's first class iron and steel enterprises. The Company has commenced the construction of the new Bayuquan area project which will provide further development impetus for the Company's development in the future.

2. Operation Plan for Year 2007

The Company will construct a harmonious enterprise and develop the Bayuquan Iron and Steel Project into a modern iron and steel area, which will turn the Company into an internationally competitive iron and steel enterprise with the strongest international competitiveness.

- (1) To make further progress in production and operation.
- (2) To implement the technical innovation strategy so as to, become an innovative enterprise with a recognized brand for high quality.
- (3) To implement marketing expansion strategy, realize extension of core business, reinforce and expand domestic "double high" product market and also accelerate internationalisation of the Company's operations.
- (4) To implement the development strategy of coordination for harmony, further enhance market competitiveness.
- (5) To strengthen the production team and thereby achieve new breakthroughs, gain a better control over iron refinery production, realise the stable implementation of full procedures, and accelerate the progress of achieving designed output and standard in the entire production line of the western region.
- (6) To accelerate technological innovation and through overall equipment improvement, achieve new breakthroughs with the overall upgraded equipment; to organize new projects more efficiently to ensure on schedule commencement of the newly constructed projects; to continue the improvement work in the western district project; and enhance the efforts in managing technology renovation projects.

DEVELOPMENT PLAN FOR 2007 *(continued)*

2 Operation Plan for Year 2007 *(continued)*

- (7) To improve the operation system and through further business reorganization, achieve further breakthroughs. To further elaborate on the policy reform in personnel, staffing and allocation, for improvement of human resources management, better integration of human resources system.
- (8) To strengthen its corporate governance and thereby achieve new breakthrough on the improvement of overall production efficiency.
- (9) To prepare for the construction of the the Bayuquan Iron and Steel Project and lay a good foundation when it commences production in future.

3. Capital Requirements, Utilisation Plan and Funding Sources for 2007

In connection with the acquisition of the 100% equity interests of ANSI from Angang Holding, the Company has to pay the deferred consideration for such acquisition to Angang Holding in three instalments in equal amount within three years following the date of transfer under the acquisition agreement. The deferred consideration payable by the Company in 2007 is approximately Rmb2.3 billion.

The Company's investment in the Bayuquan iron and steel project is approximately Rmb22.6 billion. The Company intends to invest Rmb12 billion in 2007. In addition, the Company will invest in technical innovation projects including Chemical Project Phase III and 1450 Cold Rolled Project, and plans to invest Rmb7 billion in 2007.

The capital required by the Company in 2007 will be mainly financed by bank loans, cash flow from operating activities and capital market financing.

Zhang Xiaogang
Chairman

Anshan City,
Liaoning Province, the PRC
10 April 2007