

1. MATERIAL LITIGATION AND ARBITRATION

The Group was not involved in any material litigation or arbitration in 2006.

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	Rmb 19,712 million	Note 1	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

Note 1: During the reporting period, the Company completed the acquisition of 100% equity interest in ANSI. All assets and liabilities of ANSI were transferred to the Company upon completion of the acquisition in January 2006 and ANSI applied for deregistration thereafter. As a result, the operating profit of ANSI for the year ended 31 December 2006 was combined to in the Company's financial statements.

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 2006, the Company purchased a portion 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) Related Parties and Related Party Transactions

Unit: Rmb million

Name of Related Parties	Sales of products and provision of services to related parties		Purchase of products and receipt of services from related parties	
	Transaction Amount	As a percentage of the contractual amount of similar transactions (%)	Transaction Amount	As a percentage of the contractual amount of similar transactions (%)
Angang Group International Trade Corporation ("AITC")	1,306	2.41%	201	0.45%
Angang Heavy Machinery Company Limited	264	0.49%	493	1.11%
AISC Construction Company	241	0.44%	1,823	4.09%
AISC Refractory Material Company	209	0.39%	880	1.97%
AISC Anshan Mining Company	128	0.24%	7,833	17.56%
Angang Steel Wire Company Limited	97	0.18%	16	0.04%
AISC No. 2 Power Generating Plant	57	0.11%	1,031	2.31%
AISC Industrial Development Company	37	0.07%	413	0.93%
AISC Gongchangling Mining Company Auditing Centre of AISC Planning and Finance Department	24	0.04%	3,169	7.10%
AISC Housing Development Company	18	0.03%	9	0.02%
AISC Railway Transport Company	16	0.03%	2	0.00%
AISC Slag Development Company	8	0.01%	477	1.07%
Anshan Jidong Cement Co., Ltd.	8	0.01%	182	0.41%
AISC Railway Equipment Inspection and Repair Company	5	0.01%	49	0.11%
Angang Real Estate Management and Development Department	5	0.01%	4	0.01%
AISC Design & Research Institute	4	0.01%	55	0.12%
AISC Production Coordination Center	1	0.00%	87	0.20%
AISC Cooperation Center of Equipment Inspection & Repair Co.			582	1.30%
			401	0.90%

3. MATERIAL CONNECTED TRANSACTIONS (continued)

(1) Continuing connected transactions (continued)

(1) Related Parties and Related Party Transactions (continued)

Unit: Rmb million

Name of Related Parties	Sales of products and provision of services to related parties		Purchase of products and receipt of services from related parties	
	Transaction Amount	As a percentage of the contractual amount of similar transactions (%)	Transaction Amount	As a percentage of the contractual amount of similar transactions (%)
AISC Automobile Transportation Co. Ltd.			147	0.33%
Angang Electricity Company			119	0.27%
Angang Group Financial Company Limited			99	0.22%
AISC Living Logistics Cooperation Center			86	0.19%
AISC Automation Company			86	0.19%
AISC Mechanized Loading & Unloading Company	1	0.00%	74	0.17%
Dalian Huayelian Automation Company Limited			33	0.07%
AISC Business Automobile Service Centre			17	0.04%
AISC Telecommunication Plant			15	0.03%
AISC Railway Construction and Maintenance Company			7	0.02%
AISC Staff Service Company			4	0.01%
AISC Reception Service			3	0.01%
Angang Daily			1	0.00%
AISC Production Surveillance Centre			1	0.00%
AISC Occupational Health Institute			1	0.00%
Total	2,429	4.49%	18,396	41.24%

Among them: During the reporting period, the related transactions of products sold or services provided by the Company to controlling shareholders and its subsidiaries amounted to Rmb2,429 million.

3. MATERIAL CONNECTED TRANSACTIONS (continued)

(1) Continuing connected transactions (continued)

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

Item	Pricing principle	Price	Amount (Rmb million)	As a percentage of the contractual amount of similar transactions (%)
Iron concentrate	Not higher than the average import price reported to the PRC customs in the preceding half-year reporting period and the railway transportation cost from Baiyuquan Port to the Company as well as adjustment subject to the grade of the iron concentrate which was based on the average weighted grade of the iron concentrate imported by the Company in the preceding half-year. For every 1 percentage point increase or decrease in the grade of iron concentrate, the price will be increased or decreased by Rmb10 / tonne. Angang Holding pledged to give discount after the highest price is confirmed. The discount rate is 10% of average import price of iron concentrate reported to the PRC custom in the preceding half-year.	Rmb520 /tonne	5,902	74.01
Pellet	Based on the average price of pellets purchased by the Company from independent third parties in the preceding half-year reported period. For every 1 percentage point increase or decrease in the grade of iron concentrate, the price will be increased or decreased by Rmb10 / tonne.	Rmb724 / tonne	3,155	99.18

3. MATERIAL CONNECTED TRANSACTIONS *(continued)*

(1) Continuing connected transactions *(continued)*

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

Item	Pricing principle	Price	Amount (Rmb million)	As a percentage of the contractual amount of similar transactions (%)
Sinter ore	The price of iron concentrate plus processing cost of the supplier in the preceding half-year reported period plus 10% gross profit (of which, the processing cost is not higher than that of similar products produced by the Company)	Rmb583 / tonne	1,792	99.31
Scrap steel	Market price	—	200	97.76
Billets		—	135	98.76
Electricity	State price	Rmb0.46 / kilowatt	1,031	28.79
Lime stone	Not higher than the average of the sales prices for the preceding month offered by the relevant member of Angang Holding to the independent third parties	Rmb56 / tonne	63	100
Lime powder		Rmb320 / tonne	718	98.93
Refractory materials		—	161	20.90
Spare parts and tools		—	551	13.68
Total			13,708	

3. MATERIAL CONNECTED TRANSACTIONS (continued)

(1) Continuing connected transactions (continued)

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

Item	Pricing principle	Amount (Rmb million)	As a percentage of the contractual amount of similar transactions (%)
Railway transportation	State price	474	73.28
Road transportation	Market price	225	84.44
Agency services: — Import of raw materials, equipment, components and auxiliary material — Export of products	1.5% as commission (not more than the commissions levied by the main state import and export companies of China)	189	100
Repair and maintenance of equipment	Market price	752	49.65
Design and engineering services		2,100	31.92
Education facilities, vocational education, on-the-job training, translation services		—	—
Company vehicle services		16	98.21
Charge for arrangement of business and meeting		—	—
Afforesting services		33	89.72
Newspaper and other publications	State price	2	44.53
Telecommunication business and service		14	66.51
Environmental monitoring service		2	94.48
Supply of heat		2	9.93
Production coordination and maintenance	Cost of service and material	687	88.53
Life coordination and maintenance	based on market price	93	94.06
Total		4,589	
Interest on capital for settlement	State price	5	34.19
Loans and discounted interest	State price	94	10.57

3. MATERIAL CONNECTED TRANSACTIONS (continued)

(1) Continuing connected transactions (continued)

3) Sale of products and provision of services to connected parties

Item	Pricing principle	Price	Amount (Rmb million)	As a percentage of the contractual amount of similar transactions (%)
Cold rolled sheets	The average selling price of the preceding month between the Group and the independent third parties; For provision of new products developed for the other party, the price is based on the market price if the market price exists; if the market price does not exist, the price is based on the principle of the cost plus a reasonable profit, while the reasonable profit rate is not higher than the average gross profit margin of related products provided by relevant member of companies.	Rmb3,352 / tonne	675	4.97
Thick plates		Rmb3,274 / tonne	248	5.15
Wire rods		Rmb2,920 / tonne	100	3.50
Large steel products		Rmb3,542 / tonne	12	0.48
Hot rolled plates		Rmb2,808 / tonne	265	1.48
Medium plates		Rmb3,050 / tonne	215	6.49
Galvanized steel sheets		Rmb4,038 / tonne	156	4.17
Colour coating sheet		Rmb5,152 / tonne	10	2.90
Medium section steel products		Rmb2,832 / tonne	20	6.41
Small section steel products		Rmb2,209 / tonne	5	4.38
Seamless steel pipe		Rmb3,523 / tonne	45	1.80
Molten iron		Rmb1,805 / tonne	51	100
Coke		Rmb582 / tonne	57	94.94
Chemical byproduct		—	26	2.89
Scrap steel material	Market price	—	94	85.16
Abandoned material		—	56	52.74
Total			2,035	

Item	Pricing principle	Price	Amount (Rmb million)	As a percentage of the contractual amount of similar transactions (%)
New water	State price	Rmb2.51 / tonne	39	95.47
Clean recycled water	Production cost plus a gross profit margin of 5%	Rmb1.69 / tonne	73	100
Soft water		Rmb2.40 / tonne	0	100
Gas		Rmb42.76 / GJ	198	79.46
Blast furnace gas		Rmb13.50 / GJ	26	99.95
Steam		Rmb39.50 / GJ	32	97.43
Nitrogen		Rmb0.25 / M3	0	5.61
Oxygen		Rmb0.76 / M3	3	15.26
Argon		Rmb1.22 / M3	1	4.86
Compressed air		Rmb0.15 / M3	2	100
Unused hot water		Rmb6.34 / GJ	14	76.68
Product testing service	Market price	—	5	5.52
Transportation service		—	1	85.27
Total			394	

3. MATERIAL CONNECTED TRANSACTIONS (continued)

(1) Continuing connected transactions (continued)

- 4) sales of products to jointly controlled entities

Item	Amount (Rmb million)	As a percentage of the contractual amount of similar transactions (%)
Cold hard coils	1,449	14.14

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

Explanation as to the necessity and continuity of connected transactions: production of steel and iron is on a continuous basis. The Company relies on the supply of raw materials from Angang Holding and its subsidiaries and a portion of products of the Company were sold to Angang Holding and its subsidiaries. Therefore, the above continuing connected transactions are necessary to ensure smooth operation and production 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 (1) in the ordinary and usual course of business of the Company; (2) on normal commercial terms or on the terms not less favourable to the terms offered by independent third parties; or on the terms which are fair and reasonable as far as the shareholders of the Company are concerned as no comparable reference is available; (3) in accordance with the terms of the Materials and Services Supply Agreement which are fair and reasonable and in the interest of the Company and its shareholders as a whole; and (4) the total amount of continuing connected transactions of the Company for year 2006 did not exceed relevant caps applicable to the types of such transactions, as set out in the Materials and Services Supply Agreement which has been approved by the general meetings.

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. 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.

3. MATERIAL CONNECTED TRANSACTIONS *(continued)*

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

As at the valuation date being 30 June 2005, the book value and the appraised value of the acquired assets were Rmb14,607 million and Rmb19,692 million respectively. The consideration for the transfer was determined at Rmb19,712 million.

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.

Terms of payment for acquisition: The Company issued 2,970 million tradable A shares to Angang Holding at the price of Rmb4.29 per share, totalling Rmb12,741.3 million, as part of the consideration for acquisition of the entire equity interest in ANSI. Rest of the payments will be deferred and paid by the Company with interest in three equal instalments within three years following the completion of the acquisition. Interest will be payable on the deferred consideration payment at the then prevailing interest rate quoted by the People's Bank of China and will be payable together with the relevant annual instalment payment of the deferred consideration payment.

(3) Guarantee provided from connected parties to the Company

As at 31 December 2006, Rmb4,003 million 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 commitment

In October 2002, a jointly controlled entity of the Company, ANSC-TKS Dalian, obtained a syndicated loan of Rmb1,080 million for the construction of production line. The syndicated loan is secured by the land use rights, construction in progress, property, plant and equipment and trade receivables of ANSC-TKS Dalian at carrying amount of Rmb1,099 million at 31 December 2006.

The Company pledged its equity interest in ANSC-TKS Dalian to secure the performance of the obligations of ANSC-TKS Dalian under the agreement of the syndicated loan.

Pursuant to the funding supporting agreement dated 22 October 2002, the Company committed to finance ANSC-TKS Dalian if it does not have sufficient funds to complete the construction of the galvanising plant, repay the syndicated loan or finance the operations. The commitment is limited to US\$8 million and will be reduced to US\$4 million after the tenth repayment date.

As 31 December 2006, the balance of syndicated loan amounted to Rmb608 million, among which Rmb304 million has been recognised in the bank loan balance of the Group based on its proportionate interest in ANSC-TKS Dalian.

4. MATERIAL CONTRACTS AND THEIR IMPLEMENTATION (continued)

- (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 special 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 deposited to Angang Holding's account.
 - 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 fulfill the whole or part of its undertakings.
 - 5) Angang Holding will arrange for the deposit of the relevant shares of the Company 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").

During the reporting period, no breach of undertakings by Angang Holding was found.

6. SUBSEQUENT EVENTS

- (1) On 2 February 2007, the fourth Board of Directors of the Company convened its sixth meeting, during which the following matters were considered and approved:
 - i) Approval of the resignation of Mr. Liu Jie from his office as Director and Chairman of the Company.
 - ii) Appointment of Mr. Tang Fuping, the Vice Chairman of the Company as the temporary acting chairman until a new chairman is elected.
 - iii) Election of Mr. Zhang Xiaogang as a candidate for executive Director of the Company and submission of this matter to the next general meeting.
 - iv) Approval of the convening of the 2007 First Extraordinary General Meeting on 26 March 2007.
- (2) On 28 February 2007, the Proposal in Relation to Disposal of Certain Fixed Assets was considered and approved at the seventh meeting of the fourth Board of Directors of the Company.
- (3) On 26 March 2007, Mr. Zhang Xiaogang was elected as an executive Director of the Company at the Company's 2007 First Extraordinary General Meeting.
- (4) The 8th meeting of the fourth Board of Directors of the Company was held on 26 March 2007, during which the following matters were considered and approved:
 - i) Election of Mr. Zhang Xiaogang as Chairman of the fourth Board of Directors of the Company.
 - ii) Approval of the resolution on adjustment to the special committee of the Board of Directors of the Company.
 - iii) Approval of the resolution regarding agreement to invest in the construction of Chaoyang Steel Project by Anshan Iron & Steel Group Complex.

6. SUBSEQUENT EVENTS *(continued)*

- (5) Possible Changes in Accounting Policies and Accounting Estimates after adoption of the New Accounting Standards for Business Enterprises and their Impacts on the Company's Financial Position and Operating Results

- (1) Impact of change in consolidation scope

In accordance with Item 8 of "Accounting Standards for Business Enterprises No. 2 - Long-term equity investments", the Company's jointly controlled entities shall be accounted for by the equity method. In accordance with Item 6 of "Accounting Standards for Business Enterprises No. 33 - Consolidated Financial Statements", the scope of the consolidated financial statements shall be determined on the basis of control, and as confirmed in Article I (3) of the practice and guidance notes to "Accounting Standards for Business Enterprises No. 33 - Consolidated Financial Statements", the jointly controlled entities shall not be included in the consolidation scope. Therefore, the four jointly controlled entities of the Company will not be included in the consolidated financial statements. This will lead to a decrease in income from principal operations, cost of sales and total assets in the consolidated financial statements. Based on the data for 2006 calculated in accordance with new standards, income from principal operations, cost of sales and total assets of will be reduced by Rmb397 million, Rmb289 million, and Rmb400 million respectively.

- (2) Main Impact of Changes in Other Accounting Policies

Capitalization of general loan interest: In accordance with the relevant provisions of "Accounting Standards for Business Enterprises No. 17 - Borrowing Costs", where funds are borrowed generally and used for acquiring a fixed asset that is qualified for capitalisation, their borrowing cost is capitalised based on stipulated method. Based on the data for 2006 calculated in accordance with new standards, the Company's construction cost and total profits are estimated to increase by Rmb186 million respectively.

Accounting of income tax: Under "Accounting Standards for Business Enterprises No. 18 - Income Tax", the Company's income tax shall be accounted by the balance sheet liability method instead of taxes payable method, the Company's income tax accounting for the recognition of deferred tax assets and deferred tax liabilities, which thus impacts on the change in assets, liabilities and net profits. Upon a recalculation of the data for 2006 under the new standards, the Company's deferred tax assets will increase by Rmb132 million while the opening undistributed profits and net profits for the year will increase by Rmb86 million and Rmb46 million respectively and the Company's deferred income tax liabilities will increase by Rmb78 million while the opening undistributed profits and net profit for the year will decrease by Rmb22 million and Rmb56 million respectively.