

ALUMINUM CORP OF CHINA LTD  
Form 20-F  
May 31, 2006

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

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FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF  
THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

For the fiscal year ended December 31, 2005

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 001-15264

(Exact name of Registrant as specified in its charter)

ALUMINUM CORPORATION OF CHINA LIMITED  
(Translation of Registrant's name into English)

People's Republic of China  
(Jurisdiction of incorporation or organization)

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No. 12B Fuxing Road, Haidian District, Beijing, People's Republic of China 100814  
(Address of Principal Executive Offices)

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Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each Class  
**American Depositary Shares,  
each representing 100 H Shares  
Class H Ordinary Shares**

Name of Each Exchange on which Registered  
**New York Stock Exchange, Inc.**

**The Stock Exchange of Hong Kong Limited**

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None  
(Title of Class)

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Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None  
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2005:

|  |               |
|--|---------------|
| Domestic Shares, par value RMB1.00 per share   | 7,750,010,185 |
| H Shares, par value RMB1.00 per share<br>(including 425,934,600 H Shares in the form of American<br>Depository Shares) | 3,299,865,968 |

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

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### FORWARD-LOOKING STATEMENTS

Certain information contained in this annual report, which does not relate to historical financial information may be deemed to constitute forward-looking statements. The words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "believe" or similar expressions are intended to identify "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, or the Exchange Act. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results and those presently anticipated or projected. We wish to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. These forward-looking statements include, without limitation, statements relating to:

- \* future prices and demand for our products;
- \* future PRC tariff levels for alumina and primary aluminum;
- \* sales of our products;
- \* the amount and nature of, and potential for, future development;

- \* production, consumption and demand forecasts of bauxite, alumina and primary aluminum;
- \* expansion, consolidation or other trends in the primary aluminum industry;
- \* the effectiveness of our cost-saving measures;
- \* future expansion plans and capital expenditures;
- \* expected production capacity increases;
- \* competition;
- \* changes in legislation, regulations and policies;
- \* estimates of proven and probable bauxite reserves;
- \* our research and development plans; and
- \* our dividend policy.

These statements are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in particular circumstances. However, whether actual results and developments will meet our expectations and predictions depends on a number of risks and uncertainties, which could cause actual results to differ materially from our expectations. These risks are more fully described in the section entitled "Item 3. Key Information - Risk Factors."

Consequently, all of the forward-looking statements made in this annual report are qualified by these cautionary statements. We cannot assure you that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected effect on us or our business or operations.

Unless otherwise indicated, statistical and market trend information, as well as statements related to market position and competitive data, are based on our internal statistics and/or estimates gathered from our own research and/or various publicly available sources.

#### CERTAIN TERMS AND CONVENTIONS

Translations of amounts in this annual report from Renminbi into U.S. dollars and vice versa have been made at the rate of RMB8.0702 to US\$1.00, which was the noon buying rate in the New York City for cable transfers in Renminbi per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2005. You should not construe these translations as representations that the Renminbi amounts actually represent U.S. dollar amounts or could be converted into U.S. dollars at that rate or at all. See "Item 3. Key Information - Exchange Rate Information" for information regarding the noon buying rates from January 1, 2001 through February 28, 2006.

We publish our financial statements in Renminbi.

Various amounts and percentages set out in this document have been rounded and, accordingly, are not the exact figures and may not total.

Unless the context otherwise requires, references in this annual report to:

"A Share"

are to the domestic ordinary shares, with a nominal value of RMB1.00 each;

"Alcoa"

are to Alcoa International (Asia) Ltd., a company incorporated under the laws of Hong Kong;

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"alumina-to-silica ratio"

are to the ratio of alumina to silica by weight found in bauxite;

"aluminum fabrication"

are to the process of taking primary aluminum and converting it into plates, strips, bars, tubes, etc. which can be further converted into consumer or other end products;

"bauxite"

are to mineral ores whose composition is principally alumina;

"Bayer process"

are to a refining process employed to extract alumina from ground bauxite with a strong solution of caustic soda at an elevated temperature;

"brownfield development"

are to development projects at existing plants or facilities;

"CCB"

are to China Construction Bank, a PRC state-owned bank established pursuant to PRC government approval;

"Chalco,"

"our company," "we," "our" and "us" are to Aluminum Corporation of China Limited and its subsidiaries and, where appropriate, to its predecessors;

"China"

and the "**PRC**" are to the People's Republic of China, excluding for purposes of this annual report, Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan;

"China Cinda"

are to China Cinda Asset Management Corporation, a PRC state-owned financial enterprise established pursuant to PRC government approval;

"China Development Bank"

are to a PRC state-owned bank established pursuant to PRC government approval;

"Chinalco"

and the "**ultimate holding company**" are to our controlling shareholder, Aluminum Corporation of China and its subsidiaries (other than Chalco and its subsidiaries) and, where appropriate, to its predecessors;

"China Orient"

are to China Orient Asset Management Corporation, a PRC state-owned financial enterprise established pursuant to PRC government approval;

"diasporite"

are to a mineral of bauxite deposits with the chemical composition of  $Al(2)O(3) * H(2)O$ ;

"Exchange Act"

are to The Securities Exchange Act of 1934, as amended;

"fabricating ingots"

are to the primary aluminum or aluminum alloy ingots that may be used directly in the aluminum fabrication process;

"gibbsitic"

are to a mineral of bauxite deposits with the chemical composition of  $Al(2)O(3) * 3H(2)O$ ;

"greenfield investment"

are to investment projects to construct new plants or facilities;

"Guangxi Investment"

are to Guangxi Investment (Group) Co., Ltd. formerly known as Guangxi Development and Investment Co., Ltd., a PRC state-owned enterprise established in the PRC and one of our promoters and shareholders;

"Guizhou Development"

are to Guizhou Provincial Materials Development and Investment Corporation, a PRC state-owned enterprise established in the PRC and one of our promoters and shareholders;

"HK\$"

and "**HK dollars**" are to Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the PRC;

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"H Shares"

are to overseas listed foreign shares of par value RMB1.00 each, which are listed on the Hong Kong Stock Exchange and subscribed for and traded in HK dollars;

"Hong Kong Stock Exchange"

are to The Stock Exchange of Hong Kong Limited;

"hybrid Bayer-sintering process"

are to the refining process developed in China which involves the application of the Bayer process and the sintering process in combination to extract alumina from bauxite more efficiently;

"ingots"

and "**remelt ingots**" are to the international standard primary metal products from an aluminum smelter. Remelt ingots are the aluminum ingots generally remelted before being cast into alloyed products or used for aluminum fabrication;

"kA"

are to kiloamperes, a unit for measuring the strength of an electric current, with one kiloampere equal to 1,000 amperes;

"kWh"

are to kilowatt hours, a unit of electrical power, meaning one kilowatt of power for one hour;

"Lanzhou Aluminum"

are to Lanzhou Aluminum Corporation Limited, our associated company that is a joint stock limited company established under the PRC law, whose A shares are traded on the Shanghai Stock Exchange;

"Listing Rules"

are to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (as amended from time to time);

"NYSE"

are to New York Stock Exchange;

"ore-dressing Bayer process"

are to a refining process we developed which involves the treatment of bauxite in order to increase its alumina-to-silica ratio so as to allow the Bayer process to then be applied;

"provinces"

are to provinces and to provincial-level autonomous regions and municipalities in China, excluding Hong Kong Special Administrative Region, Macao Special Administrative Region, and Taiwan, which are directly under the supervision of the central PRC government;

"refining"

are to the chemical process required to produce alumina from bauxite;

"RMB"

are to Renminbi, the lawful currency of the PRC;

"NDRC"

are to China National Development and Reform Commission;

"SASAC"

are to State-owned Assets Supervision and Administration Commission of the State Council;

"Shandong Aluminum"

are to Shandong Aluminum Industry Co., Ltd., our subsidiary that is a joint stock limited company established under PRC law, whose A shares are traded on the Shanghai Stock Exchange;

"sintering process"

are to a refining process employed to extract alumina from ground bauxite by mixing with supplemental materials and burning in a coal fired kiln;

"smelting"

are to the electrolytic process required to produce molten aluminum from alumina;

"tonne"



are to the metric ton, a unit of weight, with one metric ton equal to 1,000 kilograms or 2,204.6 pounds;

"US\$"

are to U.S. dollars, the lawful currency of the United States of America; and

"WTO"

are to World Trade Organization.

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## PART I

### ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

### ITEM 3. KEY INFORMATION

#### SELECTED FINANCIAL DATA

##### Historical Financial Information

The following tables present our summary income statement data and cash flow data for the years ended December 31, 2001, 2002, 2003, 2004 and 2005; and the summary balance sheet data as of December 31, 2001, 2002, 2003, 2004 and 2005. The summary balance sheet data as of December 31, 2004 and 2005 and income statement and cash flow data for the years ended December 31, 2003, 2004 and 2005 have been derived from, and should be read in conjunction with, the audited financial statements included elsewhere in this report. The summary balance sheet data as of December 31, 2001, 2002 and 2003 and income statement and cash flow data for the years ended December 31, 2001 and 2002 have been derived from our financial statements as of and for such dates, which are not included in this annual report. We have changed certain of our accounting policies following the adoption of the new/revised Hong Kong Financial Reporting Standards, or "HKFRS", and Hong Kong Accounting Standards, or "HKAS", collectively referred to as "HK GAAP" or "HKFRSs", effective for accounting periods commencing on or after January 1, 2005. As a result, we have reclassified/restated certain income statement and balance sheet data for the years ended December 31, 2001, 2002, 2003 and 2004 as required in accordance with the relevant requirements. See Note 2(a) to our audited financial statements for the changes to our accounting policies and the effect of adopting HKFRSs. Unless otherwise indicated, the financial statements are prepared and presented in accordance with accounting principles generally accepted in Hong Kong, also known as "HK GAAP" or HKFRSs. For a reconciliation of our net income and equity under HK GAAP to generally accepted accounting principles in the United States, also known as "U.S. GAAP," see Note 33 to our audited financial statements. For more information, please see "Item 5 -

## Operating and Financial Review and Prospects - U.S. GAAP Reconciliation".

This financial information reflects the reorganization of China's aluminum industry, following which our company was established and has been prepared as if our current structure had been in existence throughout the relevant periods. In addition, the financial information through June 30, 2001 also includes various other operations retained by Chinalco that were historically associated with Chinalco's alumina and primary aluminum operations. The results of such businesses are not reflected in our statements of income for periods ending after June 30, 2001. Similarly, such businesses and their related balance sheet data are not reflected in our balance sheet as of any date after June 30, 2001. In addition, the financial information included in this annual report may not necessarily reflect our operating performance, financial position and cash flows in the future or what they would have been had we been a separate, stand-alone entity during all of the periods presented.

|  | Years Ended December 31,                          |                                   |                                   |                                   |      |                    |
|--|---|-----------------------------------|-----------------------------------|-----------------------------------|------|--------------------|
|  | 2001  | 2002                              | 2003                              | 2004                              | 2005 | 2005               |
|  | RMB<br>(restated <sup>(1)</sup> )                 | RMB<br>(restated <sup>(1)</sup> ) | RMB<br>(restated <sup>(1)</sup> ) | RMB<br>(restated <sup>(1)</sup> ) | RMB  | USD <sup>(2)</sup> |
|  | (in thousands, except per share and per ADS data) |                                   |                                   |                                   |      |                    |

## INCOME STATEMENT

## DATA:

## HK GAAP

|                     |            |            |            |            |            |           |
|---------------------|------------|------------|------------|------------|------------|-----------|
| Turnover            | 15,987,913 | 16,792,766 | 23,245,858 | 32,313,076 | 37,110,319 | 4,598,439 |
| Cost of goods sold  | 11,661,992 | 13,368,700 | 16,460,283 | 21,503,250 | 24,822,109 | 3,075,774 |
| Gross profit        | 4,325,921  | 3,424,066  | 6,785,575  | 10,809,826 | 12,288,210 | 1,522,665 |
| Other revenues, net | 160,255    | 75,285     | 50,642     | 101,293    | 116,441    | 14,429    |

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|                                     |           |         |           |           |           |         |
|-------------------------------------|-----------|---------|-----------|-----------|-----------|---------|
| Selling and distribution expenses   | 335,227   | 501,829 | 549,432   | 647,532   | 686,717   | 85,093  |
| General and administrative expenses | 1,074,411 | 733,803 | 1,047,461 | 1,220,902 | 1,523,317 | 188,758 |
| Research and development expenses   | 144,048   | 131,941 | 173,359   | 132,635   | 113,381   | 14,049  |

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|   |           |           |           |           |            |           |
|---|-----------|-----------|-----------|-----------|------------|-----------|
| Operating income                                      | 2,932,490 | 2,131,778 | 5,065,965 | 8,910,050 | 10,081,236 | 1,249,194 |
| Finance costs   | 444,548   | 476,100   | 439,897   | 109,948   | 366,908    | 45,465    |
|   | <hr/>     | <hr/>     | <hr/>     | <hr/>     | <hr/>      | <hr/>     |
| Operating income after finance costs                  | 2,487,942 | 1,655,678 | 4,626,068 | 8,800,102 | 9,714,328  | 1,203,729 |
| Share of (loss)/income of jointly controlled entities | (125)     | (254)     | 1,193     | (3,953)   | 372        | 46        |
| Share of income of an associated company              | -         | -         | -         | -         | 26,947     | 3,339     |
|   | <hr/>     | <hr/>     | <hr/>     | <hr/>     | <hr/>      | <hr/>     |
| Income before income tax                              | 2,487,817 | 1,655,424 | 4,627,261 | 8,796,149 | 9,741,647  | 1,207,114 |
| Income taxes  | 833,500   | 190,921   | 920,159   | 2,161,086 | 2,495,213  | 309,189   |
|   | <hr/>     | <hr/>     | <hr/>     | <hr/>     | <hr/>      | <hr/>     |
| Income after income tax                               | 1,654,317 | 1,464,503 | 3,707,102 | 6,635,063 | 7,246,434  | 897,925   |
|   | <hr/>     | <hr/>     | <hr/>     | <hr/>     | <hr/>      | <hr/>     |
| Attributable to:                                      |           |           |           |           |            |           |
| Equity holders of the Company                         | 1,590,604 | 1,417,681 | 3,549,732 | 6,391,523 | 7,022,422  | 870,167   |
| Minority interest                                     | 63,713    | 46,822    | 157,370   | 243,540   | 224,012    | 27,758    |
|   | <hr/>     | <hr/>     | <hr/>     | <hr/>     | <hr/>      | <hr/>     |
|   | 1,654,317 | 1,464,503 | 3,707,102 | 6,635,063 | 7,246,434  | 897,925   |
|   | <hr/>     | <hr/>     | <hr/>     | <hr/>     | <hr/>      | <hr/>     |
| Dividends   | 178,498   | 472,496   | 1,060,788 | 1,944,778 | 2,364,673  | 293,013   |
| Basic and diluted net earnings per share              | 0.19      | 0.13      | 0.34      | 0.58      | 0.64       | 0.08      |
| Basic and diluted net earnings per ADS                | 18.55     | 13.35     | 33.83     | 57.89     | 63.55      | 7.87      |
|   | <hr/>     | <hr/>     | <hr/>     | <hr/>     | <hr/>      | <hr/>     |
| U.S. GAAP   |           |           |           |           |            |           |
| Operating income                                      | 3,071,545 | 2,434,333 | 5,368,520 | 9,214,004 | 10,360,542 | 1,283,803 |
| Net income  | 1,727,763 | 1,493,582 | 3,797,175 | 6,622,916 | 7,229,167  | 895,785   |
| Basic and diluted net earnings per share              | 0.22      | 0.14      | 0.36      | 0.60      | 0.65       | 0.08      |

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|  |       |       |       |       |       |      |
|--|-------|-------|-------|-------|-------|------|
| Basic and diluted net earnings per ADS | 22.00 | 14.00 | 36.16 | 59.99 | 65.42 | 8.11 |
|--|-------|-------|-------|-------|-------|------|

Segment Operating Income (Loss):

HK GAAP

|                              |                  |                  |                  |                  |                   |                  |
|------------------------------|------------------|------------------|------------------|------------------|-------------------|------------------|
| Alumina                      | 2,095,769        | 1,388,712        | 5,099,164        | 9,333,353        | 10,312,306        | 1,277,825        |
| Primary aluminum             | 1,217,439        | 1,143,658        | 434,862          | (43,875)         | 231,940           | 28,741           |
| Corporate and other services | (25,680)         | (57,933)         | (78,337)         | (76,906)         | (48,438)          | (6,002)          |
| Unallocated                  | (330,649)        | (311,729)        | (359,443)        | (281,431)        | (306,604)         | (37,992)         |
| Inter-segment elimination    | (24,389)         | (30,930)         | (30,281)         | (21,091)         | (107,968)         | (13,378)         |
|                              | <u>2,932,490</u> | <u>2,131,778</u> | <u>5,065,965</u> | <u>8,910,050</u> | <u>10,081,236</u> | <u>1,249,194</u> |
| Total operating income       |                  |                  |                  |                  |                   |                  |

Years Ended December 31,

|  | 2001                       | 2002                       | 2003                       | 2004                       | 2005 | 2005               |
|--|----------------------------|----------------------------|----------------------------|----------------------------|------|--------------------|
|  | RMB                        | RMB                        | RMB                        | RMB                        | RMB  | USD <sup>(2)</sup> |
|  | (restated <sup>(1)</sup> ) | (restated <sup>(1)</sup> ) | (restated <sup>(1)</sup> ) | (restated <sup>(1)</sup> ) |      |                    |
|  | (in thousands)             |                            |                            |                            |      |                    |

BALANCE SHEET DATA

HK GAAP

|   |                   |                   |                   |                   |                   |                  |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|------------------|
| Bank balances and cash  | 4,495,922         | 2,342,254         | 2,596,440         | 6,223,763         | 7,597,727         | 941,455          |
| Total current assets  | 12,013,524        | 8,557,975         | 8,638,566         | 14,356,588        | 16,962,670        | 2,101,891        |
| Total non-current assets  | 21,689,959        | 23,691,565        | 26,768,304        | 35,201,481        | 42,047,209        | 5,210,182        |
|   | <u>33,703,483</u> | <u>32,249,540</u> | <u>35,406,870</u> | <u>49,558,069</u> | <u>59,009,879</u> | <u>7,312,073</u> |
| Total assets  |                   |                   |                   |                   |                   |                  |
| Total short-term loans (including current portion of long-term loans and bonds) | 5,477,549         | 5,103,274         | 4,617,130         | 4,522,568         | 3,732,978         | 462,563          |

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|   |            |            |            |            |            |            |
|---|------------|------------|------------|------------|------------|------------|
| Short-term bonds  | -          | -          | -          | -          | 1,970,840  | 244,212    |
| Total long-term loans<br>(excluding<br>current portion of<br>long-term loans) | 5,391,861  | 4,949,298  | 5,412,628  | 7,391,663  | 9,690,493  | 1,200,775  |
| Equity attributable to the<br>shareholders                                    | 14,325,376 | 15,769,314 | 18,985,410 | 27,566,795 | 32,644,439 | 4,045,060  |
| U.S. GAAP   |            |            |            |            |            |            |
| Total assets  | 31,113,431 | 29,770,888 | 33,244,024 | 47,260,826 | 55,525,980 | 6,880,372  |
| Total long-term loans<br>(excluding<br>current portion of<br>long-term loans) | 5,391,861  | 4,949,298  | 5,412,628  | 7,391,663  | 9,690,493  | 1,200,775  |
| Shareholders' equity  | 11,671,874 | 13,170,960 | 16,634,499 | 25,436,606 | 30,720,995 | 3,806,391  |
| Number of shares  | 8,122,482  | 10,495,863 | 10,499,900 | 11,040,835 | 11,049,876 | 11,049,876 |

Years Ended December 31,

|  | 2001                       | 2002                       | 2003                       | 2004                       | 2005 | 2005               |
|--|----------------------------|----------------------------|----------------------------|----------------------------|------|--------------------|
|  | RMB                        | RMB                        | RMB                        | RMB                        | RMB  | USD <sup>(2)</sup> |
|  | (restated <sup>(1)</sup> ) | (restated <sup>(1)</sup> ) | (restated <sup>(1)</sup> ) | (restated <sup>(1)</sup> ) |      |                    |
|  | (in thousands)             |                            |                            |                            |      |                    |

Other Financial Data:

HK GAAP

Net cash generated from

|                      |           |           |           |           |           |           |
|----------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| operating activities | 1,940,969 | 2,671,759 | 6,002,506 | 8,265,203 | 8,590,208 | 1,064,436 |
|----------------------|-----------|-----------|-----------|-----------|-----------|-----------|

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|  |             |             |             |             |             |             |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Net cash used in investing<br>activities | (2,575,617) | (3,780,812) | (5,395,259) | (9,055,830) | (8,821,208) | (1,093,059) |
| Net cash generated from (used<br>in)     |             |             |             |             |             |             |
| financing activities                     | 3,108,087   | (868,513)   | (306,892)   | 4,417,950   | 1,604,964   | 198,875     |
| Capital expenditure                      |             |             |             |             |             |             |
| Alumina                                  | 2,610,109   | 3,357,576   | 4,013,419   | 5,398,997   | 5,369,606   | 665,362     |
| Primary aluminum                         | 793,096     | 865,360     | 1,635,826   | 5,257,407   | 2,793,892   | 346,199     |

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|                              |           |           |           |            |           |           |
|------------------------------|-----------|-----------|-----------|------------|-----------|-----------|
| Corporate and other services | 27,638    | 49,304    | 47,259    | 76,841     | 124,811   | 15,466    |
| Unallocated                  | 177,657   | 29,930    | 33,030    | 208,411    | 129,623   | 16,062    |
| Total capital expenditure    | 3,608,500 | 4,302,170 | 5,729,534 | 10,941,656 | 8,417,932 | 1,043,089 |

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- (1) Restatement of the financial information for the years ended December 31, 2001, 2002, 2003, and 2004 has been made pursuant to the adoption of the new/revised standards and interpretation of HKFRSs as set forth in Note 2(a) to our audited financial statements.
- (2) Translated solely for the convenience of the reader into U.S. dollars at the noon buying rate prevailing on December 31, 2005 of US\$1.00 to RMB8.0702.

Exchange Rate Information

The following table sets forth, for the periods indicated, the noon buying rate in New York for cable transfers payable in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York in Renminbi per U.S. dollar:

| Period               | Noon Buying Rate            |                        |        |        |
|----------------------|-----------------------------|------------------------|--------|--------|
|                      | Period End                  | Average <sup>(1)</sup> | High   | Low    |
|                      | (expressed in RMB per US\$) |                        |        |        |
| 2000                 | 8.2774                      | 8.2784                 | 8.2799 | 8.2768 |
| 2001                 | 8.2766                      | 8.2772                 | 8.2786 | 8.2676 |
| 2002                 | 8.2800                      | 8.2772                 | 8.2800 | 8.2699 |
| 2003                 | 8.2767                      | 8.2771                 | 8.2800 | 8.2765 |
| 2004                 | 8.2765                      | 8.2768                 | 8.2773 | 8.2764 |
| 2005                 | 8.0702                      | 8.1940                 | 8.2765 | 8.0702 |
| November             | 8.0804                      | 8.0840                 | 8.0877 | 8.0796 |
| December             | 8.2765                      | 8.2765                 | 8.2767 | 8.2765 |
| 2006                 |                             |                        |        |        |
| January              | 8.0608                      | 8.0654                 | 8.0702 | 8.0040 |
| February             | 8.0415                      | 8.0512                 | 8.0616 | 8.0415 |
| March                | 8.0167                      | 8.0349                 | 8.0505 | 8.0167 |
| April                | 8.0165                      | 8.0143                 | 8.0248 | 8.0040 |
| May (through May 25) | 8.0235                      | 8.0112                 | 8.0255 | 8.0020 |

- (1) Determined by averaging the rates on the last business day of each month during the respective period, except for monthly averages, which are determined by averaging the rates on each business day of the month.

## RISK FACTORS

We are subject to various changing competitive, economic, political and social conditions in China as well as factors relating to the alumina and aluminum industry. These changing conditions and factors entail certain risks, which are described below.

- \* We price our alumina and primary aluminum products by reference to international and domestic market prices, import cost of alumina, and changes in supply and demand in the domestic market. Each of these factors may fluctuate beyond our control. Historically, the international market prices for alumina and primary aluminum products have been volatile. Because most of our costs are fixed and we may not be able to respond quickly to any sudden decrease in alumina or primary aluminum prices, any significant fluctuation in international market prices could materially adversely affect our business, financial condition and operating performance.
  
- \* Our plans to upgrade and expand our alumina and primary aluminum plants and to improve and upgrade our internal control and management system will require capital expenditures of approximately RMB14,000 million in 2006. See "Item 4. Information on the Company - Property, Plants and Equipment - Our Expansion and Profit Improvement Plan." We may also need further funding for debt servicing, working capital, investments, potential acquisitions and joint ventures and other corporate requirements. We cannot assure you that cash generated from our operations will be sufficient to fund these development plans, or that our actual capital expenditures and investments will not significantly exceed our current planned amounts. If either of these conditions arises, we may have to seek external financing to satisfy our capital needs. Our ability to obtain external financing at reasonable costs is subject to a variety of uncertainties. Failure to obtain sufficient external funds for our development plans could adversely affect our business, financial condition and operating performance.
  
- \* Our planned expansion, cost reduction and technical improvement projects could be delayed or adversely affected by, among other things, failures to receive regulatory approvals, difficulties in obtaining sufficient financing, technical difficulties, or human or other resource constraints. Moreover, the cost of these projects may exceed those originally contemplated. Costs savings and other economic benefits expected from these projects may not materialize as a result of any such project delays, cost overruns or changes in market circumstances. Failure to obtain intended economic benefits from these projects could adversely affect our business, financial condition and operating performances.

- \* Our business has grown rapidly. Our ability to manage growth effectively will require us to continue to implement and improve our operational, financial and management systems, continue to develop the management skills of our managers, and continue to train, motivate and manage our employees. Failure to manage our growth effectively could adversely affect our operating performance. In addition, we are in the process of conducting feasibility studies to establish an overseas joint venture company with Companhia Vale do Rio Doce, or CVRD, to produce alumina in Brazil. We have also participated in the bidding for bauxite mining projects in Australia and have been shortlisted as the only developer to explore overseas bauxite resources. Further, we entered into the memorandum of understanding with the Vietnam National Coal-Mineral Industries Group, or "VINACOAL" regarding the proposed establishment of joint venture companies to engage in the development of local bauxite resources. Due to the increase of energy prices in the global market and uncertainty of future market conditions, we could encounter unforeseen problems due to our unfamiliarity with local laws and regulations. We cannot assure you that our overseas expansion or investments will be successful or that we will not suffer foreign exchange losses in connection with our overseas investments.
  
- \* We face competition from both domestic and international primary aluminum producers. Our principal competitors in the primary aluminum business are domestic smelters, some of which are expanding their production capacity. These smelters pose competitive challenges to our primary aluminum operations in production costs, product quality and price. We also face increasing competition from international primary aluminum suppliers as China continues to open up its aluminum industry to international trade.

After China's accession to the WTO on December 11, 2001, competition from international suppliers of alumina may increase as tariff and non-tariff barriers for imported alumina are significantly reduced. The standard tariff on imports of alumina into China has been reduced from 18% as of December 31, 2001 to its current level of 5.5% as of January 1, 2006. Intensified competition may result in reductions in our prices or sales volume and may have a material adverse effect on our financial condition and operating performance. If we are not successful in reducing our costs, we may not be able to maintain or increase our current share of China's primary aluminum market or continue to achieve profitability.

- \* We rely heavily on coal as our energy and fuel source required during our production process. As we significantly increase our production capacities, coal required for our production substantially increases accordingly. If our coal suppliers are not able to supply the amount of coal required for our production due to general short supply of coal or any other reason, we may be forced to reduce production output or suspend operation of our production in which case our financial condition and results of operation may be materially adversely affected.
  
- \* Prior to 2004, the export of primary aluminum enjoyed a 15% tax refund. Since January 1, 2005, the export tax refund was cancelled and exports of primary aluminum have been subject to a 5% export tax. The abolishment of export tax refund and the imposition of



export tax affected the allocation of domestic and export sales by aluminum producers in China and resulted in an increase in domestic sales. The increase in domestic sales further intensified the competition in domestic primary aluminum market, where we conduct most of our primary aluminum business. Intensified domestic competition could have a material adverse effect on the price and margins of our products and market share.

- \* Bauxite is the most important raw material for alumina production. We obtain our bauxite from three major sources, including our own mines, jointly operated mines, and other suppliers, which primarily consist of small independent mines. See "Item 4. Information on the Company - Business Overview - Business Operations - Alumina - Raw Materials - Bauxite." Each of these sourcing methods could affect the security or cost of supply. The average price of bauxite supplied by small independent mines in 2005 has increased 7.3% as compared with 2004, primarily due to increasing demand. If we are unable to obtain a steady supply of key raw materials externally and internally at a competitive price, our operating performance may be adversely affected.
- \* The smelting of primary aluminum employs an electrolytic reduction process that requires a large and continuous supply of electricity. Interruptions of electricity supply can result in lengthy production shutdowns, increased costs associated with restarting production and waste of production in progress. In extreme cases, interruptions of electricity supply can also cause damage to or destruction of the equipment and facilities. If this occurs, our operation may be adversely affected.
- \* Electricity cost is the principal production cost component of our primary aluminum production. All of our seven smelters benefit from various policies that allow them to purchase electricity at reduced prices. However, despite such preferential treatment, our electricity prices are expected to continue to be higher than those of major international primary aluminum producers. Our electricity costs increase due to severe shortage of electric power in recent years. In 2005, the electricity shortage led to an increase of average electricity price by approximately 5.9% compared with 2004, which in turn caused our unit production cost for primary aluminum to increase by approximately 1.9%. If any other preferential treatment policies are cancelled by the PRC government or not renewed upon expiration, or if electricity prices or charges were to increase for any reason, it would increase our unit production cost for primary aluminum and have an adverse effect on our financial condition and operating performance.
- \* Our alumina products are mainly delivered by rail or truck, and our primary aluminum products are transported to our customers mostly by rail. If we are unable to make on-time delivery due to transportation problems, or if the costs of transportation continue to rise, our operating performance will be significantly affected.

- \* A main objective of our research and development projects is to develop new methods and processes to improve efficiency in the refining of bauxite with relatively low

alumina-to-silica ratios. A potential decline in China's supply of bauxite with high alumina-to-silica ratios, failure to achieve technological improvements or to implement such improvements in commercial applications could impede our efforts to reduce unit production costs and to compete with major international producers.

- \* The bauxite reserve data on which we base our production, turnover and expenditure plans are estimates we have developed internally and may be inaccurate. There are numerous uncertainties inherent in estimating quantities of reserves, including many factors beyond our control. If these estimates are inaccurate or indicated tonnages are not recovered, it could have a material adverse effect on our business, financial condition and operating performance.
- \* We rely on short-term borrowings as part of our financing needs. If we fail to achieve timely rollover, extension or refinancing of our short-term debt, we may be unable to meet our obligations in connection with debt service, accounts payable and/or other liabilities when they become due and payable. In addition, we may be exposed to changes in interest rates. If interest rates increase substantially, our results of operations could be adversely affected.
- \* Our primary sources of funding are cash generated by operating activities, prepayments and deposits from customers, short-term and long-term bank borrowings, proceeds from shares offerings and proceeds from short-term bond offerings. In 2005, we required our customers to make prepayments or deposits for purchases of alumina. The total amount of prepayments and deposits was approximately RMB1,571.9 million as of December 31, 2005. We have relied on prepayments and deposits received from customers as a source of our liquidity. In the event that demand for alumina declines, we may not be able to require such prepayments and deposits from customers, in which case this source of liquidity would not be available to us.
- \* Chinalco, a state-owned enterprise, as of December 31, 2005 owned 42.14% of our issued share capital and is our largest shareholder. The interests of Chinalco may conflict or even compete with our interests and the interests of our public shareholder. Chinalco may take actions that favor the interests of its subsidiaries, associates and other related entities over our interests and the interests of our public shareholders. In addition, Chinalco and some of its subsidiaries and associates provide a range of services to us, including engineering and construction services, social services, land and property leasing and supply of raw and supplemental material. Some of the services Chinalco provides to us, such as educational and medical care services for our employees, would be difficult to obtain from other sources. Our cost of operations could increase if Chinalco were unable to perform its agreement to provide such services to us.
- \* Chinalco has substantial financial obligations relating to the businesses, operations and personnel that it retained in the reorganization. While Chinalco generates significant operating turnover and receives government support, it may also rely on dividends received from us as a means of funding these obligations. Subject to the relevant provisions of the PRC Company Law and our articles of association, Chinalco may seek to influence the amount of dividends we pay out in order to satisfy its cash flow requirements. Any resulting increase in our dividend payout would reduce funds available for reinvestment in our

businesses.

- \* Our alumina and primary aluminum production operations are subject to environmental protection laws and regulations in China, which impose such penalties as waste discharge fees, fines or closure of non-compliant plants. Each of our alumina and primary aluminum production plants has implemented a system to control its emissions and to oversee compliance with PRC environmental regulations. The PRC government, however, has taken steps and may take additional steps, towards more rigorous enforcement of applicable laws, and/or adoption of more stringent environmental standards. If the PRC national or local authorities enact additional regulations or enforce existing or new regulations in a more rigorous manner, we may be required to make additional environmental expenditures, which could have an adverse impact on our financial condition.

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- \* We may experience major accidents in the course of our operations, which may cause significant property damage and personal injuries. Significant industry-related accidents and natural disasters may cause interruptions to various parts of our operations, or could result in property or environmental damage, increase in operating expenses or loss of turnover. The occurrence of such accidents and the resulting consequences may not be covered adequately, or at all, by the insurance policies we carry. In accordance with customary practice in China, we do not carry any business interruption insurance or third party liability insurance for personal injury or environmental damage arising from accidents on our property or relating to our operations other than our automobiles. Losses or payments incurred may have a material adverse effect on our operating performance if such losses or payments are not fully insured.
- \* We are also subject to a number of risks relating to the PRC, including the following:
  - The central and local PRC governments continue to exercise a substantial degree of control and influence over the aluminum industry in China and shape the structure and characteristics of the industry by means of policies in respect of major project approval, preferential treatments such as tax incentives, electricity pricing, and safety, environmental and quality control. If the PRC government changes its current policies or the interpretation of those policies that are currently beneficial to us, we may, to some extent, face pressure on profit margins and significant constraints on our ability to expand our business operations or to maximize our profitability.
  - Under current PRC regulatory requirements, the construction of new alumina refineries, the expansions of primary aluminum plants and mining projects in excess of RMB500 million require PRC government approval. If any of our important projects required for our growth or cost reduction are not approved, or not approved on a timely basis, our financial condition and operating performances could be adversely affected.

- Substantially all of our business, assets and operations are located in China. The economy of China differs from the economies of most developed countries in many respects. The economy of China has been transitioning from a planned economy to a market-oriented economy. Although in recent years the PRC government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry by imposing industrial policies. It also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Some of these measures benefit the overall economy of China, but may have a negative effect on us.
  
- On September 4, 2005, the China Securities Regulatory Commission, or CSRC, promulgated the Circular on Distributing the Measures for the Administration of the Share-Trading Reform of Listed Companies, or the Circular. According to the Circular, the holders of non-tradable shares in A share companies have the right to request the board of directors to convene meetings with the tradable shareholders to discuss a plan through which the non-tradable shares may become tradable. In order to make the non-tradable shares become tradable, the holders of non-tradable shares may be required to pay certain consideration under such reform in the form of, among others, complimentary shares to holders of tradable shares. We have investments in A share companies which are regulated by the Circular. We may suffer adverse consequences in terms of, among others, dilution of our shareholdings in A share companies in which we invest as a result of such reform.
  
- Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the People's Bank of China, or PBOC, which are set daily based on the previous day's PRC interbank foreign

exchange market rate and current exchange rates on the world financial markets. On July 21, 2005, PBOC announced a reform of its exchange rate system and revalued the Renminbi . Under the reform, Renminbi is allowed to trade against a basket of foreign currencies. Any further appreciation of Renminbi in the future will increase the cost of our export sales, reduce our account receivables denominated in foreign currencies and adversely affect our financial condition and results of operations. On the other hand, any devaluation of Renminbi may adversely affect the value of, and dividends payable on, our H shares and ADSs in foreign currencies since we receive our turnover and denominate our profits in Renminbi. Our financial condition and operating performance may also be affected by changes in the value of certain currencies other than Renminbi in which our earnings and obligations are

denominated. In particular, a devaluation of the Renminbi could increase the portion of our cash flow required to satisfy our foreign currency-denominated obligations.

- Since 1979, many new laws and regulations covering general economic matters have been promulgated in China. Despite this activity to develop the legal system, China's system of laws is not yet complete. Even where adequate law exists in China, enforcement of existing laws or contracts based on existing law may be uncertain and sporadic, and it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment by a court of another jurisdiction. The relative inexperience of China's judiciary in many cases creates additional uncertainty as to the outcome of any litigation. In addition, interpretation of statutes and regulations may be subject to government policies reflecting domestic political changes.

See also "Item 4. Information on the Company - Business Overview," "Item 5. Operating and Financial Review and Prospects," "Item 7. Major Shareholders and Related Party Transactions - Related Party Transactions," "Item 8. Financial Information" and "Item 11. Quantitative and Qualitative Disclosures About Market Risks."

#### ITEM 4. INFORMATION ON THE COMPANY

##### HISTORY AND DEVELOPMENT OF THE COMPANY

###### Overview

We were incorporated as a joint stock limited company under PRC laws on September 10, 2001. Our scope of business includes bauxite mining, the production of alumina, primary aluminum and ancillary products, and provision of engineering and construction services. Pursuant to a reorganization agreement effective as of July 1, 2001 among Chinalco, Guangxi Investment, Guizhou Development and us and a mining rights agreement between Chinalco and us, substantially all of Chinalco's alumina and primary aluminum production operations, operations of the Research Institute, as well as mining operations and mining rights of bauxite mines and other related assets and liabilities were transferred to us upon our formation.

We are currently the largest producer of alumina and primary aluminum in terms of production and sales volume in China, one of the fastest growing major aluminum markets in the world. Alumina and primary aluminum are our principal products. Alumina is refined from bauxite through a chemical process and is the key raw material for producing primary aluminum, which in turn is a widely used metal and the key raw material for aluminum fabrication. In addition to alumina and primary aluminum, we also produce and sell a comparatively small amount of alumina chemical products, including alumina hydrate and alumina based industrial chemical products, carbon products, including principally carbon anodes and cathodes, and gallium.

We produced approximately 7,181,000 tonnes of alumina, 2,030,000 of which was used internally by our smelters, and approximately 937,000 tonnes of alumina chemical products, including alumina hydrate and alumina based industrial chemical products in 2005, representing approximately 49.0% of all alumina products consumed in China during that year, making us the second largest producer of alumina in the world. Our alumina production has increased rapidly in the past few years, and we expect to continue to capture the growth in China's alumina market through ongoing

expansion. From 2001 to 2005, our annual alumina production grew from 4,700,000 tonnes to 7,800,000 tonnes.

Our primary aluminum production of 1,051,600 tonnes in 2005 accounted for approximately 14.9% of China's domestic primary aluminum consumption for 2005. From 2001 to 2005, our annual primary aluminum production grew from 710,000 tonnes to 1,051,600 tonnes.

Our key operating assets include four integrated alumina and primary aluminum production plants, another two alumina refineries and three primary aluminum smelters, including Lanzhou Aluminum, which is our 28% owned associated company, in addition to the integrated production plants and one research institute, which also produces a small amount of products on a pilot run basis. Most of our refineries are located in reasonable proximity to abundant bauxite reserves and, as of December 31, 2005, had annual production capacities ranging from 800,000 to 2,200,000 tonnes. Our primary aluminum smelters had annual production capacities ranging from 56,000 to 403,700 tonnes as of December 31, 2005. According to the China Non-ferrous Metals Industry Association, our smelters in Guizhou and Qinghai are the largest and the second largest smelters in China, respectively, in terms of production capacity. Since December 31, 2004, all of our production facilities have been granted ISO9001:2000, OHSAS 18001:1999 and GB/T 28001-2001 accreditations.

We entered into a number of acquisition and joint venture agreements with partners in China and overseas to further increase our alumina and primary aluminum production capacities. In January 2005, we entered into an agreement with Lanzhou Aluminum Plant to acquire 151,851,442 shares, or 28% of the total issued share capital of Lanzhou Aluminum for a consideration of RMB767.3 million, which was completed in March 2005. Lanzhou Aluminum owns one primary aluminum smelting plant with total production capacity at approximately 160,000 tonnes per annum. For more details, see "-Business Overview - Production Facilities." Lanzhou Aluminum had since become our associated company whose results of operations are not consolidated into our audited financial statements. See Note 10(b) to our audited financial statements.

On July 31, 2005, we entered into a Supplemental Agreement with Guangxi Aluminum Development and Investment Stock Co., Ltd., or Guangxi Associate, and China Minmetals Non-ferrous Metal Co., Ltd., or China Minmetals, to increase the total investment of the joint venture company, Guangxi Huayin Aluminum Co., Ltd., from RMB10 million to RMB8,491.0 million, of which 25% will be contributed by shareholders in proportion to their equity interest held in the joint venture company and the remaining 75% will be financed by bank loans. We, Guangxi Associate and China Minmetals are responsible for contribution of RMB701.0 million, RMB721.5 million and RMB701.0 million, respectively. See "- Property, Plants and Equipment - Our Expansion and Profit Improvement Plan."

On December 6, 2005, we entered into a joint venture agreement with Shanxi Guanlv Co., Ltd. to establish a joint venture company, Shanxi Huasheng Aluminum Company Ltd. The joint venture company is expected to have an annual production capacity of primary aluminum of approximately 220,000 tonnes. The joint venture company is expected to have a total investment of RMB2,379.4 million and a registered capital of RMB1,000 million. Upon completion of the capital contribution, we will hold 51% equity interest in the joint venture company.

In March 2006, we entered into a share transfer agreement with Liaoning Fushun Aluminum Factory to acquire 100% equity interest held by it in Liaoning Fushun Aluminum Co., Ltd., or Funshun Aluminum, with an annual production capacity of 140,000 tonnes for a consideration of RMB500 million. Funshun Aluminum's primary business is the production of primary aluminum and carbon products. As of February 28, 2006, Funshun Aluminum had an asset value of RMB1,270 million and net assets of approximately RMB503 million.

On April 17, 2006, we entered into a joint venture agreement with Guizhou Wujiang Hydropower Development Co. Ltd. to establish a joint venture company, Chalco Zunyi Alumina Co., Ltd. Upon completion of the capital contribution, we will hold 67% equity interest in the joint venture company. The joint venture company is expected to have an annual production capacity of alumina of approximately 800,000 tonnes. The joint venture company is expected to have a total investment of RMB4,250.0 million and a registered capital of RMB1,400.0 million.

On May 19, 2006, we entered into a Sale and Purchase Agreement with Jiaozuo Wanfang Group to acquire 29% of the issued share capital, or 139,251,064 State-owned legal person shares held by Jiaozuo Wanfang Group in the issued share capital of Jiaozuo Wanfang Aluminum Manufacturing Co., Ltd. ("Jiaozuo Wanfang"). Jiaozuo Wanfang has an annual production capacity of 272,000 tonnes of primary aluminum. Jiaozuo Wanfang is a joint stock limited company established in the PRC, the shares of which are listed on the Shenzhen Stock Exchange of the PRC. The total consideration payable by us for the acquisition of Jiaozuo Wanfang is RMB247.0 million. Completion of the sale and purchase is subject to, among other things, approval by the relevant government authorities, including China Securities Regulatory Commission, and registration of the acquired shares in favor of us. Pursuant to the Acquisition and subject to PRC Government's approval, we will become the largest shareholder of Jiaozuo Wanfang upon completion of the acquisition.

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In addition, we have entered into the following non-binding letters of intent for potential acquisitions and joint venture opportunities to further expand our primary aluminum production capacities:

- \* we entered into a letter of intent to establish a joint venture with Baiyin Nonferrous Metal (Group) Co., Ltd., or Baiyin Nonferrous, and Baiyin Ibis Aluminum Co., Ltd., or Baiyin Ibis, on December 10, 2005. Baiyin Nonferrous will contribute 127,000 tonnes of primary aluminum smelting and supporting facilities owned by Baiyin Ibis as capital contribution and hold 49% equity interest in the joint venture and we will hold 51% equity interest in the joint venture. The joint venture will have an annual production capacity of 127,000 tonnes of primary aluminum.
- \* we entered into a letter of intent to acquire 60% equity interest of a subsidiary held by Shandong Huasheng Jiangquan Group in January 2006. The subsidiary has an annual production capacity of 100,000 tonnes of primary aluminum. The subsidiary also has other supporting facilities and two 135MW coal-fired generators.
- \* we entered into a letter of intent to acquire 51% equity interest in Zunyi Aluminum Co., Ltd., with Wujiang Hydropower Development Corporation Ltd., the People's Government of Zunyi County and Zunyi Aluminum Co., Ltd. in January 2006. Zunyi Aluminum Co., Ltd. has an annual production capacity of 113,000 tonnes of primary aluminum.

To secure the bauxite supply, we continued to participate in overseas development projects in 2005. We entered into a non-binding Framework Agreement with CVRD on May 24, 2005. We are in the process of conducting feasibility studies with CVRD for the proposed establishment of a joint venture company, ABC - Aluminum Brasil China S/A, to produce alumina in Barcarena, State of Para, Brazil. See "-Business Overview - Production Facilities - Alumina."

We submitted a letter of intent to bid for the development of bauxite resources in Aurukun, Australia to the Queensland government in October 2005. We further submitted a non-binding preliminary development proposal to the Queensland government in January 2006. In March 2006, the Queensland government confirmed that we were shortlisted as the only developer invited to submit a final proposal. See "-Business Overview - Raw Materials - Alumina."

In addition, we participated in a mining project under cooperation by the PRC and Vietnam governments to explore bauxite resources in Dak Nong province in Vietnam. In December 2005, we entered into a non-binding memorandum of understanding with VINACOAL regarding the proposed establishment of joint venture companies to explore bauxite resources in Dak Nong province in Vietnam. We expect to commence feasibility studies of this project in 2006. See "-Business Overview - Production Facilities - Alumina."

Our capital expenditures in 2003, 2004 and 2005 were RMB5,729.5 million, RMB10,941.7 million and RMB 8,417.9 million (US\$1,043.1 million), respectively. We currently expect our capital expenditures to be approximately RMB14,000.0 million in 2006. For details of our capital expenditures and our future plan, please see "-Our Expansion and Profit Improvement Plan" and "Item 5 -Operating and Financial Review and Prospects - Capital Expenditures".

Our principal executive office is currently located at No. 12B Fuxing Road, Haidian District, Beijing, People's Republic of China 100814. Our contact telephone number is (86)10 6398 5654. Our web site is [www.chalco.com.cn](http://www.chalco.com.cn). Information contained on our website does not constitute part of this annual report.

#### Strategic Investor

We and Alcoa agreed in 2001 to develop a long-term strategic relationship. The key components of this relationship involve an investment in our company, and the formation of a joint venture company, or Guangxi Pingguo JV, to own and operate our Pingguo facilities. To establish this strategic relationship, we and Alcoa entered into:

- \* a strategic investor subscription agreement, dated November 5, 2001, or Subscription Agreement, pursuant to which Alcoa agreed to purchase our shares in our initial global share offering in December 2001 at the initial public offering price an amount of shares that would constitute 8.0% of our outstanding share capital immediately following the global offering; and
- \* a memorandum of understanding, or the MOU, dated November 12, 2001, which sets forth the basis on which we propose to form the Guangxi Pingguo JV to own and operate the alumina and primary aluminum production facilities at our Guangxi plant.

The primary aspects of our strategic relationship with Alcoa are described below.

#### Investment in Our Company

Under the Subscription Agreement, as long as Alcoa maintains a strategic stake in our shares, it will be entitled to certain key rights as our strategic partner, including:



- \* the right to appoint one director to our board of directors;
- \* the right of first refusal to participate in any future projects we may contemplate undertaking with a foreign partner in bauxite mining, alumina refining or primary aluminum smelting in China; and
- \* the opportunity to establish a second equity joint venture with us so long as we and Alcoa agree that the initial joint venture company at the Guangxi plant represents a successful beginning to our strategic relationship.

In addition, Alcoa has given us the right of first refusal to participate in any future projects Alcoa may contemplate undertaking with a domestic partner in the PRC in bauxite mining, alumina refining or primary aluminum smelting. Subject to exceptions described under "- Joint Venture at Our Guangxi Plant" below. Should Alcoa wish to sell our H shares or ADSs in the future, we have undertaken to register such H shares or ADSs for sale with the U.S. Securities and Exchange Commission, or the SEC.

Alcoa currently holds approximately 8.0% of our issued share capital.

#### Joint Venture at Our Guangxi Plant

The MOU sets forth the basis on which we and Alcoa intend to form a limited liability equity joint venture company as equal 50% shareholders at our Guangxi plant for the purpose of mining bauxite, refining alumina and smelting aluminum. The term of the Guangxi Pingguo JV is proposed to be 50 years.

In April 2004, we received a notification from the NDRC regarding their approval on March 29, 2004 for the establishment of the Guangxi Pingguo JV. For further information, see "Item 4. Information of the Company - Our Facilities - Guangxi Plant".

According to the MOU, the board of directors of the Guangxi Pingguo JV will consist of six directors, of which we will appoint three and Alcoa will appoint the other three. The chairman of the board of directors is to be elected from among the directors that we appoint. The vice-chairman is to be elected from among the directors appointed by Alcoa. The day-to-day management of the Guangxi Pingguo JV will be the responsibility of a general manager nominated by Alcoa and appointed by the board of directors of the Guangxi Pingguo JV.

Pursuant to the Subscription Agreement, as amended, if the final joint venture agreement for the Guangxi Pingguo JV is not executed within eight months from closing of our global offering or if all necessary relevant PRC government approvals for the Guangxi Pingguo JV are not obtained within twelve months from the closing of our global offering due to the failure of a party to abide by the terms of the MOU, the defaulting party would be obliged to pay US\$7.5 million (equivalent to RMB62.1 million) to the other party as compensation and the restrictions on Alcoa's ability to sell our shares will terminate. We continue to work closely and actively with Alcoa to seek the opportunity of establishing a joint venture. As of December 31 2005, we have not made any claim against Alcoa nor has Alcoa made any claim against us for compensation under the Subscription Agreement, as amended.

#### Our Initial Public Offering

In December 2001, we completed our global initial public offering in which 2,749,889,968 H shares were listed on the Hong Kong Stock Exchange and 409,646,400 H shares in the form of ADSs were sold in the United States and listed on the NYSE under the symbol "ACH".

#### Our H Shares Placement in 2004

On January 6, 2004, we placed 549,976,000 additional H shares, par value of RMB1.00 each, to certain independent professional and institutional investors who are non-U.S. persons outside the United States pursuant to Regulation S of the U.S. Securities Act of 1933 at a price of HK\$5.658 per H share. The net proceeds amounted to RMB3,251.0 million. As of December 31, 2005, RMB1,837 million from our H Share placement was used for capital expenditures.

#### Our Recent H Shares Placement

Pursuant to the shareholders' resolution passed on June 9, 2005, we entered into a placing agreement with J.P. Morgan Securities Ltd., CLSA Limited and China International Capital Corporation Hong Kong Securities Limited in relation to the placing (the "Placing") of an aggregate of 644,100,000 H Shares in the share capital of our Company at a price of HK\$7.25 per H Share on May 9, 2006. The Placing Shares comprise (i) 600,000,000 new H Shares to be allotted and issued by the Company and (ii) 44,100,000 H Shares to be converted from the same number of existing State-owned domestic shares that are to be allocated from Chinalco to the National Social Security Fund Council (the "NSSF") of the PRC, in reliance upon U.S. Securities Act of 1933. The Placing Shares represent approximately 5.83% of the existing issued share capital of our Company and approximately 5.53% of the issued share capital of our Company as enlarged by the issue of the new H Shares.

The estimated net proceeds from the placement of the 600,000,000 new H shares of our Company will be approximately HK\$4,247,000 (equivalent to RMB4,243,000). The net proceeds from the placement of the 44,100,000 shares will be paid directly to the NSSF pursuant to the placing arrangement. We intend to use the net proceeds arising from the Placement for the funding of possible acquisition of domestic primary aluminum projects and for general working capital purposes.

The Placing shares were listed on the Hong Kong Stock Exchange on May 19, 2006. Our total share capital increased to 11,649.9 million shares from 11,049.9 million shares, and the percentage of our listed share capital to our total share capital increased from 29.87% to 33.85%.

#### The Proposed A Shares Offering

On June 9, 2005, the annual general shareholders' meeting passed a resolution for us to submit application to (i) the CSRC for an approval to issue a maximum of 1,500,000,000 A shares, representing approximately 19.35% of our domestic share capital currently in issue to the PRC public, including PRC individual investors, PRC institutional investors and qualified foreign institutional investors, and (ii) the Shanghai Stock Exchange for the listing of the A shares on the Shanghai Stock Exchange. The annual general shareholders' meeting held on May 10, 2006, resolved to extend the authorization for the Proposed A Share Offering for one more year until June 9, 2007, based on the same terms as approved on June 9, 2005. We are currently in the process of preparing such application materials.

The amount to be raised from the Proposed A shares Offering is currently expected to be not more than RMB8,000 million. The net proceeds are principally to be used to:

- \* fund an alumina brownfield project of our Henan branch;
- \* fund an alumina production-line project of our Zhongzhou branch;

- \* fund an alumina brownfield and environmental enhancement project of our Guizhou branch;
- \* invest in Shanxi Huaze to fund and develop its primary aluminum and power generating project;
- \* fund the third phase of an alumina brownfield project of our Guangxi branch;
- \* fund a greenfield project of pseudoboehmite production of our Shandong branch;
- \* fund a greenfield project of zeolite production of our Shandong branch;

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- \* fund a limestone improvement project of our Shanxi branch; and
- \* fund an alumina improvement project of our Shanxi branch.

The use of proceeds from the Proposed A Shares Offering on the projects to be invested, the priority of the proposed investments and the amounts to be invested, as approved by the CSRC and authorized by the shareholders at the annual general meeting, is subject to adjustment and finalization by our board of directors by reference to the then budgeted financing needs of such projects and the relevant industry and regulatory approval requirements and other circumstances. If the proceeds from the Proposed A Shares Offering are insufficient to fund all or any of the intended projects, the directors intend to fund the deficit with internal resources. Any balance of the proceeds will be used to satisfy our general working capital requirements.

#### Our Short-Term Bonds Offering

On May 25, 2005, we obtained the approval from the PBOC to issue short-term bonds up to an aggregate principal amount of RMB5,000 million. On June 15, 2005, we issued 20,000,000 units of short-term bonds with a par value of RMB100 per unit for an aggregate principal amount of RMB2,000 million at an offer price of RMB97.16 per unit to institutional investors in the PRC banking industry with a maturity period of 365 days. The proceeds amounted to RMB1,943 million. The bonds are traded on the PRC interbank debenture market from June 16, 2005. Under the PBOC approval, we are able to issue additional short-term bonds with an aggregate principal amount amounting to RMB3,000 million before the annual general meeting dated May 10, 2006. The board of directors has passed a resolution regarding the issuance of additional short-term bonds and the terms and conditions of such offering pending shareholders' approval at the annual general meeting dated May 10, 2006. The proceeds from the short-term bonds offering are used for purchase of raw materials and import of alumina.

## BUSINESS OVERVIEW

### Our Principal Products

We manage our operations according to our two principal business segments. Our alumina segment includes the production and sale of our alumina-related products, namely, alumina and alumina chemical products, including alumina hydrate, alumina based industrial chemical products and gallium. Our primary aluminum segment includes the production and sale of our primary aluminum-related products, namely, primary aluminum (including both ingots and other primary aluminum products) and carbon products. External sales of our alumina and primary aluminum segments accounted for approximately 61.6% and 38.1%, respectively, of our total turnover in 2005. Alumina is refined from bauxite through a chemical process and is the key raw material for producing primary aluminum, which in turn is a key raw material for aluminum fabrication.

Our alumina segment products consist primarily of alumina, which accounted for approximately 91.9% of our total alumina segment output based on total production volume in 2005. Other alumina segment products consist primarily of alumina chemical products, including alumina hydrate, alumina based industrial chemical products and gallium. Alumina chemical products are used in the production of chemical, pharmaceutical, ceramic and construction materials. In the process of refining bauxite into alumina, we also produce small amounts of gallium, which is a related product and a high-value rare metal with special uses in the electronics and telecommunications industries.

Our most important primary aluminum product is ingots, which accounted for approximately 85.0% of our total primary aluminum output in 2005. Our standard ingots are 20-kilogram remelt ingots used for general aluminum fabrication primarily for the auto, construction, power and consumer goods industries. Other than ingots, we also produce a small amount of high value-added and high-margin primary aluminum, such as electrical aluminum and aluminum alloys used for special industrial applications. In 2005, we continued to adjust our product mix to increase the production of high value-added primary aluminum, such as increasing the production of aluminum alloys by approximately 20.0% compared to 2004, to realize the higher margin of such products. Our primary aluminum plants produce carbon products (principally carbon anodes and cathodes) used in smelting operations.

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The carbon we produce supplies substantially all of the carbon products required for our smelters. We also sell some of our carbon products to external smelters.

Since 2003, we have started to recycle scrap materials for our primary aluminum production. In 2005, our Shandong Plant used recycled materials to produce approximately 23,000 tonnes primary aluminum products. At present, only our Shandong Plant has the capability to produce primary aluminum products from recycled materials.

#### Our Current Production Capacity

The following table sets forth the production capacity of alumina and primary aluminum for each of our plants for 2005:

| Plant | 2005<br>Production Capacity |                  |
|-------|-----------------------------|------------------|
|       | Alumina                     | Primary Aluminum |
|       |                             |                  |

(in thousand tonnes) <sup>(1)</sup>

|                                 |         |         |
|---------------------------------|---------|---------|
| Guangxi plant                   | 850.0   | 139.5   |
| Zhongzhou plant                 | 1,360.0 | -       |
| Qinghai plant                   | -       | 367.0   |
| Shanxi plant                    | 2,200.0 | -       |
| Guizhou plant                   | 800.0   | 403.7   |
| Henan plant                     | 2,050.0 | 56.0    |
| Shandong plant                  | 1,050.0 | 75.0    |
| Shanxi Huaze                    | -       | 280.0   |
| Lanzhou Aluminum <sup>(2)</sup> | -       | 160.0   |
| Research Institute              | 20.0    | 18.0    |
|                                 | <hr/>   | <hr/>   |
| Total                           | 8,330.0 | 1,499.2 |
|                                 | <hr/>   | <hr/>   |

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- (1) Our production capacity takes into account designed capacity and subsequent modifications. Designed capacity is based on various assumptions including down time for ordinary maintenance and repairs and assumptions as to ore grade of bauxite used.
- (2) Lanzhou Aluminum is our associated company owned as to 28% of its equity interest whose results of operations are not consolidated into our financial statements. Production capacity presented above represents 100% of Lanzhou Aluminum's smelting capacity. See Note 10(b) to our audited financial statements.

The following table sets forth, for the periods indicated, information relating to our production volumes of the alumina segment and primary aluminum segment products:

| Production Volume by Product       | Years Ended December 31,             |         |         |
|------------------------------------|--------------------------------------|---------|---------|
|                                    | 2003                                 | 2004    | 2005    |
|                                    | <hr/>                                | <hr/>   | <hr/>   |
|                                    | (in thousand tonnes, except Gallium) |         |         |
| Alumina segment                    |                                      |         |         |
| Alumina                            | 5,632.0                              | 6,351.0 | 7,181.0 |
| Alumina chemical products          | 415.0                                | 469.0   | 937.0   |
| Gallium (in tonnes)                | 5.6                                  | 23.0    | 22.2    |
| Primary aluminum segment           |                                      |         |         |
| Primary aluminum <sup>(1)(2)</sup> | 762.0                                | 770.0   | 1,051.6 |

|        |       |       |       |
|--------|-------|-------|-------|
| Carbon | 556.3 | 623.0 | 672.0 |
|--------|-------|-------|-------|

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- (1) Including ingots and other primary aluminum products.
  - (2) Lanzhou Aluminum is our associated company owned as to 28% of its equity interest whose results of operations are not consolidated into our financial statements. Production volumes for 2005 presented above included 126,000 tonnes which represent 100% of Lanzhou Aluminum's production volumes. See Note 10(b) to our audited financial statements.

#### Production Process

##### Alumina

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Alumina is produced from bauxite, an aluminum-bearing ore, by a chemical refining process. The production process to be used for producing alumina is determined by the mineral composition of the bauxite used. The production process generally includes the sintering process, the Bayer process, the hybrid Bayer-sintering process or the ore-dressing Bayer process. Most of the bauxite found in China is diasporite bauxite of a particular mineralogy, with high alumina content but relatively higher silica content, resulting in low alumina-to-silica ratios. The Bayer process cannot efficiently refine such bauxite unless the alumina-to-silica ratio of the bauxite is raised sufficiently prior to refining. Refining low alumina-to-silica ratio bauxite generally requires the use of either the sintering process or the hybrid Bayer-sintering process that we have developed and improved upon to enable the efficient processing of diasporite bauxite generally found in China.

##### Primary Aluminum

Alumina is converted into primary aluminum through a smelting process using electrolytic reduction. This electrolytic process takes place in a reduction cell, or "pot," a steel shell lined with carbon cathodes and refractory materials. Powerful electric currents are passed through the pot to produce molten aluminum. The molten aluminum is transferred to holding furnaces and then poured directly into moulds to produce foundry ingots or further refined to form fabricating ingots. Most of the primary aluminum we produce is in the form of ingots.

There are two methods commonly used to produce primary aluminum, the "pre-bake" reduction process and the "soderberg" reduction process. Most modern aluminum production facilities adopt the pre-bake reduction. As of December 31, 2005, all of our primary aluminum capacity used pre-bake anode reduction pot-lines. In the pre-bake reduction process, the anodes are pre-formed in a separate facility where the pollutants can be contained. The cells themselves are enclosed with removable panels, so that the waste gases produced can be extracted using large exhaust fans. These gases are then treated and purified to reduce emissions of dust and fluoride to acceptable levels.

##### Production Facilities

## Alumina

Our total annual production capacity for alumina products was approximately 8,330,000 tonnes as of December 31, 2005. In 2005, our actual production of alumina products was approximately 7,181,000 tonnes of alumina and approximately 937,000 tonnes of alumina chemical products. In 2005, we supplied approximately 2,030,000 tonnes, of which approximately 193,000 tonnes were supplied to Lanzhou Aluminum, our 28% owned associated company, to our own smelters, and sold the rest to other domestic smelters. All of our alumina chemical products in the alumina segment we produced in 2005 were sold externally, either domestically or exported for chemical, pharmaceutical and other uses.

The following table sets forth the annual production capacity, alumina production output, alumina chemical products production output and the utilization rate of each of our alumina refineries and our Research Institute as of December 31, 2005:

As of December 31, 2005

|  | Annual<br>Production<br>Capacity <sup>(1)</sup> | Alumina<br>Production<br>Output | Alumina<br>Chemical<br>Products<br>Production<br>Output | Utilization<br>Rate <sup>(2)</sup> (%) | Production Process     |
|--|---|---------------------------------|---|--|------------------------|
| (in thousand tonnes, except percentages) |   |                                 |   |  |                        |
| Shanxi plant                             | 2,200.0   | 1,439.0                         | 18.0  | 68.5                                   | Hybrid Bayer-sintering |
| Henan plant                              | 2,050.0   | 1,607.0                         | 113.0   | 82.0                                   | Hybrid Bayer-sintering |
| Shandong plant                           | 1,050.0   | 850.0                           | 575.0   | 112.4                                  | Sintering              |
| Guizhou plant                            | 800.0   | 936.0                           | 10.0  | 117.8                                  | Hybrid Bayer-sintering |
| Zhongzhou plant                          | 1,360.0   | 1,449.0                         | 150.0   | 113.7                                  | Sintering and Bayer    |
| Guangxi plant                            | 850.0   | 900.0                           | 38.0  | 108.8                                  | Bayer                  |
| Research Institute (3)                   | 20.0  | -                               | 33.0  | 103.5                                  | Bayer                  |
| <b>Total</b>                             | <b>8,330.0</b>                                  | <b>7,181.0</b>                  | <b>937.0</b>  | <b>93.8</b>                            |                        |

(1) Our production capacity takes into account designed capacity and subsequent

modifications. Capacity is based on various assumptions, including down time for ordinary maintenance and repairs and assumptions as to ore grade of bauxite used. Our production capacity includes additional capacities resulting from the completion of new projects in 2005, including 800,000 tonnes in Shanxi plant, 700,000 tonnes in Henan plant and 300,000 tonnes in Zhongzhou plant.

- (2) The capacity utilization rate is derived from the summation of (i) the production output of alumina chemical products multiplied by a quotient based on alumina content in these alumina chemical products and (ii) the production output of alumina divided by production capacity of a particular plant. Rates greater than 100% reflect the higher productivity obtained through the use of higher-grade bauxite than originally contemplated in capacity calculations.
- (3) The alumina chemical products production facilities of our Research Institute are test facilities for research and development purposes. These products are sold commercially, and such sales are included in our total turnover.

To secure future bauxite supply, we have participated in several overseas projects in Brazil, Australia and Vietnam. On May 24, 2004, we entered into a non-binding Framework Agreement with CVRD, a corporation duly organized and existing under the laws of the Federative Republic of Brazil, for the establishment of a joint venture company, ABC Refinery, producing alumina in Barcarena, State of Para, Brazil, adjacent to the existing facilities of Alumina do Norte do Brasil, also known as Alunorte in Brazil. We further entered into the first and second Amendment to the Framework Agreement on November 12, 2004 and January 10, 2005, respectively, to set forth the details and schedule of ABC Project.

It is intended that ABC Refinery will be owned by the joint venture company and shall be established as a first class alumina refinery with high competitiveness globally. The intended alumina capacity of the initial phase of ABC Refinery will be 1,800,000 tonnes per year, and may reach a final capacity of 7,20,000 tonnes per year through phased expansions. The proposed development of the ABC Refinery will involve a series of related transactions involving mining, transportation, shipping and port developments. The total investment for the initial phase of the proposed project is estimated to be US\$1,000 million.

We and CVRD have reached agreement on certain essential issues in relation to the ABC Project, including the purchase prices of the alumina produced by ABC Refinery in the future. Pursuant to the Amendments, CVRD has produced a preliminary feasibility studies on March 1, 2005 for our review. We are in the process of conducting feasibility studies with CVRD.

We participated in a mining project under cooperation by the PRC and Vietnam governments to explore bauxite resources in Dak Nong province in Vietnam. In December 2005, we entered into a non-binding memorandum of understanding with VINACOAL regarding the proposed establishment of joint venture companies to explore the bauxite resources in Dak Nong province in Vietnam. We expect to commence feasibility studies of this project in 2006.

We submitted a letter of intent to bid for the development of bauxite resources in Aurukun, Australia to the Queensland government in October 2005. We further submitted a non-binding preliminary development proposal to the Queensland government in January 2006. In March 2006, the Queensland government confirmed that we were shortlisted as the only developer invited to submit a final proposal. See "-Business Overview - Raw Materials - Alumina."



## Primary Aluminum

We operate seven primary aluminum production facilities, including Lanzhou Aluminum, located in seven provinces in China. Four of these seven smelter plants are integrated with alumina refining operations and are self-sufficient with respect to alumina supply. In addition, our Research Institute also operates a test plant that produces primary aluminum in connection with its research and development.

Two of the seven primary aluminum production facilities, Shanxi Huaze and Lanzhou Aluminum, were added in 2005. Shanxi Huaze has an annual production capacity of approximately 280,000 tonnes and produced 32,400 tonnes of primary aluminum since its completion of construction in 2005 and contributed 2.3% of our total primary aluminum production output in 2005. Lanzhou Aluminum has an annual production capacity of approximately 160,000 tonnes and produced 126,000 tonnes of primary aluminum in 2005 since the completion of our acquisition of its 28% equity interest

in March 2005. Lanzhou Aluminum is our associated company whose results of operations are not consolidated into our audited financial statements. See Note 10(b) to our audited financial statements.

The total production capacity for primary aluminum production of all seven of our smelters, including Lanzhou Aluminum, and our Research Institute in 2005 was 1,499,200 tonnes. In 2005, we, including Lanzhou Aluminum, produced approximately 1,051,600 tonnes of primary aluminum. Lanzhou Aluminum, however, is our associated company owned as to 28% of its equity interest whose results of operations are not consolidated into our audited financial statements.

The following table sets forth the annual production capacity, output of aluminum products, the utilization rate and the smelting equipment used in each of our aluminum smelters and our Research Institute as of December 31, 2005:

| As of December 31, 2005         |   |                    |  |                            |
|---------------------------------|---|--------------------|--|----------------------------|
| Plant                           | Annual<br>Production<br>Capacity <sup>(1)</sup> | Aluminum<br>Output | Utilization<br>Rate <sup>(2)</sup> (%) | Smelting Equipment         |
| Qinghai plant                   | 367.0   | 353.8              | 96.4                                   | 60 kA pre-bake             |
| Guizhou plant                   | 403.7   | 232.3              | 57.5                                   | 160 kA & 186kA<br>pre-bake |
| Guangxi plant                   | 139.5   | 139.9              | 100.3                                  | 160kA & 320kA<br>pre-bake  |
| Shanghai plant                  | 75.0  | 100.4              | 133.9                                  | 85kA pre-bake              |
| Henan plant                     | 56.0  | 52.0               | 92.9                                   | 85kA pre-bake              |
| Shanxi Huaze                    | 280.0   | 32.4               | 11.6                                   | 300kA pre-bake             |
| Lanzhou Aluminum <sup>(3)</sup> | 160.0   | 126.0              | 78.8                                   |                            |

|                        |         |         |       |                            |
|------------------------|---------|---------|-------|----------------------------|
|                        |         |         |       | 200kA & 75kA<br>pre-bake   |
| Research Institute (4) | 18.0    | 14.8    | 82.2  | 140 kA & 280kA<br>pre-bake |
|                        | _____   | _____   | _____ |                            |
| Total                  | 1,499.2 | 1,051.6 | 70.1  |                            |
|                        | _____   | _____   | _____ |                            |

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- (1) Production capacity takes into account designed capacity, subsequent modifications and down time for ordinary maintenance and repairs. Our production capacity includes new projects completed in 2005, including 56,000 tonnes in Qinghai plant, 170,000 tonnes in Guizhou plant, 280,000 tonnes in Shanxi Huaze and 160,000 tonnes in Lanzhou Aluminum.
  - (2) The capacity utilization rate is determined by dividing the production output of a particular plant by that plant's production capacity.
  - (3) Lanzhou Aluminum is our associated company owned as to 28% of its equity interest whose results of operations are not consolidated into our audited financial statements. See Note 10(b) to our audited financial statements. As we exercise significant influence over Lanzhou Aluminum, 100% of its annual production capacity and its production volume are included in the table above.
  - (4) The primary aluminum production facilities of our Research Institute are experimental facilities for research and development purposes. Primary aluminum produced at the smelter is sold commercially, and such sales are included in our total turnover.

#### Raw Materials

##### Alumina

Bauxite is the principal raw material for the production of alumina. On average, our refineries consume 1.8 tonnes of bauxite to produce one tonne of alumina. We used approximately 11,300,000 tonnes, 13,600,000 tonnes and 15,800,000 tonnes of bauxite in our alumina production in 2003, 2004 and 2005, respectively. In 2005, bauxite cost represented approximately 21.3%, as compared to 19.0% in 2004 of our per unit alumina production costs.

Supply. The predominant use of bauxite is for alumina production. We are the largest alumina producer in China and expect to remain so for the foreseeable future. Therefore, we intend to use our dominant market position to obtain bauxite on favorable terms. Except for our Shandong Plant, all of our refineries are located in the four provinces where over 90% of China's potentially mineable bauxite has been found. We generally source our bauxite from mines close to our refineries to save transportation costs. We procure our bauxite supply principally from three sources:

- \* our own bauxite mining operations;

- \* jointly operated mines; and
- \* purchases from other suppliers, which principally include small independent mines and, to a lesser extent, mines operated by Chinalco and imports.

We purchase bauxite from a number of suppliers. We are not dependent on any single supplier or small group of suppliers for our bauxite requirements. We endeavor to explore new bauxite reserves and streamline our bauxite procurement system to support the growth of our alumina production. We established a bauxite mine branch located in Zhengzhou, Henan, on March 25, 2005 to centralize the procurement and make effective allocation of bauxite resources among our plants. According to the establishment proposal, the mine branch will manage five bauxite mines, with total controllable bauxite reserves of 1,488,100,000 tonnes, currently owned by us and supply to our Henan Branch, Zhongzhou Branch, Shandong Branch or Shanxi Branch. In 2005, we increased our bauxite reserves by 1,000 million tonnes as compared to 2004.

The following table sets forth, for the periods indicated, the proportion of our bauxite requirements supplied by our three sources:

|                        | Years Ended December 31, |  |                      |  |                      |  |
|------------------------|--------------------------|--|----------------------|--|----------------------|--|
|                        | 2003                     |  | 2004                 |  | 2005                 |  |
|                        | Total Bauxite Supply     | Percentage of Our Total Bauxite Supply (%) | Total Bauxite Supply | Percentage of Our Total Bauxite Supply (%) | Total Bauxite Supply | Percentage of Our Total Bauxite Supply (%) |
|                        | (in thousand tonnes)     |  | (in thousand tonnes) |  | (in thousand tonnes) |  |
| Our owned mines        | 1,923.0                  | 17.0                                       | 2,237.3              | 16.4                                       | 2,988.1              | 18.9                                       |
| Jointly operated mines | 1,799.3                  | 15.9                                       | 2,501.3              | 18.4                                       | 3,854.8              | 24.4                                       |
| Other suppliers        | 7,572.0                  | 67.1                                       | 8,889.4              | 65.2                                       | 8,949.6              | 56.7                                       |
| <b>Total</b>           | <b>11,294.3</b>          | <b>100%</b>                                | <b>13,628.0</b>      | <b>100%</b>                                | <b>15,792.5</b>      | <b>100%</b>                                |

The following table sets forth information regarding our own mines:

Year Ended December 31, 2005

| Mine          | Location (Province) | Annual<br>Production<br>Capacity | Bauxite<br>Production |
|---------------|---------------------|----------------------------------|-----------------------|
|               |                     | (in thousand<br>tonnes)          |                       |
| Pingguo       | Guangxi             | 1,790                            | 1,846                 |
| Xiaoyi        | Shanxi              | 300                              | 408                   |
| Guizhou No. 2 | Guizhou             | 150                              | 119                   |
| Guizhou No. 1 | Guizhou             | 100                              | 57                    |
| Mianchi       | Henan               | 200                              | 207                   |
| Yangquan      | Shandong            | -                                | 3                     |
| Xiaoguan      | Henan               | -                                | 5                     |
| Luoyang       | Henan               | 100                              | 219                   |
|               |                     | 2,640                            | 2,864                 |
| Total         |                     | 2,640                            | 2,864                 |

#### Owned Mines.

We currently have eight open-pit mines. As of December 31, 2005, these mines had approximately 214,900,000 tonnes of aggregate proven and probable bauxite reserves as such terms are defined by the SEC. This amount of bauxite reserves would be sufficient to sustain our mining operations in excess of 30 years assuming an annual mining output of 5,000,000 tonnes. As none of our mines produce bauxite for external sales, we are assured of full access to the bauxite produced by our own mines. In 2005, we sourced approximately 18.9% of our bauxite from mines that we own and operate.

The respective terms of the mining rights permits are the shorter of the estimated working life of the mine and 30 years beginning 2001. In addition to mining rights permits, in order to operate

these mines, we are required to have land use rights over the land relating to these mines. We lease land use rights relating to all these mines from Chinalco pursuant to a land use rights leasing agreement that we entered into upon our formation. Chinalco's land use rights relating to over 90% of our mining properties are for 50-year terms beginning on July 1, 2001. The remaining land use rights relating to the mines we own and operate are for shorter terms, some as short as eight years. All of our land use rights leases end on the expiry date of the mining rights or the end of the actual mine life, whichever is earlier. Both the land use rights and their leases are renewable.

### Jointly Operated Mines.

We currently jointly operate 16 bauxite mines. Jointly operated mines are generally operated pursuant to long-term contractual arrangements in which we typically contribute resources such as funding, equipment, labor and management, and the other parties contribute land and/or mining rights and certain personnel resources. The other parties are also typically responsible for obtaining all relevant certificates or approvals in respect of the lands. Generally, we are able to control the mining operations of our jointly operated mines, including determination of production schedules as well as the amounts and grades of bauxite produced. As of December 31, 2005, we have obtained mining rights certificates for all of our 16 jointly operated mines.

Jointly operated mines are typically smaller than our own mines but larger than the small independent mines in terms of reserves and production scales. Our 16 jointly operated mines had approximately 24,500,000 tonnes in the aggregate of proven and probable bauxite reserves as such terms are defined by the SEC. Security of supply from jointly operated mines is contingent upon the extension or renewal of the joint operation arrangements and mining rights upon their expiration. Accordingly, we view our jointly operated mines, as a group, to be a stable, long-term source of our bauxite supply, although the particular mines comprising this group are likely to change. Jointly operated mines supplied 24.4% of our bauxite needs in 2005.

### Other Suppliers.

In addition to our own mines and our jointly operated mines, we also source bauxite from other suppliers. A majority of other suppliers are small independent mines. However, we also secure a small portion of bauxite from Chinalco and overseas. Bauxite secured from other suppliers accounted for 56.7% of our total bauxite supply in 2005.

- \* Small Independent Mines. We purchase bauxite directly from small independent mines or through local distributors that procure bauxite from these mines. Small independent mines are not affiliated with us and generally have annual bauxite production capacities not exceeding 200,000 tonnes. These mines have historically been our important source of bauxite. The average price of bauxite from small independent mines increased by 7.3% from 2004 to 2005.
  
- \* In addition, we also source a small portion of bauxite from Chinalco and from other overseas suppliers.

### Bauxite Procurement.

A mineral resource department in our headquarters is responsible to control and coordinate the supply of our bauxite, mainly bauxite. To determine how our bauxite requirement will be allocated among our principal sources each year, we first estimate our total bauxite needs for the year. Based on market conditions, production costs and other factors, we decide the amount of bauxite that we wish to source from our own mines, and allocate the remaining requirements among the jointly operated mines and other suppliers. Given the increasing price of bauxite supplied by external independent mines resulting from high market demand, our management or operational control of our own mines and jointly operated mines generally allows us to adjust the procurement levels from these sources during the course of the year to accommodate market conditions.

### Alumina-to-Silica Ratio.

The production method for alumina refining is determined by the mineral composition of the bauxite, as measured by reference to its alumina-to-silica ratio. Most of the bauxite reserves in China are diasporic with low alumina-to-silica

ratios. Based on our current technology, an efficient application of the Bayer process requires bauxite with an alumina-to-silica ratio of 10:1 or higher, while the sintering process can refine bauxite with an alumina-to-silica ratio as low as 4:1. The average alumina-to-silica ratio of the proven and probable reserves of our own mines is 7:1.

Prices.

There is neither governmental regulation of bauxite prices nor an official trading market for bauxite in China. We negotiate and agree on bauxite prices with our suppliers, based on ore

quality, mining costs, market conditions, transportation costs and various governmental taxes or levies, including a resource tax imposed by local governments. Because we procure bauxite from three different sources, our total bauxite cost is influenced by the following factors:

- \* the cost of our own mining operations;
- \* the terms of our operational arrangements with respect to our jointly operated mines; and
- \* the market conditions relating to purchases from small independent mines.

#### Primary Aluminum

An average of approximately 2.0 tonnes of alumina and 14,500 kWh of electricity were required to produce one tonne of primary aluminum. Alumina and electricity, the two principal ingredients in the smelting process in terms of volume and cost, accounted for approximately 42.2% and 31.2%, respectively, of our unit primary aluminum production costs in 2005. We also require carbon anodes, carbon cathodes and sodium fluoride in the smelting process.

Alumina is the main raw material in the production of primary aluminum. Our Shandong, Henan, Guizhou and Guangxi smelters have historically sourced all or substantially all of the alumina they required from their respective integrated refineries. Our Qinghai plant, Shanxi Huaze and Lanzhou Aluminum, which do not have alumina refining operations on site, have obtained alumina internally from our own alumina refineries. Pursuant to a notice issued by the Ministry of Commerce of the PRC on October 13, 2004 and effective from January 1, 2005, the PRC government prohibits domestic aluminum smelters whose annual production volume is lower than 100,000 tonnes from directly importing alumina to China for aluminum processing or refinery purposes. We are among a few companies in the PRC that are currently qualified to import alumina directly for our primary aluminum production. As imported alumina will usually be cost effective, we believe our competitiveness is as a result enhanced. The following table sets forth, for the periods indicated, the amount of alumina consumed by each of our smelters:

| Plant | Years Ended December 31, |      |      |
|-------|--------------------------|------|------|
|       | 2003                     | 2004 | 2005 |
|       |                          |      |      |

(in thousand tonnes)

|                    |         |         |         |
|--------------------|---------|---------|---------|
| Guizhou plant      | 453.7   | 445.1   | 454.7   |
| Qinghai plant      | 523.4   | 547.9   | 687.1   |
| Guangxi plant      | 268.4   | 216.4   | 270.2   |
| Shandong plant     | 83.6    | 129.3   | 150.6   |
| Henan plant        | 113.0   | 112.6   | 101.1   |
| Research Institute | 34.0    | 32.2    | 29.1    |
|                    | <hr/>   | <hr/>   | <hr/>   |
| Total              | 1,476.1 | 1,483.5 | 1,692.8 |
|                    | <hr/>   | <hr/>   | <hr/>   |

## Supplemental Materials, Electricity and Fuel

## Alumina

Electricity, coal, alkali (caustic soda or soda ash) and heavy oil are the other principal items required for our alumina production. We established a supplies department in our headquarters to control and coordinate the budgeting and procurement for all major items required for our production. In addition, to raise the efficiency of materials flow, a distribution center was set up at each production facility. However, our efforts in improving the efficiency of material supplies by the procurement system were to a certain extent offset by the significantly increased prices for coal and fuel due to their short supply in 2005.

## Electricity.

Electricity is one of the principal forms of energy used in our refining process. Electricity represented approximately 7.6% of our unit alumina production cost in 2005.

The fuel items (including coal and heavy oil) used by the Shanxi Huaze co-generation facilities are purchased from outside sources at market prices. To the extent that power produced by the co-generation facility is insufficient to meet a refinery's total power requirements, we purchase the shortfall from regional power grids at government-mandated rates pursuant to power supply agreements. Power prices in China can vary, sometimes substantially, from one region to another, based on power production costs in the region as well as the consuming community's ability to pay.

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Accordingly, power costs for our various plants differ. Most of our electricity supply agreements are one to three year renewable contracts with regional power grids.

## Coal.

Large quantities of coal are used as a reducing agent and as fuel to make steam and gas in the alumina refining process. The coal we consumed directly in the alumina refining process in 2005 represented 9.2% of our unit alumina production costs. Additional amounts of coal were used to produce steam and electricity in connection with refining for the same periods.

To secure our coal supply, we entered into a joint venture agreement with Jiaozuo Coal (Group) Co. Ltd., or Jiaozuo Coal, on April 12, 2004 to establish a joint venture company in Henan Province to operate coal mines and manage coal processing business on May 15, 2004. We contributed 30% of the total registered capital in the amount of RMB45.0 million by way of cash and Jiaozuo Coal contributed 70% of the total registered capital in the amount of RMB105.0 million by way of cash and evaluated coal mining rights in respect of Zhaogui mine. Zhaogui mine is currently under construction and the construction is expected to be completed by 2007. According to the joint venture agreement, we are entitled to all of the slack coal produced by the joint venture company.

#### Alkali.

Alkali is used as a supplemental material in alumina refining. The sintering process and the hybrid Bayer-sintering process require soda ash while caustic soda is used in the Bayer process. We purchase all of our alkali from outside suppliers. Alkali accounted for 7.3% of our unit alumina production cost in 2005.

#### Heavy Oil.

Heavy oil is used as fuel in the calcination of aluminum hydroxide to make alumina. Most of our refineries use heavy oil. Our annual consumption of heavy oil is approximately 339,400 tonnes. Heavy oil represented approximately 5.3% of our unit alumina production cost in 2005.

There is no governmental regulation of the prices of heavy oil, alkali or coal. The prices are set at market rates or through negotiations. We have not experienced difficulty in obtaining these materials in sufficient quantity and at an acceptable price.

Deliveries of raw materials and supplemental materials are generally made on a monthly basis. Our raw material suppliers arrange for railway transportation of these raw materials by submitting to local bureaus of the Ministry of Railways their annual and monthly transportation plans. These local bureaus then arrange for appropriate rail transportation to transport such raw materials or fuel to our refineries.

#### Primary Aluminum

Electricity. Smelting primary aluminum requires a substantial, continuous supply of electricity. Therefore, the availability and price of electricity are key considerations in our primary aluminum production operations. Costs of electricity have increased period by period in the recent years due to severe shortage of electric power in China. In 2005, the average electricity price increased by approximately 5.9% due primarily to electric power shortages in China, which in turn caused our unit production cost for primary aluminum to increase by approximately 1.9% compared to 2004.

We rely on electricity from the power grids for our smelter operations. We purchase electricity from regional power grids. Prices for electricity supplied by the power grids under power supply contracts are set by the government based on the power generation cost in the region and the consumers' ability to pay. Industrial users within each region are generally subject to a common electricity tariff schedule, but rates vary, sometimes substantially, across regions. Each regional power grid serves a region comprising several provinces. The regional power grids generally rely on multiple power sources to generate electricity, with coal and hydro power being the two most common sources. We believe that the different types of power sources do not imply different degrees of reliability of supply, and that our



power supply from the grids is generally not reliant upon any particular generation facility supplying the grid.

Electricity purchased from different power grids is subject to different tariff levels. All of our production facilities currently enjoy preferential electricity prices granted by local government authorities. Our smelters' average electricity cost was RMB0.336/kWh in 2005. Our electricity costs per tonne of primary aluminum for 2005 represented 31.2% of our unit primary aluminum production costs. A major challenge to our strategy of enhancing the competitiveness of our primary aluminum

operations is the high price of electricity in China. In 2005, the total electricity used in the smelting operations at our primary aluminum production facilities was 10.9 billion kWh.

In order to secure stable electricity supply, we established a joint venture company, Shanxi Huaze Aluminum & Power Co. Ltd., or Shanxi Huaze, on March 30, 2003 to undertake the construction of primary aluminum and carbon anodes production facilities with two 300 MW coal-fired generators, which was substantially completed at the end of 2005. In January 2006, we entered into a letter of intent with Shandong Huasheng Jiangquan Group to acquire 60% equity interest in its newly established subsidiary with 100,000 tonnes of primary aluminum smelting facilities and two 135MW coal-fired generators. For more information, see "- Our Expansion and Profit Improvement Plan".

#### Carbon Products.

Carbon anodes and cathodes are key elements of the smelting process. For 2005, carbon anodes combined represented 10.0% of our unit primary aluminum production costs for those periods. Each of our smelters produces carbon products other than carbon cathodes, such as carbon anodes. Only our Guizhou plant has a carbon cathode production facility. It supplies all of our smelters with the carbon cathodes required, and sells any excess domestically to outside smelters. Several of our other carbon plants also sell externally carbon anodes not used by our smelters. In December 2003, we established Shanxi Huatai Carbon Company Limited which leases production equipment and facilities from Chinalco to produce carbon products.

#### Suppliers

We rely on our suppliers for the supply of raw materials including bauxite, coal, heavy oil and alkali. The amount of raw materials provided by our five largest suppliers for alumina products and primary aluminum products accounted for 10.2% and 31.0%, respectively of our total cost of raw materials for 2005. Raw materials provided by our largest supplier accounted for 2.9% and 10.2%, of our total cost of raw materials for alumina and primary aluminum, respectively in 2005. All payments to our suppliers are in Renminbi.

#### Sales and Marketing

We coordinate our major sales and marketing activities at our corporate headquarters. We set uniform prices for our alumina sales and set minimum prices in each region where our primary aluminum is sold. We have consolidated the networks of our branch offices to eliminate overlapping of administrative support and to reduce sales costs. In response to increasingly intensified competition, we established Shandong Alumina Chemicals Sales Department to centralize the sales of our alumina chemical products. Our subsidiaries have also played an important role in improving our after-sales services and enhancing our influence in the marketplace.

Since 2003, as part of our centralized management program, we require all sales of alumina and primary aluminum to be settled upon delivery. As a result, our net trade receivables decreased from RMB262.6 million as of December 31, 2004 to RMB179.2 million as of December 31, 2005. Since 2004, we required our customers to make prepayments and deposits for purchases of alumina. The total amount of deposits and prepayments received was RMB1,571.9 million as of December 31, 2005. We expect to continue this policy so long as market demand remains strong.

We conduct our business primarily in China. For 2005, only 0.5% of our total turnover derived from primary aluminum export sales. For details of our turnover by segment, please see "Item 5. Operating and Financial Review and Prospect - Discussion of Segment Operations."

#### Alumina

We sell a portion of the alumina we produce to our own primary aluminum smelters and a majority of our alumina output to external customers. In 2005, we used approximately 2,030,000 of approximately 7,181,000 tonnes of our total alumina output internally, which represented approximately 28.3% of our total alumina production. Of 2,030,000 tonnes of alumina sold internally to our own primary aluminum smelters, 193,000 tonnes were supplied to Lanzhou Aluminum, our 28% owned associated company. We sold approximately 5,365,000 tonnes of alumina externally in 2005. All of our output of alumina chemical products are sold externally.

#### Sales

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We coordinate sales of alumina at our corporate headquarters. In the fourth quarter of each year, we organize a national alumina sales conference with our domestic primary aluminum smelter customers in order to match our supply with their requirements for the following year. Based on our production capacity for the coming year, we first reserve the amount of alumina needed for primary aluminum production by our smelters before we determine the amount available for sale to other primary aluminum smelters. Next, we allocate our alumina to smelters with whom we have long-standing relationships and that have good credit and a good payment history. We consider other smelters only if we have remaining alumina to allocate. Approximately 95% of our sales of alumina are made through these annual conferences.

Based on the sales allocations we make at the annual conference, we and our customers typically enter into one-year sales agreements that set forth their total allocation and sales schedules. At the time of entering into these one-year sales agreements, prices are left open and determined at or near the time of delivery at the then prevailing market price. We apply uniform prices to alumina sales regardless of where the alumina is produced. If a customer does not accept our price near the time of delivery, it may refuse to take delivery despite the one-year agreement. We began selling a portion of our alumina pursuant to long-term sales contracts in 2001. Since January 1, 2004, we have gradually entered into three-year or five-year sales contracts for alumina. The external sales volume under these long-term sales contracts accounts for approximately 46.0% of the total sales volume in 2005. Under these contracts, the sales volume is fixed, and the price is linked to an index of three-month futures price of primary aluminum quoted at the Shanghai Futures Exchange.

#### Customers

We sell our alumina to smelters throughout China. Sales to our five largest external customers accounted for 16.3%, 17.7% and 12.9% of our total external alumina turnover for 2003, 2004 and 2005, respectively. Sales to our largest

customer accounted for 5.1%, 4.3% and 3.6% of our total external alumina turnover for the same periods. All of these major customers in the last three years were domestic smelters.

### Pricing

We set, and adjust as necessary, uniform sales prices for alumina produced by any of our refineries. We made two alumina sales price adjustments in 2005.

We set uniform prices for all our external sales of alumina by reference to import costs of alumina, the market supply and demand conditions as well as our short-term and mid-term projections. Our pricing generally takes into account:

- \* free-on-board Australia prices for alumina exports into China;
- \* international transportation costs;
- \* the applicable standard PRC import tariff;
- \* value-added tax at 17%;
- \* import related fees; and
- \* domestic demand and supply conditions.

### Primary Aluminum

Substantially all of our primary aluminum products are sold externally. In 2005, approximately 1,029,000 tonnes of primary aluminum were domestic sales; and approximately 13,000 tonnes, or 1.2%, were export sales. Of 1,029,000 tonnes of primary aluminum sold in the domestic market, 124,000 tonnes were produced by Lanzhou Aluminum, which represented 100% of its domestic sales in 2005. As part of our primary aluminum segment, we derive turnover from domestic and international sales of carbon products, constituting approximately 2.4% and 2.0% of our turnover of the primary aluminum segment in 2004 and 2005, respectively.

### Sales

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We sell our primary aluminum through two channels:

- \* Contract sales. Most of our primary aluminum sales are made pursuant to contracts directly with our established customers. These may be long-term or short-term contracts, and a smelter plant may make deliveries directly or through a branch office.
- \*

Sales on the Shanghai Futures Exchange. As part of our effort to manage market risk, we sell a portion of our primary aluminum products on the Shanghai Futures Exchange through futures contracts of one to six month terms to hedge against a potential decline in primary aluminum prices.

We hold annual regional primary aluminum sales conferences in the fourth quarter of each year to coordinate the production and sales for the following year. We centrally control our product futures sales on the Shanghai Futures Exchange.

To improve the efficiency of our distribution, we divide our China market into several regions as follows:

- \* southern China (including Guangdong and Fujian Provinces);
- \* eastern China (including Jiangsu and Zhejiang Provinces and Shanghai City);
- \* southwestern China (including Sichuan Province and Chongqing City);
- \* the Beijing-Tianjin-Tanggu area; and
- \* northeastern China; (including Heilongjiang Province).

#### Customers

Apart from a small amount of export sales, we sell all of our primary aluminum products to domestic customers. The Chinese market is our core market for primary aluminum, and we expect it to remain so for the foreseeable future. Domestic customers of our primary aluminum products principally consist of:

- \* domestic aluminum fabricators which use our primary aluminum as raw material for further processing; and
- \* aluminum distributors, which resell our primary aluminum products to domestic aluminum fabricators or other purchasers.

Our five largest customers combined accounted for approximately 13.8%, 17.5% and 21.1% of our total primary aluminum turnover for 2003, 2004 and 2005, respectively. Our largest customer accounted for approximately 4.8%, 6.6% and 9.8% of our total primary aluminum turnover during the same periods.

Our export operations consist of ordinary sales of our products to international customers and export sales of primary aluminum. All export sales of our primary aluminum are sold at negotiated prices. Pursuant to the notice issued by State Administration of Taxation of the PRC dated December 22, 2004 and No. 46 notice issued by Customs General Administration of the PRC in December 2004, exports of primary aluminum are subject to a 5% export tax, and no export tax refund is available.

#### Pricing

We establish pricing guidelines for domestic sales of our own primary aluminum products, taking into account three main factors:

- \* the primary aluminum spot prices on the Shanghai Futures Exchange;
- \* our production costs and profit margins; and
- \* market supply and demand conditions.

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As part of our sales integration and centralization efforts, we set minimum prices with respect to each region in China where our primary aluminum is sold. These minimum prices are expressed by reference to the Shanghai Futures Exchange spot price for primary aluminum, not including transportation. The minimum prices may differ from region to region, but all of our primary aluminum sold into a region, regardless of the plant or warehouse from which it originates or is shipped, is sold at or above the minimum price applicable to that region. Our smelter plants filling particular orders are principally involved in discussions with the customer as to the pricing and delivery arrangements for specific transactions. They are required to comply with the minimum pricing guidelines unless prior approval from headquarters has been obtained. In general, we supply each region with products from our nearest smelters to minimize transportation costs as much as possible.

#### Alumina Chemical Products and Gallium

Alumina chemical products and gallium are intermediate products of or otherwise related to our alumina production. Our production levels for these products are based on market demand for them. We sell all of our alumina chemical products and gallium externally, mostly domestically but some internationally.

Prices for our alumina chemical products and gallium are set according to market demand or by agreement with our customers.

#### Delivery

##### Alumina

Delivery of alumina is made from our refineries by rail or truck. Our sales price is normally exclusive of transportation costs. For long-distance delivery, we have spur lines connecting our plants to the national railway routes. We are responsible for the maintenance of these spur lines. Shipping on the national railway system is at prices fixed by the government.

##### Primary Aluminum

Our primary aluminum products are transported to our customers mostly by rail. In view of the substantial distances that separate our smelter plants from southern and eastern China where most of the aluminum fabrication plants are concentrated, we have subsidiaries (often with warehousing capacity leased from third parties) in major cities in eastern and southern China to facilitate deliveries and coordination.

## Our Facilities

Our core facilities include nine production plants and our Research Institute. Set forth below is a plant-by-plant description of our facilities. Our production operations are organized and managed according to our two business segments, alumina and primary aluminum.

### Guangxi Plant

The Guangxi plant commenced operations in 1994 and is located in the Guangxi Zhuang Autonomous Region in southwestern China, an area rich in bauxite resources. The Guangxi plant is our newest alumina and primary aluminum plant, and is equipped with imported production facilities and technology. It is one of the most technologically advanced alumina and primary aluminum plants in China.

Our Guangxi plant is situated within 17 kilometers of our own mines that contain large, easily exploitable high alumina-to-silica ratio bauxite reserves. The Guangxi plant is our only refinery that uses the Bayer method exclusively. With imported European technology and production equipment, our Guangxi refinery features a high level of automation and energy efficiency. Since its inception, we have increased the Guangxi plant's original design capacity by removing production bottlenecks and capacity expansions. As of December 31, 2005, it reached a production capacity of 850,000 tonnes of alumina per annum. Most of its alumina output is used in the primary aluminum smelter at our Guangxi plant and the remainder sold to external smelters.

Our Guangxi plant also uses advanced 160 kA and 320 kA pre-bake reduction pot-lines, which we developed, for its primary aluminum production. As of December 31, 2005, it reached an annual

production capacity of 139,500 tonnes of primary aluminum. All primary aluminum it produces are sold externally.

We are in negotiations with Alcoa to form the Guangxi Pingguo JV for bauxite mining, alumina refining and primary aluminum smelting. In April 2004, we received a notification from the NDRC regarding their approval on March 29, 2004 for the establishment of Guangxi Pingguo JV between us and Alcoa at our Guangxi plant. We and Alcoa will respectively contribute 50% of the total registered capital of Guangxi Pingguo JV. We are in the process of discussing the terms and capital structure of the Guangxi Pingguo JV under the memorandum of understanding and the articles of association of the JV. For more details, please see "Item 4. Information on the Company - History and Development of the Company - Strategic Investor".

### Guizhou Plant

Our primary aluminum production facilities in Guizhou Province commenced operations in 1966 with integrated alumina and primary aluminum production facilities.

Our Guizhou alumina refinery commenced operations in 1978 and is as advanced as any facility of its kind in China, as many of its key technologies and equipment are imported. It uses the hybrid Bayer-sintering process for its alumina production and relies on our own mines and outside suppliers for bauxite supply. Bauxite from our own nearby mines is delivered to the refinery by cable cars and train. The plant's alumina output is mostly used in the primary aluminum production at the same plant and the remainder sold to external smelters. As of December 31, 2005, it reached an annual production capacity of 800,000 tonnes of alumina.

The primary aluminum facilities at our Guizhou plant consist of large-scale pre-bake reduction pot-lines, ranging from 160 kA to 186 kA. As a result of technological innovations and overhauls since its inception, our Guizhou smelter plant is among the most technologically advanced smelters in China. Our Guizhou plant completed a brownfield expansion project of 170,000 tonnes in December 2005, which increased its annual production capacity of primary aluminum from 224,000 tonnes in 2004 to 403,700 tonnes in 2005. Our Guizhou plant became China's largest primary aluminum plant in terms of production volume in 2005.

The Guizhou plant also contains a modern carbon production facility. In addition to producing carbon anodes, it is the only facility we operate that produces carbon cathodes. As such, it supplies all of the carbon cathodes required by our seven plants and our Research Institute. Its carbon cathodes are also sold externally throughout China.

#### Henan Plant

Our Henan plant is located in Zhengzhou, Henan Province, a province rich in bauxite resources. Its alumina and primary aluminum production commenced operations in 1966 and 1967, respectively. The Henan plant was the first refinery in China to develop the hybrid Bayer-sintering process. We commenced operation of a new alumina production line from February 2004 using the ore-dressing Bayer process that we developed in recent years to refine low alumina-to-silica ratio bauxite. Since inception, Henan plant's production facilities have undergone substantial technological upgrades, based on equipment imported from Germany and Denmark. The refinery has also benefited from its access to high alumina-to-silica ratio bauxite from our own mines and through local market purchases. Its alumina output is first used to satisfy its primary aluminum production, and the remainder is sold to our other smelters and external customers. Our Henan plant commenced construction of 700,000 tonnes of aluminum production facilities in November 2003 and the construction was substantially completed in December 2005, which increased its annual production capacity of primary aluminum from 1,300,000 tonnes in 2004 to 2,050,000 tonnes in 2005.

We upgraded a portion of the primary aluminum facilities at this plant, which now utilizes 85 kA pre-bake reduction pot-lines. Its carbon plant produces high quality carbon products for external sales in China as well as for export, after meeting the needs of our various smelting operations. As of December 31, 2005, it reached an annual production capacity of 56,000 tonnes of primary aluminum.

#### Shandong Plant

The Shandong plant commenced operations in 1954 and has both alumina and primary aluminum production capacity. Its refinery was China's first production facility for alumina. Both the

refinery and smelter are owned and operated by Shandong Aluminum, a joint stock limited company whose class A ordinary shares have been publicly offered to investors in the PRC and are listed on the Shanghai Stock Exchange. We currently hold a 71.4% equity interest in Shandong Aluminum.

The plant produces the majority of its alumina through the sintering process, but has a small production line to produce alumina through the Bayer process using imported bauxite. During 2002, the Bayer production line was converted into an ore-dressing sintering operation. The Shandong plant purchases the majority of its bauxite requirements from small independent mines in Henan and Shanxi Provinces. Its alumina output is first used to satisfy its primary aluminum production, and the remainder is sold to our other smelters and external customers. As of

December 31, 2005, it reached an annual production capacity of 1,050,000 tonnes of alumina.

In addition to alumina, our Shandong plant also produces substantial amounts of alumina chemical products. It is the largest and most technologically advanced alumina chemical products production facility, and produces the most varieties of these products in China. Alumina chemical products produced by our Shandong plant are used in the jewelry, ceramics and other industries. Its alumina chemicals products are sold both domestically and internationally.

Our Shandong plant's primary aluminum operations have undergone technological and equipment upgrades, with the majority of its original equipment having been replaced by more advanced equipment. As of December 31, 2005, it reached an annual production capacity of 75,000 tonnes of primary aluminum.

#### Qinghai Plant

Located in Qinghai Province, our Qinghai plant is a stand-alone primary aluminum production facility and is also China's second largest smelter in terms of production capacity. This plant commenced operations in 1987 and stands at the one of the most technologically advanced primary aluminum smelters in China. It operates automated 160 kA automated pre-bake anode reduction pot-lines that were developed domestically. It benefits from relatively low electricity costs in Qinghai Province resulting from substantial hydroelectric power stations in the region. Historically, the plant has relied on our Shanxi, Shandong, Henan and Zhongzhou plants for its alumina supply. Because of its relatively remote location, the plant incurs higher transportation costs for both raw materials and its primary aluminum products. In 2003, our Qinghai plant established a new primary aluminum production facility with an annual capacity of 85,000 tonnes, which became fully operational in 2005 and led the annual production capacity of primary aluminum to reach 367,000 tonnes.

#### Shanxi Plant

This plant commenced operations in 1987 and is located in Shanxi Province, a province with rich bauxite deposits in China. Our Shanxi plant is a stand-alone alumina plant and is currently China's largest alumina plant in terms of production capacity.

The Shanxi plant's production facilities are primarily imported and are more technologically advanced compared with other domestic alumina refineries. The plant relies on bauxite from our own mines as well as external suppliers. In close proximity to large coal mines and substantial water resources, the plant currently has the largest power cogeneration capacity of all of our alumina plants. We commenced phase three of the Shanxi alumina expansion project in 2003 which came into production in December 2005. The total alumina production capacity of our Shanxi plant to reach 2,200,000 tonnes after completion of the expansion project.

#### Shanxi Huaze

On March 30, 2003, we established a joint venture company, Shanxi Huaze Aluminum & Power Co. Ltd., with Shanxi Zhangze Electricity Company Limited to commence the construction of primary aluminum production facility with an annual production capacity of 280,000 tonnes, carbon anodes facilities and two 300 MW coal-fired generators. The construction was substantially completed at the end of 2005. For more information, see "- Property, Plant and Equipment - Our Expansion and Profit Improvement Plan - Shanxi Huaze Smelter."

#### Zhongzhou Plant



Situated in Henan Province, our Zhongzhou plant is a stand-alone alumina plant, located near bauxite, coal and water supplies. The plant commenced operations in 1993 and is equipped with imported and self-developed technology and has undergone various improvements and upgrades, including improved sintering technology. We purchase bauxite supplies from Henan and Shanxi Provinces. The first and the second phases of the 300,000 tonnes ore-dressing alumina project was completed by the end of 2003 and mid 2005, respectively. As of December 31, 2005, it reached an annual production capacity of 1,360,000 tonnes of alumina.

#### Lanzhou Aluminum Plant

Lanzhou Aluminum Plant is situated in Lanzhou city in Gangxu Province and is a stand-alone alumina plant. In January 2005, we entered into an agreement with Lanzhou Aluminum Plant to acquire 151,851,442 shares, or 28% of the total issued share capital in Lanzhou Aluminum for a consideration of RMB767.3 million. The acquisition was completed in March 2005 and Lanzhou Aluminum became our associated company whose results of operations are not consolidated into our financial statements. Lanzhou Aluminum owns a primary aluminum smelting plant with an annual production capacity of approximately 160,000 tonnes. Lanzhou Aluminum also owns an alumina based material processing plant with an annual production capacity of 50,000 tonnes.

#### Research Institute

Established in August 1965 and located in Zhengzhou, Henan Province, the Research Institute specializes in aluminum-related research and development. It is the only research institute in China dedicated to light metals research, and has played a key role in bringing about technological innovations in China's aluminum industry. The Research Institute is central to our research and development efforts. The Research Institute operates test facilities, which produce alumina chemical products and primary aluminum. It also provides research and development services to third parties on a contractual basis. Approved by the Ministry of Science and Technology of the PRC in December 2003, Research Institute established National Research Center of Aluminum Refinery Technologies, a research center mainly engaged in the research and development of aluminum refinery technology.

Research Institute's significant achievements in 2005 include:

- \* Implementing and commercializing production technology to increase the production volume for the enhancement of the efficiency of alumina production;
- \* Commercializing the technology to lower the energy consumption during the smelting process and developing new technology and equipment for smelting; and
- \* Obtaining significant breakthrough in development of anti-flotation technology for China's medium- and low-grade diasporite bauxite.

#### Competition

##### Alumina

As the largest producer of alumina in China and the dominant supplier of alumina to the Chinese market, we currently encounter no significant competition from other domestic producers of alumina or other alumina products. We believe that we will not face significant competition from domestic alumina producers in the immediate future for the following reasons:

- \* a new producer would need access to a substantial and stable supply of bauxite; and
- \* we are experienced in alumina production and our production technologies are specifically adapted to the particular chemical composition of bauxite found in China.

The rapid growth of the aluminum industry has caused demand to exceed supply for alumina in China. In 2005, the domestic alumina production in China was approximately 8,500,000 tonnes, while the national demand in China reached approximately 16,600,000 tonnes. The domestic supply shortfall, which represented nearly 50% of total demand in 2005, needed to be filled by imports. Our alumina faces competition in the China market from imports principally by the major international aluminum companies. As a result of increasing demand in the domestic market since 2003, particularly, in 2005, approximately 7,000,000 tonnes of alumina was imported into China, a 19.0%

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increase over 2004. In 2005, our alumina production represented approximately 47.0% of total national consumption.

We believe that we have competitive advantages over our foreign competitors in the China alumina market. As a local supplier situated in close proximity to our customers, we do not incur international transportation and import-related costs and enjoy stable long-term relationships with our customers in a vast and growing market. Our competitive advantages may be reduced if international suppliers of alumina can offer alumina in China at prices below ours. After China's accession to the WTO on December 11, 2001, competition from international suppliers of alumina may increase as tariff and non-tariff barriers for imported alumina are significantly reduced. The standard tariff on imports of alumina into China has been reduced from 18% as of December 31, 2001 to its current level of 5.5% as of January 1, 2006.

#### Primary Aluminum

##### Domestic Competition

Over 90% of our primary aluminum turnover are derived from sales in China. Our competition includes other domestic smelters and international producers that sell primary aluminum into China. In 2005, our primary aluminum production represented approximately 14.9% of total national consumption.

There are approximately 100 primary aluminum smelting companies operating in China, which sell substantially all of their products in China. We are the largest primary aluminum producer in China and our Guizhou and Qinghai plants operate two of the five largest smelters in China. Our smelters as a total accounted for 13.5% of the domestic primary aluminum production for 2005. Currently, only nine smelters in China (including Chalco) have annual production capacities of 200,000 tonnes or more. Most smelters have smaller production capacities. It is the PRC government's industrial policy to consolidate the Chinese primary aluminum industry into one consisting of larger, less polluting and more efficient producers. Accordingly, the larger smelters are being granted favorable treatment, including priority in the allocation of raw materials and electricity supplies and prices. These preferential treatments, especially discounts in electricity prices, represent stronger competitive advantage large domestic smelters have over small domestic smelters. In addition, since January 1, 2005, the PRC government prohibits domestic aluminum smelters whose annual production capacity lower than 100,000 tonnes from directly importing alumina to China. We are among a few companies in the PRC that are currently qualified to directly import alumina for our primary

aluminum production. As imported alumina will usually be cost effective, we believe our competitiveness is enhanced as a result.

We face competition from other large domestic smelters. We have several advantages over such competitors, including:

\* Scale of production.

With seven primary aluminum facilities, we can achieve significant economies of scale. In addition, our scale of production enables us to achieve high production volumes in order to fill large customer orders and maintain a large customer base. Through our national distribution network, we are able to make timely deliveries to customers from our local warehouses.

\* Technology.

We believe we employ more sophisticated and efficient technology than most of our domestic competitors. Our Guangxi, Guizhou and Qinghai plants are among the most technologically advanced primary aluminum smelting facilities in China. In addition, our technological support and research and development capabilities are superior to other domestic smelters.

\* Vertical integration.

As the largest integrated alumina and primary aluminum producer in China, we are able to supply alumina internally to our four integrated plants. As a result, we save on transportation, warehousing and related costs. In addition, because we operate our own alumina refineries, we are able to assure our primary aluminum smelting operations of a stable supply of alumina.

\* Quality.

The quality of our primary aluminum compares favorably with the primary aluminum produced by most of our domestic competitors. The primary

aluminum produced by six of our seven smelters has satisfied the quality standards of the London Metal Exchange, or LME, and we are registered for trading on the LME.

#### International Competition

The current tariff rate for primary aluminum imports is 5%. China had a net export of approximately 710,000 tonnes of primary aluminum in 2005, representing 10.0% of the total primary aluminum consumption in 2005. Competition from international suppliers of alumina and primary aluminum is expected to increase. Such competitors are likely to

be large, efficient international companies, which generally have lower production costs than us. Some competitors may also consider establishing joint venture companies with local producers in China to gain access to the resources in China and to lower transportation costs. However, other PRC governmental policies directed at fostering the growth of larger domestic smelters are likely to be retained after China enters the WTO, such as tax benefits, preferential electricity tariffs, and subsidies for research and development. We expect that international competition will accelerate the process of consolidation and closure of smaller domestic smelters.

#### Research and Development

Our research and development efforts over the years have helped to expand our production capacity and reduce our unit production costs. We have successfully commercialized our previous research and development results in various technologies.

As of December 31, 2005, we owned 408 patents. The major registered patents relate primarily to technologies and know-how, equipment and new products. Once registered, a patent in China for a new invention is valid for 20 years and for a new function or a new design is valid for 10 years from the date of the patent application.

As of December 31, 2005, we owned 28 trademarks, which are used to identify our businesses and products. The trademarks have a term of 10 years. We have entered into a Trademarks License Agreement with Chinalco for the non-exclusive use by Chinalco of two of our trademarks relating to aluminum fabrication.

Although the PRC has been promulgating and amending its patent, trademark, and license laws to comply with various international agreements, its laws are still evolving. In its current form, Chinese intellectual property law differs from United States intellectual property law in significant ways. For instance, the PRC patent administration may grant a compulsory license on a patent if it is unable to obtain a license from the patent owner for reasonable terms and within a reasonable time frame. Chinese patent law also provides immunity from damages for an entity that uses or sells a patented product without knowing that it was made or sold without the patentee's permission so long as it proves that the infringing product was obtained from a legitimate source. United States patent law does not offer such provisions. Chinese law also awards patents on a first-to-file system as opposed to the United States' first-to-invent system. Chinese trademark law is similarly based on a first-to-register system as opposed to the United States' first-to-use system.

Moreover, the PRC government and its courts have limited experience in enforcing its intellectual property laws. Modern PRC patent and trademark laws have only existed for approximately 20 years. Courts in China have not reached the same level of experience in enforcing and interpreting intellectual property laws as have the courts in the United States. However, the PRC government has created administrative bureaus specifically for patent and trademark infringement disputes as an alternative to judicial resolution. These administrative bureaus have the power to order an infringing party to stop and desist from such violations.

We do not regard any single patent, license, or trademark to be material to our sales and operations as a whole. We have no material patents, licenses, or trademarks the duration of which cannot, in the judgment of our management be extended as necessary. We are neither involved in any material intellectual property disputes against us nor are we pursuing any material intellectual property rights against any party.

#### Environmental Protection

We are subject to PRC national environmental laws and regulations as well as environmental regulations promulgated by the local governments where we operate. These include regulations on

waste discharge, land repair, emissions disposal and mining control. For example, national regulations promulgated by the PRC government set discharge standards for emissions into the air and water. National environmental protection enforcement authorities also promulgate discharge fees for various waste substances. These schedules usually provide for discharge fee increases for each incremental increase of the amount of discharge up to a specified level set by the PRC government or the local government. For any discharge exceeding the specified level, the relevant PRC government agencies may order any of our facilities to rectify certain behavior causing environmental damage, and subject to PRC government approval, the local government has the authority to order any of our facilities to close for failure to comply with existing regulations.

Our bauxite mining operations are subject to relevant environmental laws and regulations promulgated by national and local governments, including regulations on waste discharge, land repair, emission management and mining control.

The pollutants discharged from our alumina refining process include red mud, waste water and waste emission of gases and dust. Our primary aluminum production process generates fluorides, pitch fume and dust, which are illegal to be released into the atmosphere without first being processed. Once processed, the amount of pollutants that can be released is subject to national or local discharge limits.

Each of our alumina refineries and primary aluminum smelters has its own waste treatment facilities on site or has developed other methods to dispose of the industrial waste.

Our total environmental protection expense was RMB30.5 million, RMB52.4 million and RMB69.8 million for the years ended December 31, 2003, 2004 and 2005, respectively. We have been granted ISO14001:1996 accreditations issued by The International Certification Network on December 31, 2004. We believe that our operations are substantially in compliance with currently applicable national and provincial environmental regulations.

#### Insurance

We currently maintain insurance coverage on our property and plants, our property, plant and equipment, our transportation vehicles and various assets that we consider to be subject to significant operating risks.

We paid a total of RMB46.5 million in insurance premiums in 2005.

We are covered under the injury and accidental death insurance provided by the local government labor departments and do not purchase separate insurance policies from commercial insurers with respect to such risks.

Consistent with what we believe to be the customary practice in China, we do not generally carry any third party liability insurance to cover claims in respect of personal injury, environmental damage arising from accidents on our property or relating to our operations (other than our automobiles) or business interruption insurance. More extensive insurance is either unavailable in China or would impose a cost on our operations that would reduce our competitiveness with other producers.

#### Seasonality

Our business is not seasonal.

## Regulatory Overview

Producers of alumina and primary aluminum are subject to national industrial policies and relevant laws and regulations in areas of environmental protection, import and export, land use, foreign investment regulation and taxation. We are also subject to regulations relating to activities such as mining.

We are principally subject to governmental supervision and regulation by two agencies of the PRC government:

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- \* the NDRC, which sets and implements the major policies concerning China's economic and social development policies, approves investments exceeding certain capital expenditure amounts, including approval of Sino-foreign joint venture projects, coordinates economic development of state-owned enterprises and oversees their reform, formulates industrial policies and investment guidelines for all industries including the aluminum industry; and
- \* the Ministry of Land and Resources, which has the authority to grant land use licenses and mining right permits.

The following is a brief summary of the principal laws, regulations, policies and administrative directives to which we are subject.

### Requirements for New Entrants and Other Capital Investments

The constructions of new alumina refineries, the expansions of primary aluminum smelters and mining projects in which the amount of total investment exceeds RMB500 million require prior approval by the NDRC, the important projects among which shall be approved by the State Council. Any nonferrous metals projects and rare earths mining projects in which the amount of total investment exceeds RMB5,000 million shall be approved by the NDRC and filed with the State Council for record. All other projects shall be filed with the local competent investment authorities for record disregarding the scale of such projects. Moreover, in order to obtain governmental approval for its establishment, a new alumina refinery must have an annual production capacity of at least 500,000 tonnes if it uses the sintering process, 400,000 tonnes if it uses the hybrid Bayer-sintering process or 300,000 tonnes if it uses the Bayer process. Effective September 1, 1999, the former State Economic and Trade Commission, has prohibited construction of any new smelter with less than 100,000 tonnes in annual primary aluminum production capacity. All legal and regulatory requirements for new projects and other capital investments in the alumina and aluminum industries apply equally to us. Accordingly, we are required to obtain all necessary governmental approvals for our capital expenditure plans.

Any capital markets financing activities, for example, to finance a capital project, are subject to approval by securities regulatory authorities and other relevant authorities in China, regardless of whether the funds are raised in China or on the international capital markets. An issuer of equity securities or equity-linked securities in the PRC must obtain prior approval from the CSRC. For the issuance of equity or equity-linked overseas securities, the issuer is also required to obtain approval from the NDRC. Offerings of debt, such as debentures, are subject to approval from the People's Bank of China, as well as the NDRC. For all international financing activities through bank borrowing or issuance of debt, the issuer must obtain prior approval from the State Administration of Foreign Exchange and register with it after the completion of the transaction.

Foreign investment in the production of alumina and primary aluminum is encouraged by the PRC government subject to various conditions. Wholly foreign-owned companies may conduct bauxite mining operations in the western region of China, but bauxite mining activities in other regions of China may only be conducted jointly with PRC entities in the form of a joint venture. Foreign investment in the aluminum industry in China, if permitted and approved, is eligible for favorable tax treatment and other incentives available under PRC law to encourage foreign investment in China.

### Pricing

The PRC government does not impose any limitations with respect to the pricing of alumina, primary aluminum and related products. Thus, alumina and primary aluminum producers are free to set prices for their products. All the raw materials, supplemental materials and other supplies that we purchase are based on market prices, except for electricity, the price of which is described below. Freight transportation on the national railway system is subject to government mandated pricing.

### Electricity Supply and Price

The State Power Supervision Commission is responsible for the supervision and administration of the power industry in China. The NDRC and local governments regulate electricity pricing. Electricity suppliers may not change their electricity prices without governmental authorization.

The Electric Power Law and related rules and regulations govern electricity supply and distribution. Currently, China's state-owned power companies, through their respective local subsidiaries, operate all the regional power grids in China from which we obtain most of our electricity requirements.

### Regulations Concerning Imports and Exports of Alumina and Primary Aluminum

Imports of alumina into China are subject to import tariffs. The current standard tariff rate for alumina is 5.5%. Imports of primary aluminum into China are also subject to import tariffs currently at the rate of 5%. There are no governmental restrictions on exports of alumina or primary aluminum.

### Environmental Protection Laws and Regulations

The State Environmental Protection Administration of China is responsible for uniform supervision and control of environmental protection in China. It formulates national environmental quality and discharge standards and monitors China's environmental system. Environmental protection bureaus at the county level or above are responsible for environmental protection within their areas of jurisdiction.

Environmental regulations require companies to file an environmental impact report with the relevant environmental bureau for approval before undertaking the construction of a new production facility or any major expansion or renovation of an existing production facility. New facilities built pursuant to this approval are not permitted to operate until the relevant environmental bureau has performed an inspection and is satisfied that the facilities are in compliance with environmental standards.

The Environmental Protection Law requires any facility that produces pollutants or other hazards to incorporate environmental protection measures in its operations and establish an environmental protection responsibility system. Such system includes adoption of effective measures to control and properly dispose of waste gases, waste water, waste residue, dust or other waste materials. Any entity that discharges pollution must register with the relevant environmental protection authority.

Remedial measures for breaches of the Environmental Protection Law include a warning, payment of damages or imposition of a fine. Any entity undertaking a construction project that fails to install pollution prevention and control facilities in compliance with environmental standards for a construction project may be ordered to suspend production or operations and may be fined. Criminal liability may be imposed for a material violation of environmental laws and regulations that causes loss of property or personal injuries or death.

#### Mineral Resources Laws and Regulations

All mineral resources in China are owned by the State under the current Mineral Resources Law. Exploration, exploitation and mining operations must comply with the relevant provisions of the Mineral Resources Law and are under the supervision of the Ministry of Land and Resources. Exploration and exploitation of mineral resources are also subject to examination and approval by the Ministry of Land and Resources and relevant local authorities. Upon approval, a mining permit is issued by the relevant administrative authorities, which are responsible for supervision and inspection of mining exploitation in their jurisdiction. Annual reports are required to be filed by the holders of mining rights with the relevant administrative authorities.

The PRC government permits mine operators of collectively owned mines to exploit mineral resources in designated areas and individuals to mine scattered mineral resources. Such mine operators and individuals are subject to government regulation. Mining activities by individuals are restricted. Individuals are not permitted to exploit mineral reserves allocated for exploitation by a mining enterprise or company or protected reserves. Indiscriminate mining that damages mineral resources is prohibited.

If mining activities result in damage to arable land, grassland or afforested area, the mining operator must take measures to return the land to an arable state within the prescribed time frame. Any entity or individual which fails to fulfill its remediation obligations may be fined and denied application for land use rights for new land by the relevant land and natural resources authorities.

It is unlawful for an entity or individual to conduct mining operations in areas designated for other legal mining operators. A mining operator whose exploitation causes harm to others in terms of production or in terms of living standards is liable for compensation and is required to take necessary remedial measures. When a mine is closed, a mine closure report and information concerning the mining facilities, hidden dangers, remediation and environmental protection must be submitted for examination and approval in accordance with the relevant law.

The mineral products illegally extracted and the income derived from such activities may be confiscated and may result in fines, revocation of the mining permit and, in serious circumstances, criminal liability.

#### ORGANIZATIONAL STRUCTURE



We are organized as a joint stock limited company under PRC law. Chinalco, China Cinda, China Construction Bank, China Orient, China Development Bank, Guangxi Investment, Guizhou Development and our public shareholders (not including Alcoa) own 42.14%, 8.15%, 6.42%, 5.45%, 5.02%, 1.78%, 1.17% and 21.87%, respectively, of our issued share capital. Alcoa owns approximately 8.0% of our issued share capital.

Shandong Aluminum, a significant subsidiary incorporated in the PRC and located in Shandong Province, in which we hold a 71.4% interest, is a joint stock limited company established under PRC law. Its A shares are traded on the Shanghai Stock Exchange.

Lanzhou Aluminum, our associate company incorporated in the PRC and located in the Gansu Province, in which we hold 28% interest, is a joint stock limited company established under the PRC law. Lanzhou Aluminum's A shares were listed on the Shanghai Stock Exchange.

Shanxi Huaze, a significant subsidiary incorporated in the PRC and located in Shanxi Province, in which we hold 60.0% interest, is an equity joint venture company established under PRC law.

### PROPERTY, PLANT AND EQUIPMENT

#### Land

Chinalco leases to us 453 pieces or parcels of land, which are located in six provinces, covering an aggregate area of approximately 58.3 million square meters for the purposes of all aspects of our operations and businesses. The leased land consists of:

- \* 433 pieces of allocated land with an area of approximately 57.8 million square meters, for which Chinalco has obtained authorization from the relevant administrative authorities to manage and lease the land use rights. Chinalco has obtained land use rights certificates in respect of 423 parcels of allocated land, with an aggregate area of approximately 56.4 million square meters, and land entitlement certificates in respect of the remaining ten parcels of land leased to us with an aggregate area of approximately 1.4 million square meters; and
- \* 20 pieces of granted land with an area of approximately 488,586.3 square meters for which Chinalco has paid the land premiums and has been granted the land use rights certificates.

The land is leased for the following terms:

- \* allocated land: 50 years commencing from July 1, 2001 (except for land use rights of mines operated by us, the leased term for each shall end on the expiry date of the mining rights or at the end of the actual mine life, whichever is earlier); and
- \* granted land: until expiry of the relevant land use right permits.

The land entitlement certificates relating to the ten pieces of land held by Chinalco with an aggregate area of approximately 1.5 million square meters expired on December 31, 2001. Chinalco has, in accordance with its undertaking in the Land Use Rights Leasing Agreement, applied for land use right certificates for the ten pieces of land from the relevant land administrative bureaus on or before December 31, 2001. Chinalco has also undertaken to pay all costs arising from such application, to be responsible for any disputes, claims, damages, proceedings, arbitration, payments, costs and expenses arising from those land use rights and to indemnify for all of our losses or damages which we may suffer as a result of these circumstances.

### Buildings

Our principal executive offices, which we lease from Chinalco, are located at No. 12B Fuxing Road, Haidian District, Beijing, People's Republic of China 100814.

Pursuant to the reorganization, Chinalco transferred to us, among other operating assets, ownership of the buildings and properties for the operation of our core businesses, with Chinalco retaining the remaining buildings and properties for Chinalco's remaining operations. The buildings transferred to us comprise 4,631 buildings with an aggregate gross area of approximately 4.2 million square meters.

The buildings transferred to us pursuant to the reorganization, which are located on land leased from Chinalco, may be sold or transferred only with the consent of Chinalco and in accordance with applicable land transfer procedures. Chinalco has undertaken to provide its consent and the necessary assistance to effect land grant procedures to ensure that our buildings can be legally transferred or sold.

We and Chinalco also lease to each other a number of other buildings and properties for ancillary uses, which comprise mainly buildings for offices, dormitory, canteen and storage purposes. We lease 59 buildings to Chinalco, with an aggregate gross area of approximately 62,819 square meters. Chinalco leases 100 buildings to us, with an aggregate gross area of approximately 273,637 square meters. The leased terms of all these buildings are 20 years commencing from July 1, 2001. Chinalco has obtained proper land and building title certificates for all of the buildings it leases to us by the end of 2004. We also leased from China Aluminum Development Company Limited, a wholly owned subsidiary of Chinalco, 30,160.81 square meters of office space for a term of three years commencing from March 28, 2005 for a consideration of RMB61.6 million per annum. See "Item 7 - Major Shareholders and Related Party Transactions - Related Party Transactions - Tenancy Agreement."

For environmental issues in relation to the utilization of our assets, please refer to "Item 4. Environmental Protection".

### Our Expansion and Profit Improvement Plan

Our capital expansion plan for 2006 requires a total of RMB14,000 million in capital expenditures, of which RMB6,400 million is expected to be used in technological upgrade and construction in progress, RMB3,600 million is expected to be used for new projects and the remaining RMB4,000 million is expected to be used in acquisition of primary aluminum facilities. Of the total planned capital expenditure of RMB14,000 million in 2006, RMB6,700 million is expected to be used for investment in our alumina segment and the remaining RMB7,300 million is expected to be used for primary aluminum segment projects. For more information, see "Item 5. Operating and Financial Review and Prospectus - Capital Expenditure Plan."

The following table shows the expected aggregate effects of our expansion and improvement plans for our alumina and primary aluminum production facilities for 2006:

#### Planned Capital

|                  | Investment for 2006 | Production Capacity<br>as of<br>December 31, 2005 | Expected Production<br>Capacity<br>as of December 31,<br>2006 |
|------------------|---------------------|---|---|
|                  | (RMB in millions)   | (in thousand tonnes)                              |   |
| Alumina          | 6,700               | 8,330   | 9,050   |
| Primary aluminum | 7,300               | 1,499 <sup>(1)</sup>                              | 3,000 <sup>(1)</sup>  |

- (1) The amounts include 160,000 tonnes of production capacity and 160,000 tonnes of expected production capacity of Lanzhou Aluminum, which is our associated company owned as to 28% of its equity

interest whose results of operations are not consolidated into our financial statements. Production capacity presented above represents 100% of Lanzhou Aluminum's smelting capacity. See Note 10(b) to our audited financial statements

Capital expenditures are expected to further expand our alumina and primary aluminum production capacities to further enhance synergies arising from economy of scale, vertical integration and reduction of our unit production cost.

During 2005, we were engaged in the following expansion or technical improvement projects:

1. Shanxi Alumina Project.

We began construction of phase three of our Shanxi refinery in August 2003 and substantially completed construction in December 2005. This project cost RMB3,920 million and increase the alumina production capacity of our Shanxi plant by 800,000 tonnes.

2. Henan Alumina Project.

We commenced the construction of an alumina production facility with a production capacity of 700,000 tonnes of alumina in November 2003 and the construction was substantially completed in December 2005. The project cost RMB2,755 million.

3. Zhongzhou Alumina Project.

This first series 300,000-tonne ore-dressing alumina production facility has been completed and began production at the beginning of 2004. The project cost RMB1,300 million. Construction in the second production line of this 300,000-tonne ore-dressing alumina

project commenced in April 2004, and was substantially completed in mid 2005. The total investment of the second production line is RMB1,020 million.

4. Guangxi Alumina Project.

We established a joint venture company, Guangxi Huayin Aluminum Co., Ltd., with Guangxi Associate and China Minmetals on February 18, 2003 to undertake the construction of an alumina plant to exploit the discovery of a bauxite deposit in western Guangxi Zhuang Autonomous Region. We conducted feasibility studies to construct an alumina plant with an annual output of 1,600,000 tonnes (the "Phase One Project"), which was approved by the NDRC on May 23, 2005. On July 31, 2005, we entered into a Supplemental Agreement with Guangxi Associate and China Minmetals to amend the Shareholders' Capital Contribution Agreement dated February 15, 2003. According to the Supplemental Agreement, the total investment of Guangxi Huayin Aluminum Co., Ltd. was increased from RMB10 million to RMB8,491.0 million and 25% of which will be contributed by the shareholders according to their proportionate shareholding in the joint venture company. As a result, we, Guangxi Associate and China Minmetals will contribute RMB701 million, RMB721.5 million and RMB701 million, respectively, from 2005 to 2007. In order to satisfy the working capital requirements of the joint venture company, we, Guangxi Associate and China Minmetals advanced RMB49.5 million, RMB51 million and RMB49.5 million in 2004, which was capitalized on a pro rata basis and used to settle a portion of the first installment payable in 2005. We contributed the first installment amounting to RMB116.9 million on August 4, 2005 and expect to contribute the remaining installments in 2006 and 2007 with internal resources. The remaining 75% of the total investment of the joint venture company will be financed by bank loans. For more details, please refer to "Item 4 - Information on the Company - Business Overview - Production Facilities."

5. Other projects in our alumina segment include environmental projects (e.g. waste treatment and disposal, facilities improvement for environmental protection), projects to improve alumina and alumina chemicals product quality, maintenance projects for bauxite mines, equipment replacement and other projects to sustain our existing production capacity.

6. Shanxi Huaze Project.

We established a joint venture company, Shanxi Huaze Aluminum & Power Co. Ltd., with Shanxi Zhangze Electricity Company Limited, or Shanxi Zhangze, on March 30, 2003 to undertake the construction of a primary aluminum plant and a power co-generation facility. The projected annual production capacity of the facility was 280,000 tonnes of primary aluminum and 160,000 tonnes of carbon anodes. The new facility will include a power plant with two 300 MW coal-fired generators. The total investment is projected to be RMB5,730 million. We will contribute RMB900 million for a 60% equity

interest and Shanxi Zhangze would contribute RMB600 million for a 40% equity interest. The total investment amount above the RMB1,500 million in capital contributed by the joint venture parties will be financed from external sources. The term of the joint venture is 30 years from March 30, 2003. We commenced the construction of the smelter and power plant in September 2003 and the construction was substantially completed at the end of 2005.

7. Qinghai Primary Aluminum Project. We commenced construction of primary aluminum smelter in 2003. The project cost RMB1,000 million. We completed the construction with an annual production capacity of 85,000 tonnes in March 2005.
8. Guizhou Primary Aluminum Project. We commenced construction of this primary aluminum smelter in August of 2003. The project cost RMB1,780 million. We completed this brownfield project, with production at the designed capacity of 175,000 tonnes of primary aluminum in December 2005.
9. Lanzhou Aluminum. In January 2005, we entered into an agreement with Lanzhou Aluminum Plant to acquire 151,851,442 shares, or 28% of the total issued share capital in Lanzhou Aluminum for a consideration of RMB767.3 million. The acquisition was completed in March 2005 and Lanzhou Aluminum became our associated company whose results of operations are not consolidated into our financial statements. Lanzhou Aluminum owns one primary aluminum smelting plant with total production capacity at approximately 160,000 tonnes per annum.

We intend to fund these capital expenditures through a combination of internal funds derived from our own operations, the expected proceeds from the proposed A Shares Offering and bank financing. See "Item 4. Information on the Company - The Proposed A Shares Offering" for details.

The preceding paragraphs provide a summary of our current capital expenditure plans for our major projects. These plans have been developed based on facts currently known to us, assumptions we believe to be reasonable and our estimates of market and other conditions. They may change as circumstances change, and may be modified as our business plans evolve. Other than as required by law, we do not undertake any obligation to publish updates of our plans or their implementation status.

## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis should be read in conjunction with our audited financial statements, and selected historical financial data, in each case together with the accompanying notes, included elsewhere in this annual report. This section contains certain expressions such as "expect", "anticipate", "believe", "seek", "estimate", "intends", "should", or "may" which are forward-looking statements involving risks and uncertainties. See "Item 3 Key Information Risk Factors". Forward-looking statements are not guarantees of our future performance or results and our actual results could materially differ from disclosed in the forward-looking statements.

We have changed certain of our accounting policies following the adoption of HKFRSs effective for accounting periods commencing on or after January 1, 2005. As a result, we have reclassified/restated certain income statement and balance sheet data for the years ended December 31, 2001, 2002, 2003 and 2004. See Note 2(a) to our audited financial statement for the changes to our accounting policies and the effect of adopting the HKFRSs. Our audited financial statements are prepared in accordance with HK GAAP which differs in certain material respects from U.S.

GAAP. Note 33 to our audited financial statements provides a reconciliation of our financial statements to U.S. GAAP in accordance with Item 18 of Form 20-F.

### The Reorganization

Prior to the reorganization conducted in preparation for the global offering, we did not exist as a separate legal entity. Our operations were conducted by Chinalco and its predecessors. As part of the reorganization, Chinalco transferred to us assets and liabilities related to seven alumina and primary aluminum production plants and our Research Institute. Because Chinalco controlled these operations prior to the reorganization and still controls us, accordingly, in those financial statements,

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the assets and liabilities transferred to us have been stated at historical amounts and the results of our operations have been presented as if our operations had already been transferred to us from Chinalco. In addition, those financial statements also reflect the assets, liabilities, turnover and expenses of operations retained by Chinalco in the reorganization, including one bauxite mine, two limestone quarries and a carbon plant, which were directly related to our alumina and primary aluminum operations. In addition, because of the asset reorganization and the related carve-out accounting, those financial statements reflect various historical payments as distributions to Chinalco that are not expected to be indicative of future practices or results.

Since July 1, 2001, our financial statements as included in this annual report have been prepared using the acquisition accounting method having given effect to our incorporation and the reorganization. Accordingly, the assets and liabilities transferred to us have been restated at fair value and the assets, liabilities, turnover and expenses of operation retained by Chinalco are not reflected. Since July 1, 2001, all transactions have been recorded at government guidance price, market price or at contractual price (cost plus a margin).

### Critical Accounting Policies

We have identified a number of accounting policies below as critical to our business operations and the understanding of our results of operations. Some of our accounting policies require our management to make significant judgments relating to estimates and assumptions about the effects of circumstances to reported amounts in our financial statements. We have established procedures and processes to facilitate the making of such judgments in the preparation of our financial statements. See Note 2 to our audited financial statements for the impact of such accounting policies and any associated risks relating to these policies on our results of operations. Our management has identified areas of uncertainty and the variables most important in making the necessary estimates. Management has used the best information available but actual performance may differ from our management's estimates and future changes in key variables could change future reported amounts in our financial statements.

### Property, Plant and Equipment

The carrying amounts of long-lived assets are reviewed whenever events or changes in circumstances indicate that the book value of the assets may not be recoverable. An impairment exists when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is measured at the higher of net selling price or value in use, calculated based on discounted future pre-tax cash flows related to the asset or the cash generating unit to which the assets belong. A cash generating unit is the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or group of assets. Estimates of

future cash flows include the cash inflows from continuing use of the asset and cash outflows to prepare the asset for use that can be directly attributed, or allocated on a reasonable and consistent basis, to the asset. If applicable, estimates also include net cash flows to be received (or paid) for the disposal of the asset at the end of its useful life. We determine the estimated useful lives of our property, plants and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, and will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Management made a number of significant assumptions and estimates in the application of the discounted future cash flow model to forecast operating cash flows, including business prospects, market conditions, selling prices and sales volume of products, costs of production and funding sources. If there is an indication of impairment, the carrying value of such assets is written down to its recoverable amount. Results in actual transactions could differ from those estimates used to evaluate the impairment of such long-lived assets.

#### Goodwill

Goodwill represents the excess of purchase consideration over the fair values ascribed to the separable net assets of entities acquired. Until December 31, 2004, under HK GAAP, goodwill resulting from acquisitions under purchase accounting was recognized as an intangible asset and amortized on a straight-line basis over its estimated useful economic life of not more than 20 years. In accordance with the provisions of HKFRS 3 effective from January 1, 2005, the Group has ceased amortization of goodwill. Separately recognized goodwill is tested annually for impairment and

carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating that are expected to benefit from the business combination in which the goodwill arose. Impairment losses on goodwill are not reversed. Under U.S. GAAP, annual amortization of this amount ceased effective from January 1, 2002. Goodwill is subject to annual impairment testing and is written down if carrying value exceeds fair value. Management made a number of significant assumptions and estimates in the application of the discounted future cash flow model to forecast operating cash flows, including business prospects, market conditions, selling prices and sales volumes of products, costs of production and funding sources. Management considers both past data and all currently available information at the time the valuations of its businesses are performed. Results in actual transactions could differ from those estimates used to evaluate the impairment of goodwill.

#### Income tax

We are subject to enterprise income tax liabilities in the local jurisdictions within the PRC in which we operate. Due to uncertainties relating to the enforcement and interpretation of PRC tax laws as well as the lack of confirmation by the local tax authorities, our management have made certain estimates and judgments based on current PRC tax laws, regulations and other related policies in determining whether a provision of enterprise income taxes should be made or the amount of provision which should be made. If the management's estimates or judgments differ from the interpretation or enforcement by the central or local tax authorities, the income tax provision may vary in future periods.

#### Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. In calculating the net realizable value of inventories, management must make a number of significant estimates of the selling price of inventories and related transaction costs in the ordinary course of business based on market conditions and the historical experience of manufacturing and selling products of similar nature, which are reviewed on each balance sheet date. Management's estimates of the selling price of inventories and related transaction costs in the ordinary course of business may differ from the actual selling price of inventories and related transaction costs in the ordinary course of business.

#### Provisions for Accounts and Other Receivables

Provision is made against accounts and other receivables when future collections are considered doubtful. In assessing the timing and amounts for these provisions, management must make a number of significant assumptions and estimates in the application of aging and specific identification analysis using past history and collections' experience, market conditions, potential events and circumstances affecting future collections and the credit status of specific customers, which are reviewed on each balance sheet date. Management's assessment of future collections of receivables may differ from the timing and amounts of the actual collections in future periods.

#### U.S. GAAP Reconciliation

Our financial statements are prepared in accordance with HK GAAP, which differs in various material respects from U.S. GAAP. See Note 33 to our audited financial statements. The summary of differences involve management's estimates and assumptions which may affect the reported amounts of assets and liabilities, the disclosure regarding contingent assets and liabilities and revenues and expenses.

#### New/Revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards

The Hong Kong Institute of Certified Public Accountants, or HKICPA, has issued a number of new/revised Hong Kong Financial Reporting Standards, or HKFRSs, and Hong Kong Accounting Standards, or HKAS, collectively referred to as "HK GAAP", which are effective for accounting periods beginning on or after January 1, 2005. We have adopted these new/revised HKFRSs and HKAS in the financial statements for the year ended December 31, 2005 and reclassified/restated certain income statement and balance sheet data in accordance with the relevant requirements for the years ended December 31, 2001, 2002, 2003 and 2004. See Note 2(a) to our audited financial statements beginning on Page F-9.

#### Overview

We are the largest producer of alumina and one of the largest producers of primary aluminum in China. We are also the second largest producer of alumina in the world in terms of production volume for the year ended December 31, 2005. We are engaged primarily in alumina refining and primary aluminum smelting operations. We report our financial results according to the following business segments:

- \* Alumina segment, which consists of mining and purchasing bauxite and other raw materials, refining bauxite into alumina, and selling alumina both internally to our primary aluminum smelters and externally to customers outside of our company. To a lesser extent, this segment also includes the production and sale of alumina chemical products and



gallium.

- \* Primary aluminum segment, which consists of procuring alumina and other raw materials (including recycled aluminum), supplemental materials and electricity, smelting alumina to produce primary aluminum, and selling substantially all our primary aluminum products to external customers. To a lesser extent, this segment includes production and sales of carbon products.
- \* Corporate and other services segment, which includes our headquarters' operations, research conducted by our research institutes and provision of our research and development services to third parties.

#### Factors Affecting Our Operating Performances

Although we were incorporated on September 10, 2001 as a result of the reorganization, our financial statements and this discussion present our operating performances:

- \* as if we had been in existence throughout the relevant periods; and
- \* as if our operations and businesses (and various other operations including a carbon plant, one bauxite mine and two limestone quarries which were retained by Chinalco in the reorganization which took effect on July 1, 2001) were transferred to us as of January 1, 1998 and were conducted by us throughout the period ended June 30, 2001.

Our operating performances and the period-to-period comparability of our financial results are affected by a number of external factors. Our financial statements may not be indicative of our future earnings, cash flows or financial position for numerous reasons including those described below.

#### Alumina Prices

We set uniform prices for all our external sales of alumina by reference to import costs of alumina, the market supply and demand conditions as well as our short-term and mid-term projections. Our pricing generally takes into account:

- \* free-on-board Australia prices for alumina exports into China;
- \* international transportation costs;
- \* the applicable standard PRC import tariff;
- \* value-added tax at 17%;
- \* import related fees; and
- \* domestic demand and supply conditions.

The international market prices for alumina fluctuates from time to time, and such fluctuation affects the price of our alumina, which tracks changes in the international market prices. In 2005, the market prices of alumina has made a historic record. The highest spot price of alumina in the international market supplied to China during 2005 reached US\$600 per tonne. The annual average

rice of alumina reached US\$370 per tonne, representing an increase of 6.3% over 2004. The annual average spot price of domestic alumina remain relatively high in 2005. The highest spot price of alumina in the domestic market was RMB5,200 per tonne. Our annual average price of alumina reached RMB3,824, including value-added tax, per tonne which represented an increase of 1.2% over 2004.

In 2005, the global alumina output was 61,200,000 tonnes. Due to a relatively small number of newly commenced alumina production projects in the global market, the consumption of alumina in the global market grows at a pace faster than the growth in production of alumina. As a result, the existing production output of alumina in the global market is unable to fully satisfy the demand for alumina of approximately 62,400,000 tonnes thereby leaving a shortfall of supply by 1,200,000 tonnes. In 2005, a shortfall of supply of alumina in China's domestic market remained. China's domestic alumina output was approximately 8,500,000 tonnes, representing a stable growth of 20.9% over 2004. China's domestic consumption continued to grow to approximately 16,600,000 tonnes, representing an increase of 18.7% over 2004. The volume of imports reached 7,000,000 tonnes in 2005, representing a growth of 19.0% over 2004. China relied on import for nearly half of its alumina consumption.

Internationally, the customary practice for alumina pricing under long-term contracts is by reference to the LME prices for primary aluminum. Since April 2001, we have entered into a number of domestic long-term alumina sales contracts with three-year terms, under which the sales price is set as a percentage of the three-month primary aluminum prices on the Shanghai Futures Exchange. As a result, fluctuations of primary aluminum prices on the Shanghai Futures Exchange can affect our alumina prices under these long-term contracts, and such effects may increase as we increase the proportion of alumina sales under long-term contracts. We entered into three-year alumina sales contracts with third parties since January 1, 2004. We sold approximately 2,400,000 tonnes of alumina under three-year contracts in 2005.

#### Primary Aluminum Prices

Like most primary aluminum producers in China, we price our primary aluminum products by reference to Shanghai Futures Exchange spot prices. The Shanghai Futures Exchange primary aluminum spot prices generally reflect LME primary aluminum spot prices, plus an amount on account of international transportation, import tariffs, value-added tax and other import-related costs. Thus, fluctuations in the Shanghai Futures Exchange (and, by extension, the LME) spot prices affect our operating performances. Primary aluminum prices on the Shanghai Futures Exchange and LME tend to be cyclical and volatile. The following table sets out the average three-month primary aluminum futures price on LME and the Shanghai Futures Exchange in 2003, 2004 and 2005.

|     | 2003                    | 2004    | 2005    |
|-----|-------------------------|---------|---------|
|     | _____                   | _____   | _____   |
|     | (U.S. Dollar per tonne) |         |         |
| LME | 1,433.0                 | 1,723.0 | 1,900.0 |

|                           |         |         |         |
|---------------------------|---------|---------|---------|
| Shanghai Futures Exchange | 1,499.1 | 1,695.0 | 1,782.0 |
|---------------------------|---------|---------|---------|

Global and domestic demand for primary aluminum continued to increase in 2005, resulting in a significant increase in primary aluminum prices. The highest three-month primary aluminum futures price on LME in 2005 reached US\$2,289 per tonne, a record high for the past seventeen years.

In 2005, the growth rate in aluminum consumption in China was approximately 18.0% per year as a result of the rapid growth in its economy. China consumed approximately 7,100,000 tonnes of primary aluminum in 2005. Principal consumers in China for primary aluminum include the companies operated in construction, auto, electric power and packaging industries. Total primary aluminum production volume in China was approximately 7,800,000 tonnes in 2005, representing an increase of 16.7% over 2004. The net export volume of domestic primary aluminum was approximately 710,000 tonnes in 2005.

#### Electricity Prices

The smelting of primary aluminum requires a substantial and continuous supply of electricity. Therefore, the availability and price of electricity are key considerations in our primary aluminum production operations. Interruptions of electricity supply can result in lengthy production shutdowns, increased costs associated with restarting production and waste of production in progress. In extreme cases, interruptions of electricity supply can also cause damage to or destruction of the equipment and facilities. We encountered severe shortages of electric power supply in 2004 and shortages were

gradually relieved in 2005. The average electricity shortage in 2005 led to an increase of electricity price of approximately 5.9%, which in turn caused our unit production cost for primary aluminum to increase by 1.9% in 2005 as compared to 2004. Currently, all of our production facilities enjoy preferential electricity prices granted by local government authorities.

#### Debt and Financing Costs

Our financing costs consist predominantly of interest expenses on our borrowings. The majority of our debt has been incurred to fund our capital expenditures. Interest rates on loans related to capital expenditures and working capital set by banks generally follow guidelines issued by the People's Bank of China. The People's Bank of China reduced interest rates for commercial loans chargeable by state-owned banks in 2003 and 2004, which correspondingly reduced our interest expense on our floating rate loans during these periods. In addition, our plants historically received loans from state-owned banks with reduced interest rates (and in some instances interest free) as a form of government support for our projects. We expect that such preferential interest rate loans will continue to be available to us in the future.

#### Consolidated Operating Performances

The following table sets forth, for the periods indicated, certain income and expense items as a percentage of our turnover from our consolidated statements of income:

Years Ended December 31,

|                                      | 2003   | 2004   | 2005   |
|--------------------------------------|--------|--------|--------|
| Turnover                             | 100.0% | 100.0% | 100.0% |
| Cost of goods sold                   | 70.8   | 66.5   | 66.9   |
| Gross profit                         | 29.2   | 33.5   | 33.1   |
| Other revenues, net                  | 0.2    | 0.3    | 0.3    |
| Selling and distribution expenses    | 2.4    | 2.0    | 1.9    |
| General and administrative expenses  | 4.5    | 3.8    | 4.1    |
| Research and development expenses    | 0.7    | 0.4    | 0.3    |
| Operating income                     | 21.8   | 27.6   | 27.2   |
| Finance costs                        | 1.9    | 0.3    | 1.0    |
| Operating income after finance costs | 19.9   | 27.2   | 26.2   |

Sales to Chinalco and its subsidiaries, jointly controlled entities and other related parties accounted for approximately 5.4% and 10.2% of consolidated turnover for the two years ended December 31, 2004 and 2005, respectively. For information on related party transactions, see "Item 7 - Major Shareholders and Related Party Transactions - Related Party Transactions" and Note 32 to our audited financial statements.

#### Year Ended December 31, 2005 Compared with Year Ended December 31, 2004

##### Turnover

Turnover from sales of alumina and primary aluminum increased by 14.9% from RMB32,313.1 million for the year ended December 31, 2004 to RMB37,110.3 million for the year ended December 31, 2005, representing an increase of RMB4,797.2 million. The increase was primarily due to the increase in selling prices of our alumina and primary aluminum, and a growth in external sales volume of such products. Other revenues after deduction of related expenses increased by 14.9% from RMB101.3 million for the year ended December 31, 2004 to RMB116.4 million for the year ended December 31, 2005, representing an increase of RMB15.1 million. The increase was primarily due to the provision of transportation, machinery processing and production design services.

For 2005, our average external selling price for alumina reached RMB3,268.3 per tonne (tax excluded, similarly hereinafter), representing an increase of RMB38.7 per tonne or 1.2% from RMB3,229.7 per tonne for the previous year. Our average external selling price for primary aluminum reached RMB14,264.0 per tonne, representing an increase of RMB507.7 per tonne or 3.7% from RMB13,756.3 per tonne for the previous year. Our external sales volume of alumina increased by 10.2% from 4,900,000 tonnes for the year ended December 31, 2004 to 5,400,000 tonnes for the year ended December 31, 2005 due to commencement of operations of our alumina production facilities in Shanxi, Henan and Zhongzhou in 2005. Our external sales volume of primary aluminum increased by 19.0% from 760,600 tonnes for the year ended December 31, 2004 to 905,000 tonnes for the year

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ended December 31, 2005, of which approximately 67,600 tonnes was attributable to the technological upgrade of our Qinghai smelter, approximately 33,800 tonnes was attributable to the commencement of operation of Shanxi Huaze and approximately 43,000 tonnes was attributable to the technological upgrade of our existing primary aluminum production facilities.

#### Cost of Goods Sold

Our total cost of goods sold increased by 15.4% from RMB21,503.3 million in 2004 to RMB24,822.1 million in 2005. The increase was mainly attributable to a growth in external sales volume of alumina and primary aluminum, which contributed to 10.2% of the increase in cost of goods sold, as well as increases in raw material and fuel prices.

#### Selling and Distribution Expenses

Our selling and distribution expenses increased by RMB39.2 million from RMB647.5 million in 2004 to RMB686.7 million in 2005, or 6.1%. The increase was primarily attributable to the increase in transportation and loading expenses resulted from the increase in external sales volume of primary aluminum.

#### General and Administrative Expenses

General and administrative expenses increased by 24.7% from RMB1,220.9 million in 2004 to RMB1,523.3 million in 2005. The increase was mainly due to (i) an increase of RMB128.0 million resulting from start-up costs due to the commencement of operations of Shanxi Huaze and newly established branch offices; (ii) an increase of RMB56.0 million in tax expenses other than income tax corresponding with our business expansion; (iii) an increase of RMB45.0 million in rental for new office space; (iv) an increase of RMB34.0 million in establishment of internal control system and installation of enterprise resource planning system; and (v) an increase of RMB10.0 million in insurance premiums on coverage of new production facilities.

#### Research and Development Expenses

Our research and development expenses decreased by 14.5% from RMB132.6 million in 2004 to RMB113.4 million in 2005. The decrease was due to the decrease in expenses occurred in the research and development projects carried out in 2005.

#### Net other Revenues

Net other revenues increased from RMB101.3 million in 2004 to RMB116.4 million in 2005 due to the gain of RMB5.8 million in 2005 made by our subsidiary, China Aluminum International Trading Co., Ltd., from futures contracts of primary aluminum compared to a loss of RMB25.5 million in 2004.

#### Operating Income

Our operating income increased by 13.1% from RMB8,910.1 million in 2004 to RMB10,081.2 million in 2005. Our operating income as a percentage of turnover decreased from 27.6% in 2004 to 27.2% in 2005.

#### Finance Costs

Our finance costs increased by RMB257.0 million, or 233.8%, from RMB109.9 million in 2004 to RMB366.9 million in 2005. The increase of RMB257.0 million was a result of RMB283.0 million of interest expense incurred by increased borrowings for newly commenced projects, which was partially offset by RMB26.0 million of foreign exchange gains derived from foreign currency loans due to Renminbi appreciation. In particular, the increase of RMB189.0 million was attributable to the increase in long-term borrowings, RMB41.0 million was attributable to the increase in interest rates and RMB28.0 million was attributable to finance cost incurred to fund newly commenced projects and interest payable on our short-term bonds. The increase in interest expense was partially offset by the decrease of interest expense resulting from repayment of certain short-term borrowings.

#### Income Taxes

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Our income tax expense increased from RMB2,161.1 million in 2004 to RMB2,495.2 million in 2005, which was mainly attributable to our increased profit before tax. Our effective income tax rate was 25.6% in 2005, which was lower than the statutory tax rate of 33.0%. This was mainly because our three branches situated in Guizhou Province, Guangxi Zhuang Autonomous Region and Qinghai Province in the western region of the PRC were entitled to a preferential income tax rate of 15.0% in connection with the national policy to develop the western region. In addition, some of our plants benefit from tax credits in connection with the investment in the equipment made in China. Such tax credit resulted in tax reduction of approximately RMB73.9 million in 2005. See Note 26(c) to our audited financial statements.

#### Minority Interests

Minority interests decreased from RMB243.5 million in 2004 to RMB224.0 million in 2005 primarily as a result of the loss of RMB42 million incurred by Shanxi Huaze during its start-up operation period to achieve expected production standard.

#### Net Income for the Year attributable to the equity holders of the Company

As a result of the foregoing, our net income attributable to the equity holders of the Company for 2005 increased by 9.9% from RMB6,391.5 million in 2004 to RMB7,022.4 million in 2005.

#### Year Ended December 31, 2004 Compared with Year Ended December 31, 2003

#### Turnover

Turnover from sales of alumina and primary aluminum increased by 39.0% from RMB23,245.9 million for the year ended December 31, 2003 to RMB32,313.1 million for the year ended December 31, 2004, representing an increase of RMB9,067.2 million. The increase was primarily due to the increase in selling prices of our principal products such as alumina and primary aluminum, and a growth in external sales volume of alumina. Other revenues after deduction of related expenses increased by 100.1% from RMB50.6 million for the year ended December 31, 2003 to RMB101.3 million for the year ended December 31, 2004, representing an increase of RMB50.7 million.

For 2004, our average external selling price for alumina reached RMB3,229.7 per tonne (tax excluded, similarly hereinafter), representing an increase of RMB822.0 per tonne or 34.1% from RMB2,407.7 per tonne for the previous year. Our average external selling price for primary aluminum reached RMB13,756.3 per tonne, representing an

increase of RMB1,295.8 per tonne or 10.4% from RMB12,460.5 per tonne for the previous year. Our external sales volume of alumina increased by 16.7% from 4,210,000 tonnes for the year ended December 31, 2003 to 4,870,000 tonnes for the year ended December 31, 2004. Our external sales volume of primary aluminum increased by 1.8% from 747,000 tonnes for the year ended December 31, 2003 to 760,600 tonnes for the year ended December 31, 2004.

#### Cost of Goods Sold

Our total cost of goods sold increased by 30.6% from RMB16,460.3 million in 2003 to RMB21,503.3 million in 2004. The increase was mainly attributable to a growth in external sales volume of alumina, and the increased unit costs of primary aluminum and alumina resulting from the increases in raw material and fuel prices compared to 2003.

#### Selling and Distribution Expenses

Our selling and distribution expenses increased by RMB98.1 million from RMB549.4 million in 2003 to RMB647.5 million in 2004, or 17.9%. The increase was primarily attributable to the increase in transportation, loading and packaging fees by RMB79.1 million, among which RMB56.2 million resulted from the increase in external sales of volume of alumina and RMB16.2 million was the additional fees paid for express delivery or as guarantees to solve transportation bottleneck.

#### General and Administrative Expenses

General and administrative expenses increased by 16.6% from RMB1,047.5 million in 2003 to RMB1,220.9 million in 2004. The increase was mainly due to (i) an increase of RMB94.8 million in tax expenses other than income tax corresponding with our business expansion; (ii) an increase of

RMB30.9 million in remuneration and welfare expenses for management members under our incentive plan as a result of achievement of our operating targets set for 2004, and (iii) an increase of RMB13.4 million in insurance premiums to reflect our policy to increase our insurance coverage.

#### Research and Development Expenses

Our research and development expenses decreased by 30.8% from RMB173.4 million in 2003 to RMB132.6 million in 2004. The decrease was because we strategically held up our new research and development projects in 2004 and placed our emphasis on consolidating our research results from previous years. We will continue to make appropriate investment in research and development activities in the following years.

#### Net other Revenues

Our net other revenues increased from RMB50.6 million in 2003 to RMB101.3 million in 2004. This was mainly because we reached an agreement with a financial institution for early repayment of outstanding principal amounting to RMB16.0 million and as a result saved interest expense totaling RMB9.8 million otherwise payable by us. The increase was also attributable to a net exchange gain of RMB10.9 million realized from our foreign currency deposits obtained from the H shares placement at the beginning of 2004, compared with RMB8.2 million net exchange loss in 2003.

### Operating Income

Our operating income increased by 75.9% from RMB5,066.0 million in 2003 to RMB8,910.1 million in 2004. Our operating income as a percentage of turnover increased from 21.8% in 2003 to 27.6% in 2004.

### Finance Costs

Our finance costs decreased by RMB330.0 million, or 75.0%, from RMB439.9 million in 2003 to RMB109.9 million in 2004. The decrease was mainly attributable to the early repayment of outstanding long-term loans, the prepayment of a portion of our short-term loans and a reduction in average interest rate on our bank loans.

### Income Taxes

Our income tax expense increased from RMB920.2 million in 2003 to RMB2,161.1 million in 2004, which was mainly attributable to our increased profit before tax. Our effective income tax rate was 24.5% in 2004, which was lower than the statutory tax rate of 33.0%. This was mainly because our three branches situated in Guizhou Province, Guangxi Zhuang Autonomous Region and Qinghai Province in the western region of the PRC were entitled to a preferential income tax rate of 15.0% in connection with the national policy to develop the western region. In addition, some of our plants benefit from tax credits in connection with the investment in the equipment made in China. Such tax credit resulted in tax reduction of approximately RMB208.9 million in 2004. See Note 26(c) to our audited financial statements.

Our effective income tax rate increased by 4.6% as compared to 2003. The increase was mainly because Shandong Aluminum, our subsidiary located in Shandong Province ceased to be entitled to a preferential rate of 15.0%. It was taxed at 33.0% in 2004 pursuant to Guo Shui Han 2004 No.319 issued by the Shandong Province Tax Bureau of the PRC at the end of 2004. The change of tax rate caused our income tax expenses to increase by RMB202.5 million. In addition, the fact that we were granted by the State Tax Bureau of the PRC to use tax losses from previous years in 2003 but were not entitled to such benefit in 2004 also contributed to the lower income tax rate applicable to us in 2003. No tax losses were carried forward from December 31, 2004.

### Minority Interests

Minority interests increased from RMB157.4 million in 2003 to RMB243.5 million in 2004 primarily as a result of the increase in the profit of one of our subsidiaries, Shandong Aluminum.

### Net Income for the Year attributable to the equity holders of the Company

As a result of the foregoing, our net income attributable to the equity holders of the Company for 2004 increased by 80.1% from RMB3,549.7 million in 2003 to RMB6,391.5 million in 2004.

### Discussion of Segment Operations

We account for our operations on a segmental basis, that is, separately accounting for the alumina and primary aluminum segments as well as the corporate and other services segment. Unless otherwise indicated, also included in these segments are other revenues derived from such activities as supplying electricity, gas, heat and water to



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affiliates, selling scrap and other materials, and providing services including transportation and research and development to third parties. Interest income and dividends from unlisted securities investments, included in other revenues, are not attributed to any segments. For additional data and information relating to our business segments and segment presentation, see Note 19 to our audited financial statements beginning on page F-46.

The following table sets forth (i) turnover by segment for the periods indicated, and (ii) the contribution of external sales and inter-segment sales for 2005 as a percentage of turnover for such period, both before and after elimination of inter-segment sales.

|                          | Before Elimination of<br>Inter-segment Sales | Before<br>Elimination of<br>Inter-segment<br>Sales | After<br>Elimination of<br>Inter-segment<br>Sales |      |      |
|--------------------------|--|--|---|------|------|
| Years Ended December 31, |  |  |   |      |      |
|                          | 2003   | 2004   | 2005  | 2005 | 2005 |
|                          | RMB  | RMB  | RMB   | %    | %    |

(in millions)

Turnover

Alumina

|                     |          |          |          |      |      |
|---------------------|----------|----------|----------|------|------|
| :                   |          |          |          |      |      |
| External sales      | 12,327.5 | 20,497.5 | 22,853.8 | 54.0 | 61.6 |
| Inter-segment sales | 3,131.7  | 4,226.2  | 5,191.7  | 12.3 | 14.0 |

Primary aluminum

|                |          |          |          |      |      |
|----------------|----------|----------|----------|------|------|
| :              |          |          |          |      |      |
| External sales | 10,845.6 | 11,720.4 | 14,128.5 | 33.4 | 38.1 |

Corporate and other services:

|                |      |      |       |     |     |
|----------------|------|------|-------|-----|-----|
| External sales | 72.7 | 95.1 | 128.0 | 0.3 | 0.3 |
|----------------|------|------|-------|-----|-----|

|  |          |          |          |      |   |
|--|----------|----------|----------|------|---|
| Total turnover before inter-segment eliminations | 26,377.5 | 36,539.2 | 42,302.0 | 100% | - |
|--|----------|----------|----------|------|---|

|                 |           |           |           |   |   |
|-----------------|-----------|-----------|-----------|---|---|
| Eliminations of | (3,131.7) | (4,226.2) | (5,191.7) | - | - |
|-----------------|-----------|-----------|-----------|---|---|

inter-segment sales

|                |          |          |          |   |   |
|----------------|----------|----------|----------|---|---|
|                |          |          |          |   |   |
| Total turnover | 23,245.8 | 32,313.0 | 37,110.3 | - | - |

The following table sets forth, for the periods indicated, turnover, costs of goods sold, other costs net of other revenues and other income, and operating income (loss) by segment before and after elimination of inter-segment transactions.

Years Ended December 31,

|  | 2003          | 2004 | 2005 |
|--|---------------|------|------|
|  | RMB           | RMB  | RMB  |
|  | (in millions) |      |      |

Alumina:

|   |           |            |            |
|---|-----------|------------|------------|
| Turnover  | 15,459.2  | 24,723.7   | 28,045.5   |
| Cost of goods sold                                  | (9,602.3) | (14,386.8) | (16,552.2) |
| Other costs, net of other revenues and other income | (757.7)   | (1,003.5)  | (1,181.1)  |
|   |           |            |            |
| Operating income                                    | 5,099.2   | 9,333.4    | 10,312.2   |

Primary aluminum:

|   |           |            |            |
|---|-----------|------------|------------|
| Turnover  | 10,845.6  | 11,720.4   | 14,128.5   |
| Cost of goods sold                                  | (9,894.4) | (11,239.8) | (13,280.6) |
| Other costs, net of other revenues and other income | (516.4)   | (524.5)    | (616.0)    |
|   |           |            |            |
| Operating income (loss)                             | 434.8     | (43.9)     | 231.9      |

Corporate and other services:

|                    |        |        |        |
|--------------------|--------|--------|--------|
| Turnover           | 72.7   | 95.2   | 128.0  |
| Cost of goods sold | (65.0) | (81.7) | (73.2) |

|  |         |         |          |
|--|---------|---------|----------|
| Other costs, net of other revenues and other income                                      | (86.1)  | (90.3)  | (103.3)  |
| Operating loss   | (78.4)  | (76.9)  | (48.5)   |
| Segment operating income before unallocated operating loss and inter-segment elimination | 5,455.6 | 9,212.6 | 10,495.7 |
| Unallocated operating loss   | (359.4) | (281.4) | (306.6)  |
| Inter-segment elimination  | (30.3)  | (21.1)  | (108.0)  |
| Total operating income   | 5,065.9 | 8,910.1 | 10,081.1 |

Year Ended December 31, 2005 Compared with Year Ended December 31, 2004

#### Alumina Segment

##### Turnover.

Our total turnover of the alumina segment increased by RMB3,321.8 million to RMB28,045.5 million in 2005, a 13.4% increase from RMB24,723.7 million in 2004.

We sold alumina products to our smelters and to other domestic smelters. Turnover from the external sales of alumina in 2005 rose by RMB2,356.3 million, or 11.5% mainly due to an increase in selling price and external sales volume of alumina. The average external selling price of alumina in 2005 increased to RMB3,268.3 per tonne from RMB3,229.7 per tonne in 2004, mainly due to strong domestic demand for alumina. The external sales volume of alumina increased by 10.2% to 5,400,000 tonnes in 2005 from 4,900,000 tonnes in 2004, mainly attributable to the increased demand and our increased production capacity of alumina by 1,900,000 tonnes in 2005 compared to 2004.

Turnover from the sales of alumina to our smelters in 2005 rose by RMB965.5 million, or 22.9%, from 2004, primarily due to our increased production capacity of primary aluminum which required additional alumina as input to satisfy our expanded primary aluminum production capacities.

##### Cost of Goods Sold.

The total alumina segment cost of goods sold in 2005 increased by RMB2,165.4 million, or 15.1%, from RMB14,386.8 million in 2004 to RMB16,552.2 million in 2005, primarily due to an increase in sales volume of alumina and an increase in raw material costs and fuel and power costs in 2005, which was partially offset by optimization of production process resulting from technological upgrade and increased production capacities.

##### Operating Income.

Total operating income for the alumina segment increased by 10.5% from RMB9,333.4 million in 2004 to RMB10,312.2 million in 2005 primarily due to increased sales volume of alumina in 2005, partially offset by increased unit production cost. The increase in unit production cost in 2005 compared to 2004 was mainly attributable to the increase in raw material prices by 14.4%, which was partially offset by cost savings resulting from reduced consumption of raw materials and increased production volume by 4.3%. Reduced consumption of raw materials was attributable technological upgrade and improved production efficiency in 2005 compared to 2004.

#### Primary Aluminum Segment

Turnover. We sold a total of 760,600 tonnes and 905,000 tonnes of the primary aluminum products we produced in 2004 and 2005, respectively. Our total turnover for the primary aluminum segment increased by RMB2,408.1 million to RMB14,128.5 million in 2005, a 20.6% increase over 2004. This was mainly attributable to the increase in sales volumes supplemented by the increase in average selling prices of primary aluminum in 2005. The increase was partially offset by decreased turnover from carbon and other products.

#### Cost of Goods Sold.

The total cost of goods sold for our primary aluminum segment increased by 18.2% from RMB11,239.8 million in 2004 to RMB13,280.6 million in 2005, mainly due to increases in sales volumes and unit production cost. The increase in unit production cost was attributable to increased prices in alumina used as raw material to produce primary aluminum and electricity. The increase unit production cost, however, was partially offset by the increases in production volume.

#### Operating (Loss) Income.

The primary aluminum segment recorded an operating profit of RMB231.9 million in 2005, compared to an operating loss of RMB43.9 million in 2004, primarily due to increased sales volumes and increased average selling prices of primary aluminum in 2005.

#### Corporate and Other Services Segment

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Our corporate and other services segment reflected the expenses for our headquarters and research and development services and turnover from product sales of our research institute to external customers. This segment recorded an operating loss of RMB48.5 million and RMB76.9 million for the years ended December 31, 2005 and 2004, respectively.

#### Year Ended December 31, 2004 Compared with Year Ended December 31, 2003

##### Alumina Segment

#### Turnover.

Our total turnover of the alumina segment increased by RMB9,264.5 million to RMB24,723.7 million in 2004, a 59.9% increase from RMB15,459.2 million in 2003.

We sold alumina products to our smelters and to other domestic smelters. Turnover from the external sales of alumina in 2004 rose by RMB8,170 million, or 66.3%, compared with 2003, mainly due to an increase in selling price and external sales volume of alumina. The average external selling price of alumina in 2004 increased to RMB3,229.7 per tonne from RMB2,407.7 per tonne in 2003, mainly due to strong domestic demand for alumina. The external sales volume of alumina increased by 15.4% to 4,870,000 tonnes in 2004 from 4,210,000 tonnes in 2003, mainly attributable to the increased demand and the fact that our production capacity for alumina increased by 520,000 tonnes in 2004 from 2003.

Turnover from the sales of alumina to our smelters in 2004 rose by RMB1,094.5 million, or 34.9%, from 2003, primarily due to the increase in selling price. Our internal sales volume of alumina as a percentage of the total sales volume of alumina decreased from 20.3% in 2003 to 17.1% in 2004.

#### Cost of Goods Sold.

The total alumina segment cost of goods sold in 2004 increased by RMB4,784.5 million, or 49.8%, from RMB9,602.3 million in 2003 to RMB14,386.8 million in 2004, primarily due to an increase in sales volume of alumina and an increase in raw material costs and fuel and power costs in 2004. To further strengthen our control over bauxite supply, we established a bauxite mine branch located in Zhengzhou, Henan on March 25, 2005 to centralize the procurement and make effective allocation of bauxite resources among our plants.

#### Operating Income.

Total operating income for the alumina segment increased by 83.0% from RMB5,099.2 million in 2003 to RMB9,333.4 million in 2004 primarily as a result of a 59.9% increase in turnover of this segment. The operating income of the alumina segment as a percentage of our turnover from the alumina segment increased from 33.0% in 2003 to 37.8% in 2004.

#### Primary Aluminum Segment

##### Turnover.

We sold a total of 747,000 tonnes and 760,600 tonnes of the primary aluminum products we produced in 2003 and 2004, respectively. Our total turnover for the primary aluminum segment increased by RMB874.8 million to RMB11,720.4 million in 2004, a 8.1% increase over 2003. This was mainly attributable to a 10.4% increase in the average selling price for primary aluminum. The increase of sales is also attributable to a change in product mix to higher value-added and high-margin aluminum products. The sales volume of higher value-added aluminum products represents an increase of approximately 10.8% in 2004 as compared to 2003, while the sales volume of ingots remained at the same level.

##### Cost of Goods Sold.

The total cost of goods sold for our primary aluminum segment increased by 13.6% from RMB9,894.4 million in 2003 to RMB11,239.8 million in 2004, mainly due to an increase in the raw material costs and fuel and power costs in 2004, including a 34.1% increase in the price of alumina, and a 10.6% increase in the cost of electricity in 2004 which led the unit cost of primary aluminum to increase by 10.7%.

However, we continue to upgrade our production facilities to improve production efficiency. In addition, we have adopted a material management measure based on our analysis of production process to prevent over consumption of materials, which caused a reduction in material consumption for each tonne of primary aluminum.

## Operating (Loss) Income.

The primary aluminum segment recorded an operating loss of RMB43.9 million in 2004, compared to operating income of RMB434.8 million in 2003, primarily because the increase in cost of goods sold exceeded the increase in average selling prices.

## Corporate and Other Services Segment

Our corporate and other services segment reflected the expenses for our headquarters and research and development services and turnover from product sales of our research institute to external customers. This segment recorded an operating loss of RMB76.9 million for the year ended December 31, 2004, which remained essentially at the same level as RMB78.4 million in 2003.

## Liquidity and Capital Resources

Our primary sources of funding are cash generated by operating activities, prepayments and deposits from customers, short-term and long-term borrowings, and proceeds from equity or debt offerings. Our primary uses of funds have been production-related working capital, repayment of short-term and long-term borrowings and capital expenditures. Since 2004, we required our customers to make deposits or prepayments for purchases of alumina. As of December 31, 2005, the total amount of deposits and prepayments received amounted to RMB1,571.9 million. We have relied on prepayments and deposits received from customers as a source of our liquidity. In the event that demand for alumina declines, we may not be able to require such prepayments and deposits from customers, in which case this source of liquidity would not be available to us.

As of December 31, 2005, our current assets amounted to RMB16,962.7 million, representing an increase of RMB2,606.1 million from the previous year. The increase was mainly attributable to (i) an increase of RMB1,943.2 million in cash resulting from our bonds offering on June 15, 2005; (ii) an increase of RMB2,002.8 million in inventories due to the commencement of operations of phase three of our alumina production facility of 800,000 tonnes in Shanxi Province and our primary aluminum production facility of 280,000 tonnes by Shanxi Huaze and increased raw material prices. The increase in current assets was partially offset by a decrease in accounts receivable and trade receivable of RMB1,003.9 million because of increased transactions with settlement in cash by our customers.

As of December 31, 2005, our current liabilities amounted to RMB14,937.5 million, representing an increase of RMB1,744.0 million from the previous year. The increase was mainly due to (i) our short-term bonds payable in the amount of RMB1,970.8 million; (ii) an increase in accounts payable of RMB601.4 million to our raw material suppliers; and (iii) an increase in the current portion of our long-term bank borrowings by RMB280.3 million. The increase in our current liabilities for the year ended December 31, 2005 was partially offset by the repayment of our short-term bank borrowings in the amount of RMB1,069.9 million.

As of December 31, 2005, our long-term loans amounted to RMB11,044.5 million, representing an increase of RMB2,579.2 million from the previous year. The increase was mainly attributable to an increase in our long-term borrowings and increases in the interest rates of our bank loans. As of December 31, 2005, our total long-term debt, less long-term loans maturing within one year was RMB9,690.5 million, compared with RMB7,391.7 million on December 31, 2004.

Our gearing ratio (the ratio of total liabilities to the sum of total liabilities and total equity) increased to 42.0% as of December 31, 2005 from 41.9% as of December 31, 2004, which is mainly attributable to an increase in long-term bank borrowings.

Our ability to obtain additional external financing in the future and the cost of such financing are subject to a variety of uncertainties, including:

- \* obtaining PRC government approvals required to access domestic or international financing or to undertake any project involving significant capital investment, which, depending on the circumstances, may include one or more approvals from the NDRC, the State Administration of Foreign Exchange, the Ministry of Commerce and the China Securities Regulatory Commission;
- \* our future operating performances, financial condition and cash flows;
- \* the cost of financing and the condition of financial markets; and
- \* potential changes in monetary policy of the PRC government with respect to bank interest rates and lending practices.

If we fail to achieve timely rollover, extension or refinancing of our short-term debt, we may be unable to meet our obligations in connection with debt service, accounts payable and/or other liabilities when they become due and payable.

In view of our credit and the availability of funds in China, we currently do not foresee significant difficulties in obtaining bank borrowings. We plan to finance our capital expenditure projects and related expenditures principally through cash generated by operating activities, short-term and long-term borrowings, the remainder of the net proceeds from our bond offering and the expected proceeds from our proposed A shares offering. We have also arranged conditional credit facilities from domestic banks in the amount of RMB37,672.0 million. We believe that our working capital is sufficient to meet our present needs. For details of our banking facilities, please see - Bank Loans and Banking Facilities.

#### Cash and Cash Equivalents

Included in our cash and cash equivalents as of December 31, 2005 were amounts denominated in foreign currencies equivalent to RMB61.6 million, of which RMB58.0 million were denominated in U.S. dollars, RMB2.7 million were denominated in Hong Kong dollars and the remaining RMB0.9 million were denominated in euros. See Note 3 to our audited financial statements.

The following table sets forth, for the periods indicated, a condensed summary of our statement of cash flows:

For the Years Ended December 31,

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|  | 2003      | 2004      | 2005      |
|--|-----------|-----------|-----------|
|  | RMB       | RMB       | RMB       |
| (in millions)  |           |           |           |
| Cash flows generated from operating activities:                      |           |           |           |
| Operating income before working capital changes(1)                   | 7,403.4   | 11,349.3  | 12,595.7  |
| Net change in working capital(2)                                     | 26.4      | (891.6)   | (652.9)   |
| Interest paid  | (600.8)   | (456.3)   | (686.4)   |
| PRC income tax paid  | (826.5)   | (1,736.2) | (2,666.2) |
| <br>   |           |           |           |
| Total  | 6,002.5   | 8,265.2   | 8,590.2   |
| Cash flows used in investing activities:                             |           |           |           |
| Capital expenditures   | (5,352.8) | (8,972.4) | (7,986.1) |
| Purchase of intangible assets  | (17.5)    | (81.6)    | (28.7)    |
| Investment in jointly controlled entities                            | (3.3)     | (49.5)    | (117.2)   |
| Net decrease in bank deposits with initial term of over three months | -         | -         | -         |
| Interest received  | 26.2      | 61.5      | 89.4      |
| Others   | (47.9)    | (13.8)    | (778.6)   |
| <br>   |           |           |           |
| Total  | (5,395.3) | (9,055.8) | (8,821.2) |
| Cash flows (used in) generated from financing activities:            |           |           |           |
| Net proceeds from issue of shares                                    | -         | 3,250.7   | -         |
| Net borrowings   | (22.8)    | 1,884.5   | 1,509.2   |
| Decrease in bank deposits pledged                                    | 46.2      | -         | -         |
| Proceeds from short-term bonds                                       | -         | -         | 1,943.2   |
| Net contribution from owner and minority shareholders                | 166.1     | 360.5     | 180.9     |
| Dividend paid by a subsidiary to minority shareholders               | (23.8)    | (16.9)    | (83.6)    |
| Dividend paid  | (472.5)   | (1,060.8) | (1,944.8) |



|   |         |         |         |
|---|---------|---------|---------|
| Total                                     | (306.8) | 4,418.0 | 1,604.9 |
|   | <hr/>   | <hr/>   | <hr/>   |
| Net increase in cash and cash equivalents | 300.4   | 3,627.4 | 1,373.9 |
|   | <hr/>   | <hr/>   | <hr/>   |

- (1) Represents income before income tax and minority interests as adjusted for depreciation expense, loss on disposal of property, plant and equipment, interest waived written back in 2003, interest income and interest expenses.
- (2) Represents (increase) decrease in inventories, accounts receivable and other current assets, accounts payable and other payables and accruals.

#### Net Cash Generated From Operating Activities

Net cash generated from operating activities increased by 3.9% from RMB8,265.2 million for 2004 to RMB8,590.2 million for 2005. The increase was primarily due to an increase in operating profit of RMB1,171.2 million in 2005; and a decrease in cash used in working capital of RMB238.7 million, partially offset by an increase in interest paid of RMB230.1 million and an increase of RMB930.0 million in PRC income taxes paid in 2005.

The decrease in cash used in working capital was attributable to (i) an increase in inventories by RMB808.2 million resulting from increased raw material requirements for our expanded capacities and (ii) a decrease in accounts payables and other accruals of RMB638.3 million, of which RMB64.4 million was due to the increase of prepayment and deposits from customers. The decrease in cash used in working capital was partially offset by a decrease in accounts receivable and other current assets of RMB702.9 million, compared to an increase of RMB982.3 million in 2004.

#### Net Cash Used in Investing Activities

Net cash used in investing activities in 2004 and 2005 amounted to RMB9,055.8 million and RMB8,821.2 million, respectively, consisting primarily of capital investment for the purchase of property, plant and equipment of RMB8,972.4 million in 2004 and RMB7,986.1 million in 2005. In 2005, our capital expenditure program was the major contributor to our increase in alumina production capacity of 1,860,000 tonnes and primary aluminum production capacity of 666,000 tonnes. See "- Capital Expenditure Plan" and "Item 4. Information on the Company - Property, Plant and Equipment - Our Expansion and Profit Improvement Plan" for a detailed description of our capital expenditure plans.

#### Net Cash Generated From Financing Activities

Net cash generated from financing activities amounted to RMB4,418.0 million in 2004, consisting primarily of the proceeds from issue of shares of RMB3,250.7 million and new bank loans of RMB1,884.5 million, partially offset by

cash outflow of RMB1,060.8 million from dividend distribution. Net cash inflows from financing activities amounted to RMB1,604.9 million in 2005, consisting primarily of the proceeds from our short-term bonds of RMB1,943.2 million and new bank loans of RMB1,509.2 million, partially offset by cash outflow of RMB1,944.8 million from dividend distribution.

We continue to benefit from the centralized cash management system implemented since 2002. We expect that this system will continue to help:

- \* centralize and simplify internal clearing and settlement procedures;
- \* utilize excess bank deposits to reduce bank borrowings;
- \* reduce accounts receivable; and
- \* improve the efficiency of our internal funds management.

#### Bank Loans and Banking Facilities

The aggregate maturities of our outstanding long-term bank loans as of December 31, 2005 were as follows:

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| Maturity Date       | Principal Outstanding as of December 31,<br>2005 |                      |
|---------------------|--|----------------------|
|                     | RMB  | US\$( <sup>1</sup> ) |
|                     | (in millions)                                    |                      |
| 2006                | 1,354.0  | 167.8                |
| 2007                | 1,929.1  | 239.0                |
| 2008                | 2,581.0  | 319.8                |
| 2009 and thereafter | 5,180.4  | 642.0                |
| Total               | 11,044.5   | 1,368.6              |

(1)

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Translated solely for the convenience of the reader into U.S. dollars at the noon buying rate prevailing on December 31, 2005 of US\$1.00 to RMB8.0702.

Please see Note 16 to our audited financial statements for a more detailed description of our long-term debt including interest rate and maturity profile.

Our net borrowings for the year ended December 31, 2003, 2004 and 2005 were as follows:

|                                 | As of December 31, |           |           |         |
|---------------------------------|--------------------|-----------|-----------|---------|
|                                 | 2003               | 2004      | 2005      | 2005    |
|                                 | RMB                | RMB       | RMB       | US\$(1) |
|                                 | (in millions)      |           |           |         |
| Short-term debt                 | 3,801.3            | 3,448.9   | 2,379.0   | 294.8   |
| Long-term debt                  | 6,228.5            | 8,465.3   | 11,044.5  | 1,368.6 |
| Total debt                      | 10,029.8           | 11,914.2  | 13,423.5  | 1,663.4 |
| Less: Cash and cash equivalents | (2,596.4)          | (6,223.8) | (7,597.7) | (941.5) |
| Net debt                        | 7,433.4            | 5,690.4   | 5,825.8   | 721.9   |

(1) Translated solely for the convenience of the reader into U.S. dollars at the noon buying rate prevailing on December 31, 2005 of US\$1.00 to RMB8.0702.

As of December 31, 2005, we had no secured bank loans and we, on a stand-alone basis, provided guarantees in respect of RMB1,554.9 million of long-term bank loans and RMB1,100.0 million of short-term bank loans for our subsidiaries.

As of December 31, 2005, Chinalco guaranteed RMB494.0 million of our bank loans. The guarantees by Chinalco and its subsidiaries to various banks in respect of banking facilities and loans granted to third parties as of December 31, 2000 remained with Chinalco after our reorganization.

As of December 31, 2005, we had total banking facilities of RMB37,672.0 million, inclusive of long-term facilities of approximately RMB13,963.0 million and other loan facilities of approximately RMB23,709.0 million. Out of the total banking facilities granted, amounts totaling RMB13,423.0 million have been utilized as of December 31, 2005. Approximately RMB33,328.0 million in bank facilities must be renewed in 2006. We believe that we will be able to renew these facilities when they expire.

#### Foreign Exchange

We conduct our business primarily in Renminbi, which is also our functional and reporting currency. We convert a portion of our Renminbi turnover into other currencies to meet foreign currency financial obligations and to pay for imported equipment and materials. Under current foreign currency regulations in China, to meet these needs, we are permitted to convert Renminbi into the necessary foreign currencies at authorized banks based on a presentation of the relevant contracts. We may also borrow foreign currency loans from such banks for these purposes. To the extent that we need to obtain foreign currency funding for capital projects as defined under foreign exchange regulations, we would be required to obtain approval from the State Administration of Foreign Exchange. Transactions in foreign exchange are translated at exchange rates prevailing at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance

sheet date are translated at exchange rates prevailing at the balance sheet date. Exchange differences arising in these cases are recognized as income or expense in the profit and loss account.

As of December 31, 2005, our foreign currency denominated loans amounted to RMB1,552.2 million, of which RMB1,542.9 million was denominated in U.S. dollars and the remaining RMB9.3 million was denominated in Danish Krone. In addition, our foreign currency denominated short-term bank deposits amounted to RMB61.6 million, of which RMB58.0 million was denominated in U.S. dollars, RMB2.7 million was denominated in Hong Kong dollars and RMB0.9 million was denominated in euros. See Note 3 to our audited financial statements. We had U.S. dollar denominated accounts receivable amounted to RMB0.7 million at the same date. Most of our sales are domestic and as such we have a limited amount of foreign currency denominated accounts receivable. We earn a small amount of foreign currency, primarily U.S. dollars, from primary aluminum exports, which totaled 13,000 tonnes in 2005. See "Item 11 - Quantitative and Qualitative Disclosures about Market Risk - Foreign Exchange Rate Risk". Our sources of foreign exchange include the remaining proceeds from our global share offering and H share placement, borrowings and funds converted from Renminbi. We do not anticipate that we will incur significant additional foreign currency debt in the near future.

We have been, and will continue to be, affected by changes in exchange rates in connection with our ability to meet our foreign currency obligations and will be affected by such changes in connection with our ability to pay dividends on H shares in Hong Kong dollars and on ADSs in U.S. dollars. As of December 31, 2005, we maintained bank balances of US\$7.2 million, HK\$2.6 million and 94,000 euros or the equivalent of approximately RMB61.6 million for purposes of satisfying our foreign currency obligations and paying dividends to our overseas shareholders. We believe that we have obtained or will be able to obtain sufficient foreign exchange to continue to satisfy these obligations. We do not engage in any financial contract or other arrangement to hedge our currency exposure.

#### Inflation

According to the State Statistical Bureau, China experienced inflation of 0.7% in 2001, deflation of 0.8% in 2002, inflation of 1.2% 3.9% and 1.8% in 2003, 2004 and 2005, respectively. As a result, inflation in the PRC has not had a significant impact on our operating performances in recent years.

#### Trend Information

In 2005, China's GDP growth rate reached 9.9%. China's economy is expected to continue its strong growth in 2006, with increasingly important contribution from industrial growth. We expect the national demand for alumina and primary aluminum to grow in line with the nation's continuous economic growth. The recovery of the global economy is expected to further enhance aluminum consumption and support market prices of primary aluminum and alumina.

However, we will continue to face challenges in 2006, such as:

- \* an increase in production cost resulting from continued increases in prices of raw materials and fuel power; and
- \* intensified domestic competition resulting from the cancellation of tax refund for primary aluminum export.

#### U.S. GAAP Reconciliation

Our financial statements are prepared in accordance with HK GAAP, which differs in various material respects from U.S. GAAP. See Note 33 to our audited financial statements for details. The summary of differences involve management's estimates and assumptions which may affect the reported amounts of assets and liabilities, the disclosure regarding contingent assets and liabilities and revenues and expenses. These material differences, as they apply to our financial statements, relate primarily to the following:

- \* Under HK GAAP, property, plant and equipment transferred from Chinalco to us were accounted for under the acquisition accounting. As a result, our property, plant and equipment were revalued at fair value under HK GAAP. Under U.S. GAAP, the new cost

- \* basis for the property, plant and equipment was not established for us as the transfer was a transaction under common control. When an asset is transferred from the parent to its wholly-owned subsidiary, the subsidiary records the asset at the parent's carrying value;
- \* Until December 31, 2004, under HK GAAP, goodwill resulting from acquisitions under purchase accounting is recognized as an intangible asset and amortized on a straight-line basis over its estimated useful economic life of not more than 20 years. Under U.S. GAAP, annual amortization of this amount ceased to be effective from January 1, 2002. Goodwill is subject to annual impairment testing and is written down if carrying value exceeds fair value. In accordance with the provisions of HKFRS 3 effective from January 1, 2005, we ceased amortization of goodwill and goodwill is subject to annual impairment testing.

Accordingly, except for the differences recognized in prior years, there is no difference between HK GAAP and U.S. GAAP in relation to amortization of goodwill beginning from January 1, 2005;

- \* As part of our reorganization and pursuant to the Mining Rights Transfer Agreement, we acquired mining rights of eight bauxite mines and four limestone quarries from Chinalco for a consideration of RMB285,341. Under HK GAAP, mining rights acquired are capitalized and stated at acquisition cost less accumulated amortization and accumulated impairment losses. Amortization of mining rights is calculated on a straight-line basis over their estimated useful lives of not more than 30 years. Under U.S. GAAP, the new cost basis was not established for us as the transfer was a transaction under common control;
- \* Under HK GAAP, minority interest is presented on the face of the consolidated statements of income of the portion of profit and loss attributable to the minority interest and to the equity holders and presented as a component of equity. Under U.S. GAAP, the allocation amounts are not presented as a component of net income or loss and minority interest is not presented as a component of equity; and
- \* Under U.S. GAAP, deferred tax assets relating to the reversal of the property, plant and equipment revaluation, goodwill amortization and mining rights are recognized.

For further details regarding recent developments of U.S. GAAP, see Note 33(f) to our audited financial statements. For further details regarding recent accounting pronouncements of HK GAAP, see Note 2(b) to our audited financial statements.

#### Contractual obligations

The following table summarizes our contractual obligations and commercial commitments at December 31, 2005:

|                       | Payment due by period |         |           |           |            |
|-----------------------|-----------------------|---------|-----------|-----------|------------|
|                       | Total                 | 2006    | 2007-2008 | 2009-2010 | Thereafter |
|                       | RMB                   | RMB     | RMB       | RMB       | RMB        |
|                       | (in millions)         |         |           |           |            |
| Long-term debt        | 11,044.5              | 1,354.0 | 4,510.1   | 2,286.0   | 2,894.4    |
| Interest payments     | 2,184.1               | 574.8   | 855.7     | 550.6     | 206.0      |
| Operating leases      | 11,000.9              | 315.5   | 631.0     | 507.5     | 9,546.9    |
| Capital contributions | 1,211.0               | 1,211.0 | -         | -         | -          |
| Purchase obligations  | 560.6                 | 560.6   | -         | -         | -          |

|       |          |         |         |         |          |
|-------|----------|---------|---------|---------|----------|
| Total | 26,001.1 | 4,012.9 | 5,996.8 | 3,344.1 | 12,647.3 |
|-------|----------|---------|---------|---------|----------|

## Capital Expenditures

The following table sets forth our capital expenditures by segment for 2003, 2004 and 2005, and the capital expenditures in each segment as a percentage of our total capital expenditures for such years.

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|                              | Years Ended December 31,          |        |          |      |         |      |
|------------------------------|-----------------------------------|--------|----------|------|---------|------|
|                              | 2003                              |        | 2004     |      | 2005    |      |
|                              | RMB                               | %      | RMB      | %    | RMB     | %    |
|                              | (in millions, except percentages) |        |          |      |         |      |
| Alumina                      | 4,013.4                           | 70.0   | 5,399.0  | 49.3 | 5,369.6 | 63.8 |
| Primary aluminum             | 1,635.8                           | 28.6   | 5,257.4  | 48.1 | 2,793.9 | 33.2 |
| Corporate and other services | 47.3                              | 0.8    | 76.8     | 0.7  | 124.8   | 1.5  |
| Unallocated                  | 33.0                              | 0.6    | 208.4    | 1.9  | 129.6   | 1.5  |
| Total                        | 5,729.5                           | 100.0% | 10,941.6 | 100% | 8,417.9 | 100% |

In 2005, we spent approximately 97.0% of our 2005 capital expenditure of RMB8,163.5 million to improve our alumina and primary aluminum production capacity:

- \* We used RMB5,369.6 million of our alumina segment expenditures to expand alumina production capacity and to undertake technological improvements to our alumina production processes and facilities, including capacity expansions at our Shanxi, Henan and Zhongzhou plants. We spent the remainder on capital improvements relating to environmental protection, bauxite mining and the production of alumina chemical products and gallium; and
- \* We used RMB2,793.9 million to expand our primary aluminum production capacity, of which RMB2,026.6 million was used by Shanxi Huaze and Guizhou plant to expand their primary aluminum production capacities, RMB767.3 million was used to acquire Lanzhou

Aluminum. We spent the remainder on projects to sustain long-term production and for projects relating to environmental protection.

In 2006, we expect to use approximately RMB6,400 million in technology upgrade and construction in progress, approximately RMB3,600 million in expected new projects and approximately RMB4,000 million in merger and acquisition of smelting facilities. For further information with respect to our capital expenditure plan, see "Item 4. Information on the Company - Property, Plants and Equipment - Our Expansion and Profit Improvement Plan."

Our capacity expansion plan reflects our focus on expanding our alumina production capacity to take advantage of our market position in China. In addition, we continually evaluate acquisition and joint venture opportunities and may take advantage of these opportunities if we determine that it is in our and our shareholders' best interests. We expect that our alumina and primary aluminum production capacity will reach 9,100,000 and 3,000,000 tonnes, respectively, by the end of 2006.

These are our current plans with respect to our capital expenditures. They may change as circumstances change, and may be modified as our business plans evolve. Other than as required by law, we do not undertake any obligation to publish updates of our plans.

#### Research and Development

Our research and development center coordinates the research and development efforts undertaken at our Research Institute and technology centers at our plants. The Research Institute, the only organization in China dedicated to aluminum research, is responsible for research and development of technologies and associated projects that have general application in all of our plants. The technology centers at our plants focus on providing engineering solutions to, and technological application of, research and development efforts. Each of the plants also conducts operational testing and pilot experimentation relating to various research and development topics. Although we collaborate with universities and other research institutions in China on some of our projects, we generally do not outsource our research and development.

Our total expenditure for research and development was approximately RMB173.4 million, RMB132.6 million and RMB113.4 million for 2003, 2004 and 2005, respectively.

For further information with respect to the trends in our operation and the production markets, see "- Factors Affecting Operating Performances."

#### ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

All of our directors and supervisors are elected for a three-year term. At the expiry of the term of office, the term is renewable upon re-election. Each of our directors and supervisors has entered into a service contract with us for a term of three years. The service contract is not terminable by us within one year without payment of compensation (other than statutory compensation). There were no arrangements providing for benefits upon termination of our directors, supervisors or other senior management personnel.

In addition to director's fees, our directors are entitled to be paid performance bonuses. The executive directors are



also entitled to the welfare benefits provided under the relevant PRC laws and regulations.

## Directors

At our annual general meeting of shareholders held on June 7, 2004, Messrs. Xiong Weiping, Chen Xiaozhou, Joseph C. Muscari, Chiu Chi Cheong Clifton and Wang Dianzuo were re-elected for further terms of three years, and Messrs. Xiao Yaqing, Luo Jianchuan and Chen Jihua were elected for terms of three years. Mr. Xiao Yaqing was elected Chairman of the board of directors and Chief Executive Officer. At the extraordinary shareholders' meeting held on September 28, 2004, Mr. Kang Yi was elected to fill the vacancy in our Board. At our annual general meeting of shareholders held on June 9, 2005, Mr. Shi Chungui was elected as our Non-executive Director in place of Mr. Chen Xiaozhou. Further, at our extraordinary general meeting of shareholders held on October 14, 2005, Mr. Poon Yiu Kin, Samuel was elected as our Independent Non-executive Director in place of Mr. Chiu Chi Cheong Clifton who resigned with effect from October 14, 2005. The business address of each of our directors is No. 12B Fuxing Road, Haidian District, Beijing, People's Republic of China 100814.

We follow our home country practice in relation to the composition of our board of directors in reliance on the exemption provided under Section 303A.00 of the NYSE Corporate Governance Rules available to foreign private issuers. Our home country practice does not require a majority of directors of a listed company to be independent directors. As such, the majority of our directors are not independent within the meaning of NYSE Corporate Governance Rules.

The table and discussion below set forth information concerning our directors.

| Name                                       | Age | Positions with the Company                                     |
|--|-----|--|
| <b>Executive Directors</b>                 |     |  |
| Xiao Yaqing                                | 46  | Chairman of the board of directors and Chief Executive Officer |
| Xiong Weiping                              | 49  | Director and President   |
| Luo Jianchuan                              | 42  | Director and Senior Vice President                             |
| Chen Jihua                                 | 38  | Director, Vice President and Chief Financial Officer           |
| <b>Non-executive Directors</b>             |     |  |
| Shi Chungui                                | 66  | Director   |
| Joseph C. Muscari                          | 59  | Director   |
| <b>Independent Non-executive Directors</b> |     |  |
| Poon Yiu Kin, Samuel                       | 46  | Independent Director   |
| Wang Dianzuo                               | 70  | Independent Director   |
| Kang Yi                                    | 65  | Independent Director   |

## Executive Directors

### Xiao Yaqing

, aged 46, is the Chairman and Chief Executive Officer of the Company. Mr. Xiao is the Chairman of the Remuneration and Nomination Committee under the Board of our Company and is the President of Chinalco. Mr. Xiao graduated from Central South University of Technology in 1982 and majored in pressure processing. Mr. Xiao is a professor-grade senior engineer. Mr. Xiao has

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abundant academic achievement and more than twenty years of extensive practical experience in the fields of metallic materials and management. He has been the engineer, department head, deputy chief engineer and chief engineer of Northeast Light Alloy Fabrication Plant. He has also been the General Manager of Northeast Light Alloy Corporation Limited, the Factory Manager of Southwest Aluminum Fabrication Plant, the Chairman and General Manager of Southwest Aluminum (Group) Co., Ltd. and the Deputy General Manager of Chinalco.

### Xiong Weiping

, aged 49, an Executive Director and the President of the Company. He has been employed by the Company since 2001. Mr. Xiong has a Ph.D. degree in mining engineering and completed post-doctoral research in economics. He has academic achievements and practical experience in economics and corporate management. He is the Deputy General Manager of Chinalco. He is a professor and a supervisor of Ph.D students. He was formerly the Vice President of Central South University of Technology and Deputy General Manager of China Copper, Lead and Zinc Group Company, the Deputy General Manager of Chinalco and the Senior Vice President of the Company.

### Luo Jianchuan

, aged 42, is an Executive Director and the Senior Vice President. He has been employed by the Company since 2001. Mr. Luo is a senior engineer with about 20 years of experience in nonferrous metal import and export trading management and extensive professional experience in trading and management. Mr. Luo formerly served as the engineer of the Lead and Zinc Bureau under China Non-ferrous Metals Industry Corporation, the Manager of Haikou Nanxin Industry & Commerce Corporation, Assistant to General Manager of Jinpeng Mining Development Corporation, the Deputy General Manager and General Manager of Xinquan Corporation, Assistant to General Manager of China Non-Ferrous Metals Industry Trading Group Corporation, the Deputy Chief of the Trading Division of China Copper, Lead & Zinc Group Corporation, the General Manager of China Aluminum International Trading Corporation Limited and the General Manager of Chalco's Marketing Sales Division.

### Chen Jihua

, aged 38, is an Executive Director, Vice President and Chief Financial Officer of the Company. He has been employed by the Company since 2001. Mr. Chen holds a Master's degree from Central University of Finance and Banking. Mr. Chen has participated in a wide range of corporate and financial management projects. He formerly served as the Executive Manager of the International Finance Department of China Chengxin Securities Rating Company Limited, the Chief Financial Officer with Red Bull Vitamin Beverages Company Limited and China Operations of ALJ Group of Saudi Arabia. He also formerly served as the Chief Financial Officer with Jitong

Network Communications Company Limited.

Non-executive Directors

Shi Chungui

, aged 66, is a Non-executive Director of the Company. Mr. Shi is a member of the Expert Consultancy Committee of China Cinda. Mr. Shi graduated from Dongbei University of Finance and Economics in 1964 with a Bachelor's degree in accounting. Mr. Shi has extensive experience in the management of financial, governmental and business administrative matters. Mr. Shi has previously served as Vice Director of the Qinhuangdao Municipal Commercial Administration Bureau, Vice Mayor of the Qinhuangdao Municipal Government, Vice President of China Construction Bank and China Cinda.

Joseph C. Muscari

, aged 59, is a Non-executive Director of the Company. Mr. Muscari is the Executive Vice President of Alcoa. He is also the Chief Financial Officer of Alcoa. He is also a member of the Executive Council of Alcoa. Mr. Muscari graduated in 1968 from the New Jersey Institute of Technology with a Bachelor's degree in industrial engineering. He obtained a Master of Business Administration degree from the University of Pittsburgh in 1969. In 1994, he received an honorary doctorate in law from Salem-Teikyo University.

Independent Non-executive Directors

Poon Yiu Kin Samuel

, aged 46, is an Independent Non-executive Director and the Chairman of the Audit Committee of the Company. Mr. Poon was appointed as the Independent Non-executive Director of the Company in October 2005. Mr. Poon holds a Master of Business Administration degree from the London Business School and a Bachelor in Business Administration degree from The Chinese University of Hong Kong with extensive experience in equity and debt capital markets before he retired from his position as the managing director of Merrill Lynch (Asia Pacific) Ltd. in January 2005. Mr. Poon is a member of the Advisory Committee of the Securities and Futures Commission of Hong Kong and of the Joint Committee on Student Finance under the Education and

Manpower Bureau. He is also a member of the Executive Management Committee and Honorary Treasurer of the English Schools Foundation. Mr. Poon holds teaching position as the adjunct professor of Peking University, Taiwan Chengchi University and The Chinese University of Hong Kong. He is the Independent Non-executive Director and a member on the audit committee of Yue Yuen Industrial (Holding) Limited.

Wang Dianzuo

, aged 70, is an Independent Non-executive Director of the Company. Mr. Wang was appointed as the Independent Non-executive Director of the Company in 2001. Mr. Wang is a professor in ore dressing. Mr. Wang was formerly the President of the Central South University of Technology, the President of the Beijing General Research Institute for Non-ferrous Metals. Mr. Wang has served as the Vice Chairman of Chinese Academy of Engineering. Mr. Wang is also a part-time professor at Central South University of Technology, Northeastern University and Beijing

University of Science and Technology. He has also been elected as a member of Chinese Academy of Sciences, Chinese Academy of Engineering and Russian Academy of Engineering and as a foreign associate of the US National Academy of Engineering. Mr. Wang is also a senior consultant to many research institutions.

#### Kang Yi

, aged 65, is an Independent Non-executive Director of the Company. Mr. Kang was appointed as the Independent Non-executive Director of the Company in 2004. Mr. Kang graduated in 1965 from Central South University of Technology in the expertise of the metallurgy of nonferrous metals, and is a professor grade senior engineer. Mr. Kang is the Chairman of the China Non-ferrous Metals Industry Association. Mr. Kang once served as the factory manager of Qingtongxia Aluminum Plant, the Director of the Economic Committee of Ningxia Hui Nationality Autonomous Region, the Deputy General Manager of China Non-ferrous Metals Industry Corporation and the deputy head of the State Non-ferrous Metals Industry Bureau. Mr. Kang is now a member of the China Association for Science and Technology, the Chairman of Non-ferrous Metals Society of China and the Independent Non-executive Director of Jiangxi Copper Company Limited, Lanzhou Aluminum Corporation Limited and Baotou Aluminum Corporation Limited. Mr. Kang resigned as the Independent Non-executive Director of Lanzhou Aluminum Corporation Limited in March 2005.

#### Supervisors

Our supervisors are elected to represent our employees and shareholders and serve a term of three years or until the election of their respective successors. The supervisors convened two meetings in 2005. The table and discussion below set forth certain information concerning our supervisors.

| Name      | Age | Positions with the Company   |
|-----------|-----|--|
| Luo Tao   | 52  | Chairman of the Committee of Supervisors   |
| Yuan Li   | 47  | Supervisor (employee representative), Deputy General Manager of Corporate Culture Department |
| Ou Xiaowu | 41  | Supervisor, Manager of Finance Department  |

#### Luo Tao

, aged 52, is the Chairman of the Supervisory Committee of the Company and the Deputy General Manager of Chinalco. Mr. Luo is also a senior economist with extensive management experiences in human resources, labor relations and corporate management. Mr. Luo was formerly the Vice President of Beijing General Research Institute for Non-ferrous Metals, Deputy Director of the Department of Human Resources and Training of China Non-ferrous Metals Industry Corporation and Director of Department of Human Resources of the State Bureau of Non-ferrous Metals Industry and Deputy General Manager of Chinalco.

#### Yuan Li

, aged 47, is a Supervisor elected as the employee representative of the Company and the Deputy General Manager of the Corporate Culture Department of the Company. He has been employed by the Company since 2001. Mr. Yuan is an engineer with extensive administrative and managerial experiences. He formerly served as the Deputy Director of the General Management Office under the General Office of China Non-ferrous Metals Industry Corporation, head of the Department of Research and Survey as well as the chief of the Secretariat and an assistant inspector of the State

Bureau of Non-ferrous Metals Industry and Deputy Director of the Department of Political Affairs and the Director of the Community Union Working Department of Chinalco.

Ou Xiaowu

, aged 41, is a Supervisor of the Company and the Manager of the Finance Department of the Company as well as a senior auditor. Mr. Ou formerly served as Director of the Finance Department of Chinalco, Director of the

Department of Auditing in China Nonferrous Metals Industry Corporation, Deputy Director of the Finance Department of China Copper, Lead and Zinc Corporation, and Director of General Affairs in Chinalco's Finance Department, and Deputy General Manager of Guizhou branch of the Company.

#### Other Senior Management Personnel

The table and discussion below set forth certain information concerning other senior management personnel.

| Name             | Age | Positions with the Company |
|------------------|-----|----------------------------|
| Sun Zhaoxue      | 43  | Vice President             |
| Zhang Chengzhong | 45  | Vice President             |
| Liu Xiangmin     | 43  | Vice President             |
| Liu Qiang        | 42  | Secretary to the Board     |

Sun Zhaoxue

, aged 43, is a Vice President of the Company and has been employed by the Company since 2001. Mr. Sun is a professor-grade senior engineer with extensive experience in the management of bauxite mining and production of alumina. He graduated from North China University of Science and Technology and majored in engineering management science. Mr. Sun formerly served as the Deputy Director and then Director of the Xiao Yi Mine of Shanxi Plant, the Deputy Manager and then Manager of Shanxi Plant, and the General Manager of Shanxi Branch of the Company. Mr. Sun has also serves as the Chairman of Shanxi-Huaze Aluminum-Power Company Limited.

Zhang Chengzhong

, aged 45, is a Vice President of the Company and has been employed by the Company since 2001. Mr. Zhang obtained a Master's degree in metallurgy engineering. He is a professor-grade senior engineer with extensive experience in alumina production and research. Mr. Zhang previously served as the Deputy Director and then the Director of the alumina production facility in Shanxi Aluminum Plant of the Company, the Deputy Director and then the Director of the research institute affiliated with the Shanxi Aluminum Plant as well as the Deputy Director and then the Director of the Shanxi Aluminum Plant.

Liu Xiangmin

, aged 43, is a Vice President of the Company and has been employed by the Company since 2001. Mr. Liu graduated from Central South Institute of Mining and Metallurgy and majored in non-ferrous metal science. He also obtained a Doctor's degree in metallurgy engineering. He is a professor-grade senior engineer and has extensive and professional experience in the fields of metallurgy of non-ferrous metals and corporate management. Mr. Liu previously served as the Deputy Director and then Director of the Alumina branch of our Zhongzhou Plant, the Deputy Manager of our Zhongzhou Aluminum Plant, and the General Manager of our Zhongzhou Branch.

#### Liu Qiang

, aged 42, is the Secretary to the Board and has been employed by the Company since 2001 and has been the Secretary to the Board since November 2003. Ms. Liu holds a Master's degree in English literature and is a professor-grade senior translator. She has extensive experience in the import and export of non-ferrous metals and analysis of the aluminum market. Ms. Liu formerly served as the Finance Manager of the Australian branch of, and Business Manager of the Aluminum Business Division of, China National Non-Ferrous Metals Import and Export Corporation; senior analyst for the Aluminum Industry and Market in the Information Division of China National Non-Ferrous Metals Trading Group; senior analyst for the Aluminum Industry and Market in the Information Division of China National Metals and Minerals Import and Export Corporation; and deputy manager of the Import and Export Division of China Aluminum International Trading Corporation Limited.

#### Audit Committee

Currently, our audit committee consists of three Independent Non-executive Directors, namely, Mr. Wang Dianzuo, Mr. Poon Yiu Kin, Samuel and Mr. Kang Yi. Mr. Poon Yiu Kin, Samuel was appointed as the member and the Chairman of our audit committee on October 14, 2005 to replace the previous audit committee member Mr. Chiu Chi Cheong, Clifton, who resigned with effect from October 14, 2005. Mr. Kang Yi was appointed as a member by the Board on March 28, 2005 to replace the previous audit committee member Mr. Chen Xiaozhou, who resigned on March 27, 2005. We rely on the exemption under Section 303A.00 of the NYSE Corporate Governance Rules which allows

foreign private issuers to comply with the audit committee standards set out in Section 303A.06. We follow our home country practice in relation to the composition of our audit committee in reliance on the exemption provided under NYSE Corporate Governance Rule 303A.00 available to foreign private issuers. Our home country practice does not require us to establish an audit committee with a majority of independent directors. We have nine directors, three of which are independent directors. We believe our reliance on such exemption would not materially adversely affect the independence of our audit committee. The primary duties of our audit committee as set out in the committee charter are to review our annual and interim financial reports, review and approve the selection of and remuneration paid to our independent auditors, approve audit and audit-related services, approve related party transactions, supervise our internal financial reporting process, including our internal controls and disclosure controls and procedures, supervise our internal and external auditors, and review management policies. The audit committee convened three meetings in 2005.

#### Remuneration and Nomination Committee

We have established a remuneration and nomination committee. Our remuneration and nomination committee consists of two Executive Directors, Mr. Xiao Yaqing and Mr. Xiong Weiping, and three Independent Non-executive

Directors, Mr. Poon Yiu Kin, Samuel, Mr. Wang Dianzuo and Mr. Kang Yi, with Mr. Xiao Yaqing serving as Chairman of the committee. Committee members' responsibilities as set out in the committee charter include reviewing compensation policies and performance appraisals with respect to the directors and senior management, reviewing and recommending selection of independent directors and members of the committees under the board of directors, approving the terms of directors service contracts, and the appointment and removal of senior executives.

We follow our home country practice in relation to the composition of our compensation and nominating committee in reliance on the exemption provided under NYSE Corporate Governance Rule 303A.00 available to foreign private issuers. Our home country practice does not require us to establish a nominating committee or that the compensation committee must be composed entirely of independent directors.

#### Planning and Development Committee

We have established a strategic planning and development committee which consists of two Executive Directors, Mr. Xiong Weiping and Mr. Luo Jianchuan, and one Independent Non-executive Director, Mr. Wang Dianzuo, with Mr. Wang Dianzuo serving as the Chairman. In accordance with the committee charter, the committee reviews and assesses our strategic plans for development, fiscal budgeting, investment, business operations and annual rates of return on investments.

#### Disclosure Committee

Our disclosure committee consists of the Chief Executive Officer, the Chief Financial Officer and other senior management members. Our Chief Executive Officer and Chief Financial Officer serve as the Chairman and Vice Chairman of the committee, respectively. The committee implements our disclosure controls and procedures and reviews information disclosed to ensure accurate, open and timely disclosure.

#### Compensation

##### Directors', Supervisors' and Senior Officers' Compensation

Our executive directors and supervisors who are employees receive compensation in the form of salaries, housing allowances, other allowances and benefits in kind, including our contribution to the pension plans for our directors and supervisors. Directors and supervisors who are not employed by us receive fees for their services. We have entered into three-year service contracts with all of our directors and supervisors. None of these service contracts provide benefits to our directors upon termination. The aggregate amount of cash compensation we paid for the year ended December 31, 2005 (1) to our five highest paid individuals was RMB5.1 million; (2) to our directors (not including our Independent Directors) was RMB4.5 million; (3) to our supervisors was RMB1.1 million; (4) to our senior management was RMB2.9 million; (5) to Independent Non-executive Directors was RMB0.8 million; and (6) to our directors (not including our Independent Directors), supervisors and senior management as a group was RMB8.5 million.

#### Senior Management Incentive System

In order to better provide incentives for our senior management and improve our shareholders' value, we adopted a special compensation system for our senior management designed to link our senior management's financial interests

with our operating performances. Under this system, the senior management's compensation consists of the following components:

- \* basic salaries;
- \* performance bonuses; and
- \* incentive bonuses.

#### Board Practices

##### Board of Directors

Pursuant to the articles of association, our board of directors consists of nine directors, one of whom is the Chairman. Directors are elected at the shareholders' general meeting by vote of shareholders, and serve for terms of three years. Upon the expiration of the term of their office, they may serve successive terms if re-elected at the shareholders' general meeting. The current board of directors, except Mr. Shi Chungui, Mr. Poon Yiu Kin, Samuel and Mr. Kang Yi, was elected at the shareholders' annual general meeting held on June 7, 2004. Mr. Shi Chungui was elected at the shareholders' annual general meeting held on June 9, 2005. Mr. Poon Yiu Kin, Samuel was elected at the shareholders' extraordinary general meeting held on October 14, 2005. Mr. Kang Yi was elected in the extraordinary shareholders' meeting held on September 28, 2004. The term of this board of directors will expire on June 7, 2007, or at such time as the shareholders' general meeting elects a new board of directors. The board of directors is responsible to the shareholders.

##### Supervisory Committee

We have a supervisory committee composed of three supervisors. Supervisors serve a term of three years. Upon the expiration of their terms of office, they may be reappointed to serve consecutive terms. The supervisory committee is presided over by a chairman who may be elected or removed with the consent of two-thirds or more of the members of the supervisory committee. The term of office of the Chairman is three years, renewable upon re-election. The current Supervisory Committee consists of two representatives from Chinalco and one representative from our employee. Members of the Supervisory Committee may also observe meetings of the board of directors. Our current Supervisory Committee was appointed at the shareholders' annual general meeting held on June 7, 2004. The term of this Supervisory Committee will expire on June 7, 2007, or at such time when the shareholders, at a general meeting, appoint a new supervisory committee.

Supervisors attend board meetings as non-voting members. The Supervisory Committee is responsible to the shareholders' general meeting and has the following duties and responsibilities:

- \* to supervise our handling of our financial matters;
- \* to supervise any acts of directors, the general manager, deputy general manager and other senior officers that are in violation of laws, administrative regulations or our articles of association;
- \* to request directors, the general manager, deputy general manager and other senior officers to rectify their acts that are detrimental to the interests of Chalco;



- \* to verify such financial information as financial reports, business reports and profit distribution plans submitted by the board of directors to the shareholders' general meeting, and arrange certified public accountants and auditors to verify issues;
- \* to propose to convene interim shareholders' general meetings; and
- \* to bring lawsuits against directors on behalf of Chalco.

Audit Committee

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See "-Directors, Supervisors and Senior Management - Audit and other Committees."

Employees

For each of 2003, 2004 and 2005, we had a total of approximately 67,400, 68,620 and 68,200 employees, respectively.

The table below sets forth the number of our employees by function as of the period indicated:

| Function:                   | As of December 31, |               |               |               |               |             |
|-----------------------------|--------------------|---------------|---------------|---------------|---------------|-------------|
|                             | 2003               |               | 2004          |               | 2005          |             |
|                             | Number             | % of Total    | Number        | % of Total    | Number        | % of Total  |
| Alumina production          | 37,500             | 55.7          | 38,100        | 55.5          | 38,124        | 55.9        |
| Primary aluminum production | 18,625             | 27.6          | 19,150        | 27.9          | 19,164        | 28.1        |
| Mining                      | 3,555              | 5.3           | 3,550         | 5.2           | 3,431         | 5.0         |
| Research and development    | 1,980              | 2.9           | 1,980         | 2.9           | 1,990         | 2.9         |
| Sales and marketing         | 740                | 1.1           | 740           | 1.1           | 686           | 1.0         |
| Management and other        | 5,000              | 7.4           | 5,100         | 7.4           | 4,805         | 7.1         |
| <b>Total</b>                | <b>67,400</b>      | <b>100.0%</b> | <b>68,620</b> | <b>100.0%</b> | <b>68,200</b> | <b>100%</b> |

The table below sets forth the number of our employees as of December 31, 2005:

| Location                | Employees | % of Total |
|-------------------------|-----------|------------|
| Shandong                |           |            |
| Shandong Plant          | 10,769    | 15.8       |
| Henan                   |           |            |
| Henan plant             | 10,716    | 15.7       |
| Zhongzhou plant         | 4,940     | 7.2        |
| Research Institute      | 937       | 1.4        |
| Bauxite mine branch     | 2,655     | 3.9        |
| Guizhou                 |           |            |
| Guizhou plant           | 15,199    | 22.3       |
| Guangxi                 |           |            |
| Guangxi plant           | 5,601     | 8.2        |
| Shanxi                  |           |            |
| Shanxi plant            | 12,168    | 17.8       |
| Qinghai                 |           |            |
| Qinghai plant           | 5,099     | 7.5        |
| Headquarters and others | 116       | 0.2        |
|                         |           |            |
| Total                   | 68,200    | 100.0%     |

We have workers' unions at the plant level that protect employees' rights and welfare benefits, organize educational programs, encourage employee participation in management decisions, and assist in mediating disputes between us and individual employees. All employees are union members. We have not been subjected to any strikes or other labor disturbances that have interfered with our operations, and we believe that our relationship with our employees is good.

The remuneration package of our employees includes salary, bonuses and allowances. Employees also receive welfare benefits including medical care, housing subsidies, childcare and education, retirement and other miscellaneous items.

In accordance with applicable PRC regulations, we currently participate in pension contribution plans organized by provincial and municipal governments, under which each of our plants is required to contribute an amount equal to a

specified percentage of the sum of its employees' salaries, bonuses and various allowances. The amount of contribution as a percentage of the

employees' salary is, on average, approximately 20.0% depending in part on the location of the plant and the average age of the employees. We have made all required pension contributions up to December 31, 2005. Retirees who retired prior to the date of the reorganization will have their pensions paid out of the pension plans established by the PRC government. We also contribute to a welfare fund for our employees. Our contributions to this fund are made at rates ranging from 5% to 10% of our after-tax income. In addition, we have introduced a new employee incentive plan which includes performance bonuses for our employees. We provide to our employees various social welfare benefits through hospitals, schools, retirement homes and other institutions owned by Chinalco and its other affiliates or through third parties.

#### Share Ownership

None of our directors, supervisors or senior management own any interest in any shares or options to purchase our shares.

### ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

#### Major Shareholders

We are a joint stock limited company organized under the laws of the PRC. Our parent company, Chinalco, a state-owned enterprise, currently owns 39.59% of our outstanding common shares after our placement of H shares on May 19, 2006. The parent company holds a significant portion of our domestic shares in the form of state legal person shares and can exercise all rights as our controlling shareholder according to the relevant laws, rules and regulations. The parent company has substantial influence over our management and policies and corporate actions, not only in its capacity as the largest shareholder, but also because two of our directors, including our Chairman, hold senior management positions with Chinalco and Chinalco has nominated two of the three members of our Supervisor Committee.

The following table sets forth information regarding ownership of our issued and outstanding capital stock as of May 25, 2006. The table includes all persons who are known by us to own, either as beneficial owners or holders of record, five percent or more of our capital stock.

| Holders of Domestic Shares and H Shares | As of May 25, 2006 |                                       |
|---|--------------------|---------------------------------------|
|   | No. of shares      | Approximate % of issued share capital |
|   | (in millions)      |                                       |
| Holders of Domestic Shares              |                    |                                       |
| Chinalco                                | 4,612.2            | 34.59                                 |

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|                         |       |      |
|-------------------------|-------|------|
| China Cinda             | 900.6 | 7.73 |
| China Construction Bank | 709.8 | 6.09 |
| China Orient            | 602.2 | 5.17 |
| China Development Bank  | 554.9 | 4.76 |

Holders of H Shares

|                        |         |       |
|------------------------|---------|-------|
| Alcoa                  | 884.2   | 7.59  |
| Other public investors | 3,059.8 | 26.26 |

- (1) After allocation of the 44,100,000 Shares to be converted from the same number of existing State-owned domestic shares that are to be allocated from Chinalco to the National Social Security Fund Council (the "NSSF") of the PRC that will be approved by the SASAC.

We are not aware of any arrangement that may at a subsequent date result in a change of control of Chalco.

Pursuant to the shareholders' resolution passed on June 9, 2005, we entered into a placing agreement with J.P. Morgan Securities Ltd., CLSA Limited and China International Capital Corporation Hong Kong Securities Limited in relation to the placing (the "Placing") of an aggregate of 644,100,000 H Shares in the share capital of our Company at a price of HK\$7.25 per H Share on May 9, 2006. The Placing Shares comprise (i) 600,000,000 new H Shares to be allotted and issued by the Company and (ii) 44,100,000 H Shares to be converted from the same number of existing State-owned domestic shares that are to be allocated from Chinalco to the National Social Security Fund Council (the "NSSF") of the PRC, in reliance upon U.S. Securities Act of 1933. The Placing Shares represent approximately 5.83% of the existing issued share capital of our Company and approximately 5.53% of the issued share capital of our Company as enlarged by the issue of the new H Shares.

The Placing shares were listed on the Hong Kong Stock Exchange on May 19, 2006. Our total share capital increased to 11,649.9 million shares from 11,049.9 million shares, and the percentage of our listed share capital to our total share capital increased from 29.87% to 33.85%.

To the best of our knowledge, as of December 31, 2005, none of the outstanding H shares was held by United States holders of record, and all of the outstanding ADSs were held by 23 United States holders of record. Because only PRC investors can hold domestic shares, there were no non-PRC holders holding the domestic shares of record. See "Item 4 - Information on the Company - History and Development of the Company - The Proposed A Shares Offering."

As an owner of at least 30% of our issued and outstanding shares, the parent company is deemed a controlling shareholder and therefore may not exercise its voting rights relating to our shares with respect to various matters in a manner prejudicial to the interests of our other shareholders. See "Item 10. Additional Information - Memorandum and Articles of Association". In accordance with our articles of association, each share of our capital stock has one vote and the shares of the same class have the same rights. Other than the restrictions noted in the first sentence of this paragraph, the

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voting rights of our major holders of domestic shares are identical to those of any other holders of our domestic shares, and the voting rights of our major holders of H shares are identical to those of our other holders of H shares.

Holders of domestic shares and H shares are deemed to be shareholders of different classes for some matters, which may effect their respective interests. Holders of H shares and domestic shares are entitled to the same voting rights.

#### Related Party Transactions

##### Connected Transactions under Hong Kong Listing Rules

Under the HKSE Listing Rules, transactions between connected persons and us constitute connected transactions and such transactions are normally subject to reporting, announcement and/or shareholders' approval unless otherwise waived by the Hong Kong Stock Exchange. Under the HKSE Listing Rules, Chinalco, Guangxi Associate, Guizhou Development and Southwest Aluminum (Group) Co., Ltd., or Southwest Aluminum, are considered our connected persons. According to certain waivers granted by the Hong Kong Stock Exchange on December 22, 2003, our Independent Non-executive Directors must review and certify annually that the contracts entered into between us and our connected persons are based on normal commercial terms that are fair and reasonable. Commencing on June 7, 2004, our Audit Committee pre-approves related-party transactions in accordance with the NYSE Listing Rules. The following transactions are exempted from the strict compliance of the requirements under the HKSE Listing Rules in relation to connected transactions, subject to certain conditions as stated in the waiver letter issued by the Hong Kong Stock Exchange.

Although connected transactions are not synonymous with related party transactions, the concepts are sufficiently similar that the following description of our connected transactions would satisfy the disclosure requirements under U.S. securities laws. See the table below for a list of the amounts paid under such transactions for the years ended December 31, 2003, 2004 and 2005.

We have the following ongoing connected transactions with Chinalco, our largest shareholder, Guangxi Associate, Guizhou Development and Southwest Aluminum.

- \* Comprehensive Social and Logistics Services Agreement;
- \* General Agreement on Mutual Provision of Production Supplies and Ancillary Services;
- \* Mineral Supply Agreement;
- \* Provision of Engineering, Construction and Supervisory Services Agreement;
- \* Land Use Rights Leasing Agreement;
- \* Buildings Leasing Agreement;
- \* Tenancy Agreement;
- \* Trademarks License Agreement;
- \* Guarantee of Debts Contract;
- \* Aluminum Ingots and Alumina Supply Agreement;

- \* Aluminum Ingots Agency Agreement; and
- \* Primary Aluminum Supply Agreement with Southwest Aluminum.

#### Comprehensive Social and Logistics Services Agreement

Chinalco provides certain social welfare and logistics services on a continuing basis to us. To regulate our relationship with Chinalco in this regard, we have entered into the Comprehensive Social and Logistics Services Agreement with Chinalco on November 5, 2001 for the provision of social welfare and logistics services.

#### General Agreement on Mutual Provision of Production Supplies and Ancillary Services

Chinalco retained certain non-core assets and businesses relating to ancillary production supplies and services which include assets and businesses for, among other things, (a) supply of various raw materials required in the course of production of alumina and primary aluminum; (b) provision of transportation and loading services; and (c) the provision of production supporting service, which continue to provide ancillary production supplies and services to us on an ongoing basis.

Chinalco also retained all its assets and businesses relating to aluminum fabrication (except for aluminum fabrication capacity of Shandong Aluminum). It purchases its supply of primary aluminum as well as other alumina products from us. On the other hand, Chinalco transferred to us (a) operating assets and businesses for the production of alumina, primary aluminum, scrap materials, coal and pitch; and (b) assets and businesses for provision of ancillary production supplies and services which include, among other things, the supply of electricity, gas, heat and water, spare parts and the provision of repair and maintenance services. Such assets and businesses continue to provide ancillary production supplies and services to Chinalco.

To regulate the relationship between Chinalco and us in these respects, we entered into a General Agreement on Mutual Provision of Production Supplies and Ancillary Services with Chinalco on November 5, 2001.

#### Mineral Supply Agreement

Chinalco retained certain assets and businesses relating to several small bauxite mines and limestone quarries in respect of which the mining rights have not been transferred to us. Chinalco continues to provide bauxite and limestone to us on an ongoing basis. Chinalco also purchases bauxite and limestone from other mines and re-sells the bauxite and limestone to us.

To regulate the relationship between Chinalco and us in these respects, we entered into a Mineral Supply Agreement with Chinalco on November 5, 2001.

#### Provision of Engineering, Construction and Supervisory Services Agreement

Chinalco retained all its operating assets and liabilities relating to metallurgical construction and construction supervisory services and Luoyang Research Institute for Non-ferrous Metals Processing, which specializes in engineering design. The other operating assets and liabilities relating to engineering design services have been

transferred to us.

Chinalco has provided and continues to provide metallurgical design, construction and supervisory services to us. In turn, we have provided and continue to provide various research and development services relating to engineering design to Chinalco.

We have entered into a Provision of Engineering, Construction and Supervisory Services Agreement with Chinalco dated November 5, 2001 relating to the provision of such engineering design, construction and supervisory services.

#### Land Use Rights Leasing Agreement

Chinalco leased to us all the 453 pieces or parcels of land for the purposes of all aspects of our operations and businesses. On November 5, 2001, we entered into the Land Use Rights Leasing Agreement with Chinalco for the leasing of these 453 parcels of land covering an aggregate area of approximately 58.3 million square meters, which are located in six provinces in the PRC. The annual rent payable to Chinalco is approximately RMB239.1 million.

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As a result of the adjustment in the standard land price and land use tax made by relevant local authorities in 2004, Chinalco was required to pay an extra tax amount of RMB66.0 million. On January 11, 2005, after arm-length negotiations between Chinalco and us, we agreed to bear the annual tax increment beginning from January 1, 2004, pursuant to which our payment of the rental for land use right increased from RMB173.0 million to RMB239.1 million. We had applied and recommended to the HKSE for the amendment of maximum amount of annual land use right payable by us be adjusted from RMB200.0 million to RMB250.0 million.

#### Buildings Leasing Agreement

Chinalco transferred to us, among other operating assets, ownership of the buildings and properties for the operation of our core businesses, with Chinalco retaining the buildings and properties for its remaining operations.

We leased to Chinalco and Chinalco leased to us a number of buildings and properties for ancillary uses, which include buildings and properties mainly for offices, dormitory, canteen and storage purposes. The buildings and properties we lease to Chinalco comprise 59 buildings with an aggregate gross floor area of 62,819 square meters. In turn, the buildings and properties Chinalco leases to us for ancillary uses comprise 100 buildings with an aggregate gross area of 273,637 square meters. We entered into the Buildings Leasing Agreement on November 5, 2001 with Chinalco, regarding the terms and conditions for the lease of these buildings and properties.

#### Tenancy Agreement

On March 28, 2005, we entered into a tenancy agreement with China Aluminum Development Company Limited, a wholly owned subsidiary of Chinalco, in respect of the office premises at 12th to 16th floors and 18th to 31st floors of No. 62 Xizhimen Bei Street, Hai Dian District, Beijing, PRC with an aggregate gross floor area of 30,160.81 square meters for a term of three years. The annual rent amounts to RMB61.6 million, determined according to the prevailing market rate. The eight months' period from February 15, 2005 to October 14, 2005 during renovation was rent free.

#### Trademarks License Agreement

Chinalco transferred to us, among other trademarks, two trademarks relating to its retained operating assets and businesses. To enable Chinalco to continue operating its retained assets and businesses using these two trademarks, the parties entered into a Trademarks License Agreement dated November 5, 2001 whereby we have granted to Chinalco and its associates free of charge a non-exclusive right to use these two trademarks for ten years from July 1, 2001, but may be extended upon negotiations with Chinalco. Pursuant to such agreement, we are responsible for the payment of a total annual fee of no more than RMB1,000 to maintain the effective registration.

#### Guarantee of Debts Contract

Part of the debt of the Chinalco Group relating to assets transferred to us in the reorganization was transferred to, and assumed by, us. These debts were guaranteed by Chinalco.

In a Guarantee of Debts Contract dated December 29, 2003, entered into between Chinalco and us, Chinalco agreed to continue to provide guarantees for the debts assumed by us pursuant to the reorganization, if the guarantees are required by the creditors. As at December 31, 2004, these debts aggregated approximately RMB1.5 billion. We provide no security and pay no fees with respect to these guarantees, but are required to repay Chinalco for any payments Chinalco may make under these guarantees. According to the "Solution of Chinalco Guarantee Management" issued by Chinalco in May 2004, we paid a one-off guarantee service fee of RMB14,395,000 to Chinalco during 2004.

#### Aluminum Ingots and Alumina Supply Agreement

Guangxi Associate has purchased and continues to purchase aluminum ingots and alumina from us for trading and for aluminum fabrication. Guangxi Investment has approximately 37.5% equity interests in Guangxi Associate. Guangxi Associate is an associate (as defined in the HKSE Listing Rules) of Guangxi Investment, which is one of our promoters and therefore a connected person, and any transactions between Guangxi Associate and us are connected transactions within the meaning of the HKSE Listing Rules.

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To regulate our relationship with Guangxi Associate in this respect, we entered into an agreement with Guangxi Associate in relation to the supply of alumina and aluminum ingots on November 5, 2001.

#### Aluminum Ingots Agency Agreement

Guizhou Development has been and continues to be our agent for the distribution and sale of our aluminum ingots and related products for a commission. Such transactions between Guizhou Development and us are connected transactions within the meaning of the Listing Rules.

To regulate the relationship between Guizhou Development and ourselves in this respect, we entered into an agency agreement on November 5, 2001 relating to the sale of aluminum ingots by Guizhou Development as our agent.

#### Primary Aluminum Supply Agreement with Southwest Aluminum (Group) Company Limited

We have been and are continuing to supply primary aluminum to Southwest Aluminum. China Cinda has approximately a 36.0% equity interest in Southwest Aluminum. As one of our substantial shareholders, China Cinda is our "connected person" (as defined in the Listing Rules). As China Cinda has more than a 30% equity interest in



Southwest Aluminum, Southwest Aluminum is an "associate" (as defined in the HKSE Listing Rules) of China Cinda and our connected person. Any transactions between Southwest Aluminum and ourselves are "connected transactions" within the meaning of the HKSE Listing Rules.

To regulate our supply relationship with Southwest Aluminum, we entered into a Primary Aluminum Supply Agreement dated November 5, 2001 with Southwest Aluminum in relation to the supply of primary aluminum to it.

Guangxi Huayin Aluminum Co., Ltd.

We established a joint venture company, Guangxi Huayin Aluminum Co., Ltd., with Guangxi Associate and China Minmetals on February 18, 2003 to undertake the construction of an alumina plant to exploit the discovery of a bauxite deposit in western Guangxi Zhuang Autonomous Region. According to a Supplemental Agreement dated July 31, 2005, the total investment of Guangxi Huayin Aluminum Co., Ltd. was increased from RMB10 million to RMB8,491.0 million and 25% of which will be contributed by the shareholders according to their proportionate shareholding in the joint venture company. As a result, we, Guangxi Associate and China Minmetals will contribute RMB701 million, RMB721.5 million and RMB701 million, respectively, from 2005 to 2007. We contributed the first installment amounting to RMB116.9 million on August 4, 2005 and expect to contribute the remaining installments in 2006 and 2007 with internal resources. The remaining 75% of the total investment of the joint venture company will be financed by bank loans. See "Item 4. Information on the Company - Business Overview - Property Plant and Equipment - Our Expansion and Profit Improvement Plan - Guangxi Alumina Project."

Shandong Aluminum

In October 2003, Shandong Aluminum signed an agreement to purchase two rotary kilns from Shandong Aluminum Company, a wholly-owned subsidiary of Chinalco. The purchase price of RMB115.1 million is based on an independent valuation report. The purchase was approved by the independent shareholders of Shandong Aluminum at a general meeting duly convened to approve the purchase in accordance with the requirements of the Shanghai Stock Exchange Listing Rules and the transaction was completed in March 2004.

Amounts Received or Paid Under Material Related Party Transactions

During the years ended December 31, 2003, 2004 and 2005, we had the following material related transactions.

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| Years Ended December 31, |      |      |
|--------------------------|------|------|
| 2003                     | 2004 | 2005 |
| RMB                      | RMB  | RMB  |
| (in thousands)           |      |      |

Sales of materials and finished goods to:

|                |           |           |           |
|----------------|-----------|-----------|-----------|
| Chinalco Group | 1,106,919 | 1,700,746 | 3,088,968 |
|----------------|-----------|-----------|-----------|

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|  |         |         |           |
|--|---------|---------|-----------|
| Jointly controlled entity  | 33,701  | 52,424  | 45,480    |
| Associate company  | -       | -       | 570,470   |
| Other related party  | -       | -       | 85,509    |
| Provision of utility services to Chinalco and its subsidiaries                               | 234,067 | 219,952 | 310,438   |
| Provision of engineering, construction and supervisory services by Chinalco Group            | 784,163 | 830,582 | 2,176,041 |
| Purchase of property, plant and equipment from: Chinalco and its subsidiaries <sup>(1)</sup> | -       | 115,098 | -         |
| Purchase of key and auxiliary materials from: Chinalco Group                                 | 520,686 | 633,664 | 700,829   |
| An associated company  | -       | -       | 220,772   |
| Provision of social services and logistics services by Chinalco Group                        | 744,575 | 927,252 | 951,247   |
| Land and building rental charged by Chinalco   | 173,611 | 239,810 | 239,061   |
| Building rental charged to Chinalco  | -       | -       | 44,575    |

- (1) Our subsidiary, Shandong Aluminum, purchased two kilns from Shandong Aluminum Plant. The purchase price is based on an independent valuation report.

See Note 32 to our audited financial statements for a detailed discussion of our related party transactions.

## ITEM 8. FINANCIAL INFORMATION

### Consolidated Statements and Other Financial Information

See pages F-1 to F-77 following Item 19.

### Legal Proceedings

We are involved in a number of judicial proceedings before PRC courts concerning matters arising in connection with the conduct of our businesses. We are not a party to any material legal proceeding and no material legal proceeding is known to us to be pending against us or with respect to our properties.

### Dividends

Our board of directors declares dividends, if any, in Renminbi with respect to H shares on a per share basis and pays such dividends in HK dollars. Any final dividend for a financial year is subject to shareholders' approval. The Bank of New York, as depositary, converts the HK dollar dividend payments and distributes them to holders of ADSs in U.S. dollars, less expenses of conversion. Under the PRC Company Law and our articles of association, all of our shareholders have equal rights to dividends and distributions. The holders of the H shares share proportionately on a per share basis in all dividends and other distributions declared by our board of directors.

The declaration of dividends is subject to the discretion of our board of directors, which takes into account the following factors:

- \* our financial results;
- \* capital requirements;
- \* contractual restrictions on the payment of dividends by us to our shareholders or by our subsidiaries to us;
- \* our shareholders' interests;

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- \* the effect on our credit worthiness;
- \* general business conditions; and
- \* other factors our board of directors may deem relevant.

We may only distribute dividends after we have made allowance for:

- \* recovery of losses, if any;
- \* allocation to the statutory common reserve fund;
- \* allocation to the statutory common welfare reserve fund; and
- \* allocation to a discretionary common reserve fund if approved by our shareholders and after allocation is made to the statutory common reserve fund.

The minimum and maximum aggregate allocations to the statutory funds is 15% and 20%, respectively, of our net income determined in accordance with PRC GAAP. Under PRC law, our distributable earnings will be equal to our net income determined in accordance with PRC GAAP or HK GAAP, whichever is lower, less allocations to the statutory and discretionary funds.

The board of directors proposed to declare a final dividend of RMB0.214 per share for 2005. We believe that our dividend policy strikes a balance between two important goals:

- \* providing our shareholders with a competitive return on investment; and
- \* assuring sufficient reinvestment of profits to enable us to achieve our strategic objectives.

Subject to the relevant provisions of the PRC Company Law and our articles of association, Chinalco may seek to influence our determination of dividends with a view to satisfying its cash flow requirements. We believe that Chinalco's financial condition will benefit from our success and that by supporting a dividend policy intended to enhance our long-term profitability and the market value of our securities, Chinalco will increase the value of its own interest in us.

See "Item 10. Additional Information - Taxation" for a discussion of the tax consequences of receipt of dividends.

#### Other Significant Changes since December 31, 2005

In January 2006, we entered into a non-binding letter of intent with Shandong Huasheng Jiangquan Group to acquire 60% equity interest in its newly established subsidiary with 100,000 tonnes of primary aluminum smelting and supporting facilities. The subsidiary owns two 135MW coal-fired generators to ensure stable and secured electricity supply.

In January 2006, we also entered into a non-binding letter of intent with Zunyi Aluminum Co., Ltd., Wujiang Hydropower Development Corporation Ltd. and Zunyi City and the People's Government of Zunyi County to acquire 51% equity interest in Zunyi Aluminum. Zunyi Aluminum has an annual production capacity of 113,000 tonnes of primary aluminum.

In March 2006, we entered into a share transfer agreement with Liaoning Fushun Alumina Factory to acquire 100% equity interest held by it in Liaoning Fushun Alumina Co., Ltd., or Funshun Alumina, with an annual production capacity of 140,000 tonnes for a consideration of RMB500 million. Funshun Alumina's primary business is the production of primary aluminum and carbon products. As of February 28, 2006, Funshun Alumina had total assets of RMB1,270 million and net assets of RMB503 million.

On April 17, 2006, we entered into a joint venture agreement with Guizhou Wujiang Hydropower Development Co. Ltd. to establish a joint venture company, Chalco Zunyi Aluminum Co., Ltd. Upon completion of the capital contribution, we will hold 67% equity interest. The joint venture company is expected to have an annual production capacity of alumina of approximately 800,000

tonnes. The joint venture company is expected to have a total investment of RMB4,250.0 million and a registered capital of RMB1,400.0 million.

We expect to continue the feasibility studies with CVRD for the establishment of a joint venture company, ABC, to produce alumina in Brazil in 2006. See "-Business Overview - Production Facilities - Alumina."

We submitted a non-binding preliminary development proposal for a bauxite mining project to the Queensland government in January 2006. In March 2006, the Queensland government confirmed that we were shortlisted as the only developer invited to submit a final proposal. See "-Business Overview - Production Facilities - Alumina."

We expect to commence the feasibility studies with VINACOAL on the project to establish bauxite mining and alumina production joint ventures in Dak Nong province in Vietnam in 2006. See "-Business Overview - Production Facilities - Alumina."

Other than events disclosed above and elsewhere in this annual report, there have been no other significant events since December 31, 2005 to the date of this report.

#### ITEM 9. THE OFFER AND LISTING

The Hong Kong Stock Exchange is the principal non-US trading market for our H shares. The ADSs, each representing 100 H shares, have been issued by the Bank of New York as depositary and are listed on the NYSE. The following table sets forth, for the periods indicated, the reported high and low closing prices for our shares on each of these two stock exchanges:

| Calendar Period                | NYSE           |       | Hong Kong Stock Exchange |       |
|--------------------------------|----------------|-------|--------------------------|-------|
|                                | High           | Low   | High                     | Low   |
|                                | (US\$ per ADS) |       | (HK\$ per H share)       |       |
| 2001(from December 5, listing) | 18.27          | 17.05 | 1.39                     | 1.30  |
| 2002                           | 24.25          | 9.38  | 1.94                     | 0.73  |
| 2003                           |                |       |                          |       |
| First Quarter                  | 19.55          | 14.40 | 1.53                     | 1.13  |
| Second Quarter                 | 24.20          | 16.25 | 1.87                     | 1.24  |
| Third Quarter                  | 34.51          | 22.00 | 2.60                     | 1.72  |
| Fourth Quarter                 | 81.70          | 34.56 | 6.15                     | 2.83  |
| 2004                           |                |       |                          |       |
| First Quarter                  | 85.00          | 62.85 | 6.75                     | 4.925 |
| Second Quarter                 | 91.80          | 45.88 | 7.05                     | 3.50  |
| Third Quarter                  | 66.36          | 42.71 | 5.05                     | 3.275 |
| Fourth Quarter                 | 68.91          | 56.83 | 5.40                     | 4.40  |
| 2005                           |                |       |                          |       |
| First Quarter                  | 66.35          | 51.20 | 5.25                     | 4.02  |
| Second Quarter                 | 61.10          | 50.04 | 4.70                     | 3.87  |
| Third Quarter                  | 62.80          | 53.64 | 4.90                     | 4.15  |
| Fourth Quarter                 | 78.84          | 57.37 | 6.10                     | 4.52  |
| 2006                           |                |       |                          |       |
| January                        | 93.35          | 74.74 | 7.15                     | 5.85  |
| February                       | 108.98         | 92.86 | 8.35                     | 7.15  |
| March                          | 109.27         | 97.80 | 8.55                     | 7.50  |

|                      |        |       |      |      |
|----------------------|--------|-------|------|------|
| April                | 110.12 | 91.00 | 8.70 | 7.30 |
| May (through May 25) | 98.10  | 83.60 | 7.60 | 6.45 |

## ITEM 10. ADDITIONAL INFORMATION

Our registered office is located at No.12B, Fuxing Road, Haidian District, Beijing, People's Republic of China 100814. Our telephone number at this address is (86) 10 6398 5654. Our agent for service of process is CT Corporation System, 111 Eighth Avenue, New York, New York 10011.

## Share Capital

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On January 6, 2004, we placed 549,976,000 additional H shares, par value of RMB1.00 each, to certain independent professional and institutional investors who are non-U.S. persons outside the United States pursuant to Regulation S of the U.S. Securities Act of 1933 at a price of HK\$5.658 per H share. Further, on June 9, 2005, the annual general shareholder' meeting passed a resolution to grant the board of directors an unconditional general mandate to issue, allot and deal with additional H Shares not exceeding twenty percent of aggregate nominal amount of H Shares then in issue during the period from June 9, 2005 to the earlier of (i) the conclusion of the next annual general meeting; (ii) twelve months from June 9, 2005; or (iii) the date on which the resolution was revoked or varied by an extraordinary general shareholders' meeting. Such general mandate is subject to approvals by the China Securities and Regulatory Commission and other relevant PRC government authorities. See "Item 4 - Information on the Company - History and Development of the Company - Our H Shares Placement."

On June 9, 2005, the annual general shareholders' meeting passed a resolution for us to submit application to (i) the CSRC for an approval to issue a maximum of 1,500,000,000 A shares, representing approximately 19.35% of our domestic share capital currently in issue to the PRC public, including PRC individual investors, PRC institutional investors and qualified foreign institutional investors, and (ii) the Shanghai Stock Exchange for the listing of the A shares on the Shanghai Stock Exchange. The board of directors continued to authorize the Proposed A Share Offering at a board meeting dated March 13, 2006 and we are currently in the process of preparing such application materials. See "Item 4 - Information on the Company - History and Development of the Company - The Proposed A Shares Offering."

## Memorandum and Articles of Association

A copy of the English translation of our articles of association was filed with the SEC as an exhibit to the registration statement on Form F-1 (Registration No. 333-14068) under the Securities Act in connection with a global offering of our H shares and American depositary shares on December 5, 2001. Subsequently, our articles of association underwent the following amendments:

- \* our articles of association were amended at the general shareholders' meeting held on June 12, 2002 and approved by the State Economic and Trade Commission on July 5, 2002 to increase the number of directors from seven to nine and to reflect the changes in our registered capital and shareholding structure. A copy of the English translation of the amendment was filed with the SEC as Exhibit 1.1 to our Annual Report on Form 20-F for 2002.

\* our articles of association were amended at the general shareholders' meeting held on June 7, 2004 and approved by the State-owned Assets Supervision and Administration Commission of the State Council on July 30, 2004 (1) to increase the minimum number of Independent Non-executive Directors from two to three, (2) to reflect changes in our total share capital and shareholding structure following the placing of 549,976,000 new H shares on January 6, 2004, and (3) pursuant to an amendment to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange. We have elected a third Independent Non-executive Director on September 28, 2004. A copy of the English translation of the amendment was filed as Exhibit 1.1 to this Annual Report on Form 20-F for 2003.

In addition, at the general shareholders' meeting held on June 9, 2005, resolutions were passed to amend our articles of association in order to (1) expand the business scope, (2) accommodate the proposed A Shares offering and other corporate compliance requirements in accordance with relevant PRC laws and regulations, and (3) grant the board of directors an unconditional general mandate to issue, allot and deal with additional H Shares not exceeding twenty percent of aggregate nominal amount of H Shares then in issue during the period from June 9, 2005 to the earlier of (i) the conclusion of the next annual general meeting; (ii) twelve months from June 9, 2005; or (iii) the date on which the resolution was revoked or varied by an extraordinary general shareholders' meeting. Further, at the extraordinary general shareholders' meeting held on October 14, 2005, resolutions were passed to amend our articles of association to reflect the change of title of 709,773,136 shares from China Cinda to China Construction Bank. The amendments are subject to approval by the State-owned Assets Supervision and Administration Commission of the State Council.

Our objects and purposes

Our articles of association as amended from time to time are filed with the Hong Kong Companies Registrar. Our business scope can be found in Article 13 of our articles of association, as amended at the general meeting of shareholders on June 9, 2005, which includes exploration and exploitation of bauxite and limestone mines; production and sales of aluminum and magnesium products, smelting products, fabricated products, carbon products, related nonferrous metal products, water, electricity, steam and industrial oxygen and nitrogen; exploration design, and installation and repair of mechanical equipment, spare parts and non-standard equipment; repair of automobiles and construction machineries and manufacture and sale of special production vehicles; highway freightage; telecommunications and communications and installation and repair, calibration and sales of measuring and control instruments; design, installation and testing of automatic measurement and control, network and software system; office automation and instruments and gauges; related technology development and technical support service.

Directors' power to vote on matters in which he or she has an interest

Under Article 133, a director may not vote on any board resolution approving any contract or arrangement or any other proposal in which he or any of his associates (as defined in the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange) has a material interest, nor may he or she be counted in satisfying the quorum requirements for such meeting. Unless the interested director has disclosed his or her interest in accordance with the Articles and the contract, transaction or arrangement has been approved by the board of directors at a meeting in which the interested director is not counted in satisfying the quorum requirements and has refrained from voting, any contract, transaction or arrangement in which such director is materially interested is voidable at the instance of the Company except as against a bona fide party thereto acting without notice of the breach of duty by such director.

### Borrowing powers

Subject to compliance with applicable laws and regulations of the PRC, we have the power to raise and borrow money which power includes (without limitation) the issuance of debentures, the charging or mortgaging of part or whole of our business or properties and to provide guarantees or mortgages for the debts of third parties (including, without limitation, our subsidiaries or associated companies) in all types of circumstances. The articles of association do not contain any specific provision in respect of the manner in which borrowing powers may be exercised by the directors nor do they contain any specific provision in respect of the manner in which such powers may be varied, other than (a) provisions which give the directors the power to formulate proposals for the issuance of debentures by us; (b) provisions which provide that the issuance of debentures must be approved by the shareholders in a general meeting by way of a special resolution; and (c) Article 96(4) provides that the directors have the power to formulate our annual preliminary and final financial budgets and the extent of our corporate borrowing powers and the manner in which the borrowing powers may be varied are subject to adoption by the affirmative vote of a simple majority of the directors as part of the preliminary or final financial budget plan.

### Age limit for retirement

There is no provision pertaining to the retirement of directors pursuant to an age limit requirement in our articles of association.

### Directors' qualifying shares

Under Article 95, the directors are not required to hold qualifying shares.

### Dividend rights

Article 51(I) provides that holders of our common shares have the right to receive dividends and benefits in other forms, e.g., right to share profits and the right to surplus in the event of a liquidation, in respect of the number of shares held. Under Article 45, when we convene a general shareholders' meeting, declare dividends, liquidate or undertake other actions that require the verification of shareholders' rights, the board of directors must specify a date as the record date for determination of shareholders' rights. The shareholders registered in the shareholders' register at the record date are the shareholders entitled to participate.

### Voting rights

Article 51(II) provides that holders of our common shares have the right to attend in person or appoint a proxy to attend and vote at general meetings of shareholders.

### Rights to share profits

Article 77(2) provides that profit distribution plans and loss recovery plans formulated by the board of directors must be approved by way of ordinary resolution of the shareholders' general meeting.

### Rights to share surplus in the event of liquidation



Article 51(VI) provides that the shareholders have the right to receive our surplus assets upon liquidation in proportion to their respective shareholdings.

Redemption provisions; sinking fund provisions and liability to further capital calls

Article 29 provides that we may repurchase issued shares upon obtaining approvals from the shareholders by way of a special resolution and from relevant supervisory authorities under the following circumstances: (1) canceling shares to reduce our capital; (2) merging with another company holding our shares; (3) other purposes permitted by law and administrative regulations.

No securities issued by us are (a) redeemable, (b) entitled to a sinking fund or (c) subject to liability for further capital calls.

Actions necessary to change the rights of holders of our shares or holders of a class of shares

Under Article 78(5), amendment of any type of shareholder rights, e.g., rights to dividends, share profits or surplus in the event of liquidation or voting rights, requires a special resolution of the shareholders' general meeting. Under Article 71, a special resolution must be passed by votes representing more than two-thirds of the voting rights represented by the shareholders (including proxies) present at the meeting.

Any proposal to vary or abrogate the rights conferred on any class of shareholders, or class rights, must be approved by way of a special resolution in a shareholders' general meeting and by holders of shares of that class at a separate meeting conducted in accordance with the articles of association. The circumstances which are deemed to be a variation or abrogation of the class rights are set forth under Article 88. Except for the circumstances under Article 88 (1), (9) and (10), shareholders of the affected class, whether or not otherwise having the right to vote at shareholders' general meetings, have the right to vote at class meetings but Interested Shareholders (as defined under Article 89) are not entitled to vote at class meetings.

Resolutions of a class of shareholders require votes representing more than two-thirds of the voting rights of shareholders of that class represented at the relevant meeting who are entitled to vote. Written notice must be given to all shareholders who are registered as holders of that class in the register of shareholders 45 days before the date of the class meeting. Such notice must contain the matters to be considered at such meeting, the date and the place of meeting.

The class meetings must be conducted in a manner as similar as possible to that of general meetings of shareholders. The provisions relating to the manner in which the shareholders' general meetings must be convoked apply to class meetings.

The special procedures for approval by a class of shareholders do not apply where we issue, upon the approval by special resolution of shareholders in general meeting, either separately or concurrently once every 12 months, not more than 20% of each of our existing issued Domestic-Invested Shares and Overseas-Listed Foreign-Invested Shares (as defined under Article 18).

Provisions discriminating against any existing or prospective shareholder as a result of owning a substantial number of shares

Chinalco, as our controlling shareholder, is prohibited from exercising its voting rights in relation to the following matters in a manner that would be prejudicial to the interests of our shareholders generally or some part of our shareholders:

- \* to relieve a director or supervisor of his or her duty to act honestly in our best interest;
- \* to approve the expropriation by a director or supervisor (for his or her own benefit or the benefit of another person) of our assets, including any business opportunities that may benefit us; or
- \* to approve the expropriation by a director or supervisor (for his or her own benefit or the benefit of another person) of the rights of other shareholders.

Conditions governing the manner in which annual general meetings and extraordinary general meetings of shareholders are convoked

Shareholders' general meetings can be annual general meetings or extraordinary general meetings. Shareholders' meetings must be convened by the board of directors. Annual general meetings of shareholders are held once a year within six months after the end of the previous financial year.

The board of directors is required to convene an extraordinary general meeting within two months of the occurrence of any one of the following circumstances:

- (1) where the number of directors is less than the number stipulated in the Company Law or two-thirds of the number specified in the articles of association;
- (2) where our unrecovered losses amount to one-third of the total amount of its share capital;
- (3) where shareholder(s) holding 10 percent or more of our issued and outstanding shares carrying voting rights request(s) in writing for the convening of an extraordinary general meeting;
- (4) whenever the board of directors deems necessary or the Supervisory Committee so requests;  
or
- (5) when proposed by more than two Independent Non-executive directors.

In convening a shareholders' general meeting, written notice of the meeting shall be given no less than 45 days prior to the meeting to notify all of the shareholders whose names appear in the share register of the matters to be considered and the date and the place of the meeting. A shareholder who intends to attend the meeting shall deliver to us his or her written reply 20 days before the date of the meeting. Shareholders holding 5% or more of our total voting shares have the right to propose new motions in writing, and we are required to place such proposed motions on the agenda for such general meeting if they are matters falling within the functions and powers of shareholders in general meetings.

Limitations on the rights to own securities

Under Article 18, the shares issued to domestic investors and denominated in Renminbi are Domestic-Invested Shares whereas the shares issued to overseas investors and denominated in foreign currency are Foreign-Invested Shares. Under Article 17 and as described in Item 7, our Domestic-Invested Shares can be held only by PRC shareholders and our Foreign-Invested Shares, such as H shares and ADSs can be held only by foreign shareholders.

Provisions having an effect of delaying, deferring or preventing a change in control

Under Article 97, in making decisions regarding mergers and acquisitions where the consideration to be paid or the assets to be acquired exceed 10% of our total assets, the board of directors is required to engage relevant professional consultants to provide professional opinions, and to give due weight to such opinions in arriving at their decision.

Under Article 78, division, merger, dissolution and liquidation of the Company and material acquisition or sale by the Company require adoption of a special resolution at the shareholders' general meeting.

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There are no provisions pertaining to the ownership threshold above which shareholder ownership must be disclosed under the articles of association.

Conditions governing changes in registered capital

Under Article 96(6), any proposal for the increase or reduction of our registered capital must be formulated by the board of directors. Article 78(1) further provides that any increase or reduction in share capital requires adoption of a special resolution at a shareholders' general meeting.

Material Contracts

We are not currently, and have not been in the last two years, party to any material contract, other than contracts entered into in the ordinary course of our business or disclosed in our annual reports. Please see "Item 7. Major Shareholders and Related Party Transactions -- Related Party Transactions" for a summary of contracts with certain of our related parties.

Exchange Controls

The existing foreign exchange regulations have significantly reduced government foreign exchange controls for transactions under the current account, including trade and service related foreign exchange transactions and payment of dividends. We may undertake current account foreign exchange transactions without prior approval from the State Administration of Foreign Exchange by producing commercial documents evidencing such transactions, provided that they are processed through Chinese banks licensed to engage in foreign exchange transactions. The PRC government has stated publicly that it intends to make the Renminbi freely convertible in the future. However, we cannot predict whether the PRC government will continue its existing foreign exchange policy and when the PRC government will allow free conversion of Renminbi to foreign currency.

Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to significant foreign exchange controls and require the approval of the State Administration of Foreign Exchange. These limitations could affect our ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures.

Since 1994, the conversion of Renminbi into Hong Kong and United States dollars has been based on rates set by the People's Bank of China, which are set daily based on the previous day's PRC interbank foreign exchange market rate and current exchange rates on the world financial markets. Although the Renminbi US dollar exchange rate has been relatively stable since 1994, we cannot predict nor give any assurance of its future stability. Fluctuations in exchange rates may adversely affect the value, translated or converted into US dollars or Hong Kong dollars, of our net assets, earnings and any declared dividends. We cannot give any assurance that any future movements in the exchange rate of the Renminbi against the US dollar and other foreign currencies will not adversely affect our results of operations and financial condition.

## Taxation

### China Taxation

The following discussion summarizes the material PRC tax provisions relating to the ownership and disposition of H shares or ADSs purchased in connection with the global offering and held by the investor as capital assets.

#### Dividends Paid to Individual Investors

Under the Provisional Regulations of China Concerning Questions of Taxation on Enterprises Experimenting with the Share System (the "Provisional Regulations") and other applicable tax laws and regulations, dividends paid by Chinese companies to individuals are generally subject to a PRC withholding tax of 20%. However, on July 21, 1993, the PRC State Administration of Taxation issued the Notice Concerning the Taxation of Gains on Transfer and Dividends from Shares (Equities) Received by Foreign Investment Enterprises, Foreign Enterprises and Foreign Individuals (the "Tax

#### Provisions governing the ownership threshold above which such ownership must be disclosed

Notice"). Under the Tax Notice, dividends paid by a Chinese company to foreign persons with respect to shares listed on an overseas stock exchange, or Overseas Shares, including the H shares and ADSs, are exempt from PRC withholding taxes for the time being. However, if the Tax Notice is withdrawn, we will withhold such taxes as required by law.

The Individual Income Tax Law of China was amended effective January 1, 1994 and states that it supersedes any contradictory prior administrative regulation concerning individual income tax. The amended Individual Income Tax Law can be interpreted as providing that all non-PRC individuals are subject to the 20% withholding tax on dividends paid by a Chinese company on its Overseas Shares unless specifically exempted by the financial authority of the State Council of the PRC. However, in a letter dated July 26, 1994 to the former State Commission for Restructuring the Economic System, the former State Council Securities Committee and the CSRC, the PRC State Administration of Taxation restated the exemption. In the event that the letter is withdrawn, a 20% tax may be withheld on dividends paid to non-PRC individual holders of H Shares or ADSs, subject to reduction by an applicable tax treaty between China and the country where such holders reside. To date, the relevant tax authorities have not collected withholding tax from dividend payments on such shares exempted under the Tax Notice.

#### Dividends Paid to Non-PRC Enterprises

According to the Provisional Regulations and other applicable tax laws and regulations, dividends paid by Chinese companies to non-PRC enterprises are ordinarily subject to a China withholding tax levied at a flat rate of 20%. However, according to the Tax Notice, a non-PRC enterprise with no permanent establishment in China receiving dividends paid on Overseas Shares is currently exempt from the 20% withholding tax. If the Tax Notice is withdrawn and such withholding tax becomes applicable in the future, such rate may still be reduced under relevant tax treaties, if applicable.

#### Tax Treaties

Non-PRC shareholders who are residents or citizens of a country that has entered into a double-taxation treaty with China may be entitled to a reduction in the amount of tax withheld, if any, imposed on the payment of dividends. China currently has such treaties with a number of countries, including:

- \* the United States;
- \* Australia;
- \* Canada;
- \* France;
- \* Germany;
- \* Japan;
- \* Malaysia;
- \* Singapore;
- \* the United Kingdom; and
- \* the Netherlands.

Under each one of such treaties, the rate of withholding tax imposed by China's taxation authorities is generally reduced. For example, under the double taxation treaty between China and the United States, China may tax dividends paid by us to an eligible U.S. holder up to a maximum of 10% of the gross amount received by such person. Under the treaty, an eligible U.S. holder is a person who, by reason of domicile, residence, place or head office, place of incorporation or any other criterion of similar nature is subject to taxation in the United States, as applicable under the treaty's "treaty shopping provisions".

#### Capital Gains

The Tax Notice provides that gains realized by non-PRC enterprises upon the sale of Overseas Shares which are not held by entities established by such enterprises in China and gains realized by non-PRC individuals upon the sale of Overseas Shares are not subject to withholding tax for the time being. However, as far as individuals are concerned, the Individual Income Tax Law of China, as amended on October 31, 1993 and effective on January 1, 1994, provides for a capital gains tax of 20% on individuals. On January 28, 1994, the Provisions for Implementing the Individual Income Tax Law of China was promulgated which provides that the measures to levy individual income tax on the gains realized on the sale of shares will be made in the future by the Ministry of Finance and subject to the approval of the State Council. On June 20, 1994, February 9, 1996 and March 30, 1998, the Ministry of Finance and the State Administration of Taxation issued notices providing that temporarily no capital gains tax will be imposed on gains from the sale of shares by individuals. However, it is uncertain whether the above exemption for non-PRC enterprises and non-PRC individuals will continue to apply or to be renewed in the future. If such exemption does not apply or is not renewed, and the Tax Notice is found not to apply, holders of H shares or ADSs might be subject to a 20% tax on capital gains, unless reduced by an applicable double taxation treaty.

Under the Tax Reduction Notice, beginning from January 1, 2001, enterprise income tax at a reduced 10% rate will apply to interest, rental, license fees and other income obtained in China by non-PRC enterprises without agencies or establishments in China or by non-PRC enterprises of which such incomes do not have any substantive relationship with their agency or establishment in China. Therefore, if the exemption as described in the preceding paragraph does not apply or is not renewed, and the Tax Reduction Notice is found not to apply, a non-PRC enterprise shareholder might be subject to a 20% tax on capital gains, unless reduced by an applicable double taxation treaty.

#### Additional China Tax Considerations

Under the Provisional Regulations of the PRC Concerning the Stamp Duty, a stamp duty is not imposed by China on the transfer of shares, such as the H shares or ADSs, of Chinese publicly traded companies that take place outside of China.

#### United States Federal Income Taxation

Each potential investor is strongly urged to consult his or her own tax advisor to determine the particular United States federal, state, local, treaty and foreign tax consequences of acquiring, owning or disposing of the H shares or ADSs.

#### U.S. Holders

The following is a general discussion of material United States federal income tax consequences of purchasing, owning and disposing of the H shares or ADSs if you are a U.S. holder, as defined below, and hold the H shares or ADSs as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the "Code"). This discussion does not address all of the tax consequences relating to the purchase, ownership and disposition of the H shares or ADSs, and does not take into account U.S. holders who may be subject to special rules including:

tax-exempt entities;

partnerships or other entities treated as partnerships for United States federal income tax purposes

certain insurance companies;

financial institutions;

regulated investment companies;

real estate investment trusts;

broker-dealers;

traders in securities that elect to mark to market;

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U.S. holders liable for alternative minimum tax;

U.S. holders that own, actually or constructively, 10% or more of our voting stock;

banks;

grantor trusts;

dealers or traders in securities or currencies;

persons who receive the H shares or ADSs as compensation for services;

U.S. holders that hold the H shares or ADSs as part of a straddle or a hedging or conversion transaction; or

U.S. holders whose functional currency is not the U.S. dollar.

Moreover, this description does not address United States federal estate and gift taxes or any state or local tax consequences of the acquisition, ownership and disposition of the H shares or ADSs.

This discussion is based on the Code, its legislative history, final, temporary and proposed United States Treasury regulations promulgated thereunder, published rulings and court decisions as in effect on the date hereof, all of which are subject to change, or changes in interpretation, possibly with retroactive effect. In addition, this discussion is based in part upon representations of the depositary and the assumption that each obligation in the deposit agreement and any related agreements will be performed according to its terms.

You are a "U.S. holder" if you are:

a citizen or resident of the United States for United States federal income tax purposes;

a corporation or other entity treated as a corporation for United States federal income tax purposes created or organized under the laws of the United States or any political subdivision thereof;

any entity created or organized in or under the laws of any other jurisdiction if treated as a United States corporation pursuant to United States federal income tax laws;

an estate the income of which is subject to United States federal income tax without regard to its source; or

a trust:

- subject to the primary supervision of a United States court and the control of one or more United States persons; or
- that has elected to be treated as a United States person under applicable United States Treasury regulations.

If a partnership (including any entity treated as a partnership for United States federal tax purposes) is a beneficial owner of the H shares or ADSs, the treatment of the partner in such partnership will generally depend upon the status of the partner and the activities of the partnership. If an investor is a partner in a partnership that holds H shares or ADSs, such investor should consult its tax advisor.

We urge you to consult your tax advisors regarding the United States federal, state, local and non-United States tax consequences of the purchase, ownership and disposition of the H shares or ADSs.

In general, if you hold ADRs evidencing ADSs, you will be treated as the owner of the H shares represented by the ADSs. The following discussion assumes that we are not a passive foreign investment company, or PFIC, as discussed under "PFIC Rules" below.

#### Distributions on the H Shares or ADSs

The gross amount of any distribution (without reduction for any Chinese tax withheld) we make on the H shares or ADSs out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) will be includible in your gross income as ordinary dividend income when the distribution is actually or constructively received by you, or by the depository in the case of ADSs. Distributions that exceed our current and accumulated earnings and profits will be treated as a return of capital to you to the extent of your basis in the H shares or ADSs and thereafter as capital gain. Any dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from United States corporations. The amount of any distribution of property other than cash will be the fair market value of such property on the date of such distribution.



Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual, trust or estate prior to January 1, 2009 with respect to the H shares or ADSs will be subject to taxation at a maximum rate of 15% if the dividends are "qualified dividends." Dividends paid on H shares or ADSs will be treated as qualified dividends if either (i) we are eligible for the benefits of a comprehensive income tax treaty with the United States that the Internal Revenue Service, or IRS, has approved for the purposes of the qualified dividend rules, or (ii) the dividends are with respect to ADSs readily tradable on a U.S. securities market, provided that we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a PFIC. The income tax treaty between China and the United States has been approved for the purposes of the qualified dividend rules, and we expect to qualify for benefits under the income tax treaty between China and the United States. Moreover, the ADSs are currently traded on the NYSE. Finally, based on our audited financial statements and relevant market data, we believe that we did not satisfy the definition for PFIC status for U.S. federal income tax purposes with respect to our 2005 taxable year. In addition, based on our audited financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market data, we do not anticipate becoming a PFIC for our 2006 taxable year or any future year. However, our status in future years will depend on our income and assets (which for this purpose depends in part on the market value of the H shares or ADSs) in those years. See the discussion of the PFIC rules below.

The U.S. Treasury has announced its intention to promulgate rules pursuant to which holders of common stock and intermediaries through whom such stock is held will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because such procedures have not yet been issued, it is not clear whether we will be able to comply with them. Holders of H shares or ADSs should consult their own tax advisers regarding the availability of the reduced dividend tax rate in light of their own particular circumstances.

If we make a distribution paid in HK dollars, you will be considered to receive the U.S. dollar value of the distribution determined at the spot HK dollar/U.S. dollar rate on the date such distribution is received by you or by the depositary, regardless of whether you or the depositary convert the distribution into U.S. dollars. Any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is includible in your income to the date you or the depositary convert the distribution into U.S. dollars will be treated as United States source ordinary income or loss.

Subject to various limitations, any Chinese tax withheld from distributions in accordance with the Agreement Between the Government of the United States of America and the Government of the People's Republic of China for the Avoidance of Double Taxation and the Prevention of Tax Evasion with Respect to Taxes on Income will be deductible or creditable against your United States federal income tax liability. For foreign tax credit limitation purposes, dividends paid on the H shares or ADSs will be foreign source income, and generally will be treated as "passive income" or, in the case of some U.S. holders, "financial services income" for taxable years ending on or before December 31, 2006, and "general category income" for subsequent taxable years. You may not be able to claim a foreign tax credit (and instead may claim a deduction) for non-United States taxes imposed on dividends paid on the H Shares or ADSs if you (i) have held the H shares or ADSs for less than a specified minimum period during which you are not protected from risk of loss with respect to such shares, (ii) are obligated to make payments related to the dividends (for example, pursuant to a short sale) or (iii) hold the H shares or ADSs in an arrangement in which your expected economic return, after non-United States taxes, is insubstantial.

Upon a sale, exchange or other disposition of the H shares or ADSs, you will generally recognize capital gain or loss for United States federal income tax purposes in an amount equal to the difference between the U.S. dollar value of the amount realized and your tax basis, determined in U.S. dollars, in such H shares or ADSs. Any gain or loss will generally be United States source gain or loss for foreign tax credit limitation purposes. Capital gain of certain non-corporate U.S. holders, including individuals, is generally taxed at a maximum rate of 15 percent where the property has been held more than one year. Your ability to deduct capital losses is subject to limitations.

If you are paid in a currency other than U.S. dollars, any gain or loss resulting from currency exchange fluctuations during the period from the date of the payment resulting from sale, exchange or other disposition is made to the date you convert the payment into U.S. dollars will be treated as United States source ordinary income or loss.

#### PFIC Rules

In general, a foreign corporation is a PFIC for any taxable year in which, after applying relevant look-through rules with respect to the income and assets of subsidiaries:

- \* 75% or more of its gross income consists of passive income, such as dividends, interest, rents and royalties; or
- \* 50% or more of the average quarterly value of its assets consists of assets that produce, or are held for the production of, passive income.

We believe that we will not meet either of the PFIC tests in the current or subsequent taxable years and therefore will not be treated as a PFIC for such periods. However, there can be no assurance that we will not be a PFIC in the current or subsequent taxable years.

If we were a PFIC in any taxable year that you held the H shares or ADSs, you generally would be subject to special rules with respect to "excess distributions" made by us on the H shares or ADSs and with respect to gain from your disposition of the H shares or ADSs. An "excess distribution" generally is defined as the excess of the distributions you receive with respect to the H shares or ADSs in any taxable year over 125% of the average annual distributions you have received from us during the shorter of the three preceding years, or your holding period for the H shares or ADSs. Generally, you would be required to allocate any excess distribution or gain from the disposition of the H shares or ADSs ratably over your holding period for the H shares or ADSs. The portion of the excess distribution or gain allocated to a prior taxable year, other than a year prior to the first year in which we became a PFIC, would be taxed at the highest United States federal income tax rate on ordinary income in effect for such taxable year, and you would be subject to an interest charge on the resulting tax liability, determined as if the tax liability had been due with respect to such particular taxable years. The portion of the excess distribution or gain that is not allocated to prior taxable years, together with the portion allocated to the years prior to the first year in which we became a PFIC, would be included in your gross income for the taxable year of the excess distribution or disposition and taxed as ordinary income.

The foregoing rules with respect to excess distributions and dispositions may be avoided or reduced if you are eligible for and timely make a valid "mark-to-market" election. If your H shares or ADSs were treated as shares regularly traded on a "qualified exchange" for United States federal income tax purposes and a valid mark-to-market election was made, in calculating your taxable income for each taxable year you generally would be required to take into account as ordinary income or loss the difference, if any, between the fair market value and the adjusted tax basis of your H shares or ADSs at the end of your taxable year. However, the amount of loss you would be allowed is limited to the extent of the net amount of previously included income as a result of the mark-to-market election. The NYSE in which the ADSs will be traded is a qualified exchange for United States federal income tax purposes.

Alternatively, a timely election to treat us as a qualified electing fund under Section 1295 of the Code could be made to avoid the foregoing rules with respect to excess distributions and dispositions. You should be aware, however, that if we become a PFIC, we do not intend to satisfy record keeping requirements that would permit you to make a qualified electing fund election.

If you own the H shares or ADSs during any year that we are a PFIC, you must file IRS Form 8621. We encourage you to consult your own tax advisor concerning the United States federal income tax consequences of holding the H shares or ADSs that would arise if we were considered a PFIC.

#### Backup Withholding and Information Reporting

In general, information reporting requirements will apply to dividends in respect of the H shares or ADSs or the proceeds of the sale, exchange, or redemption of the H shares or ADSs paid within the United States, and in some cases, outside of the United States, other than to various exempt recipients, including corporations. In addition, you may, under some circumstances, be subject to "backup withholding" with respect to dividends paid on the H shares or ADSs or the proceeds of any sale, exchange or transfer of the H shares or ADSs, unless you

- \* are a corporation or fall within various other exempt categories, and, when required, demonstrate this fact; or
- \* Provide a correct taxpayer identification number on a properly completed IRS Form W-9 or a substitute form, certify that you are exempt from backup withholding and otherwise comply with applicable requirements of the backup withholding rules.

Any amount withheld under the backup withholding rules generally will be creditable against your United States federal income tax liability provided that you furnish the required information to the IRS in a timely manner. If you do not provide a correct taxpayer identification number you may be subject to penalties imposed by the IRS.

#### Hong Kong Taxation

The following discussion summarizes the material Hong Kong tax provisions relating to the ownership of H shares or ADSs purchased in connection with the global offering and held by you.

#### Dividends

Under current practice, no tax will be payable in Hong Kong in respect of dividends paid by us.

#### Taxation of Capital Gains

No tax is generally imposed in Hong Kong in respect of capital gains from the sale of property (such as the H shares). Trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong, where such gains are derived from or arise in Hong Kong from such trade, profession or business, will be chargeable to Hong Kong profits tax, which is currently imposed at the rate of 17.5% on corporations and at a maximum rate of 16.0% on individuals. Gains from sales of the H shares effected on the Hong Kong Stock Exchange will be

considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H shares realized by persons carrying on a business of trading or dealing in Hong Kong in securities.

There will generally be no liability for Hong Kong profits tax in respect of profits from the sale of ADSs, where purchases and sales of ADSs are effected outside Hong Kong, e.g. on the NYSE.

#### Hong Kong Stamp Duty

Hong Kong stamp duty will be payable by each of the seller and the purchaser for every sale and purchase, respectively, of the H shares. Stamp duty is charged at the rate of 0.2% of the value of the H shares transferred (the buyer and seller each paying half of such stamp duty). In addition, a fixed duty of HK\$5 is currently payable on an instrument of transfer of H shares. If one of the parties to a sale is a non-resident of Hong Kong and does not pay the required stamp duty, the duty not paid will be assessed on the instrument of transfer (if any), and the transferee will be liable for payment of such duty.

The withdrawal of H shares when ADSs are surrendered, and the issuance of ADSs when H shares are deposited, may be subject to Hong Kong stamp duty at the rate described above for sale and

purchase transactions, unless the withdrawal or deposit does not result in a change of beneficial ownership under Hong Kong law. The issuance of ADSs for deposited H shares issued directly to the depositary or for the account of the depositary should not lead to a Hong Kong stamp duty liability. You are not liable for the Hong Kong stamp duty on transfers of ADSs outside of Hong Kong so long as it does not result in a change of beneficial interest in the H shares.

#### Hong Kong Estate Duty

Hong Kong estate duty was abolished with effect from February 11, 2006.

#### Comparison of NYSE Corporate Governance Rules and PRC Corporate Governance Rules For Listed Companies

Under the amended Corporate Governance Rules of NYSE, foreign issuers (including us) listed on the NYSE are required to disclose a summary of the significant differences between their domestic corporate governance rules and NYSE corporate governance rules that would apply to a U.S. domestic issuer. We have posted a description of such differences on our website: [http://www.chalco.com.cn/report/2005\\_e\\_06.pdf](http://www.chalco.com.cn/report/2005_e_06.pdf).

#### Documents on Display

We are subject to the information reporting requirements of the Exchange Act and, in accordance with the Act, file certain reports and other information with the SEC. You may read and copy any report, statement or other information filed by us at the SEC's public reference rooms in Washington, D.C., New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our reports and other information filed with the SEC are also available to the public from commercial document retrieval services and the website maintained by the SEC at <http://www.sec.gov>.

As a foreign private issuer, we are exempt from the rules under the Act prescribing the furnishing and content of proxy statements to shareholders.

#### ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various types of market risks, including credit risk relating to financial assets, changes in foreign exchange rates, interest rates and the prices of alumina and primary aluminum, in the normal course of business.

We borrow short-term and long-term funds, including variable-rate debt, principally denominated in RMB. We hedge a limited amount of our sales through trading of futures contracts on the Shanghai Futures Exchange. Our hedging activities are subject to policies approved by our senior management. Substantially all of the financial instruments we hold are for purposes other than trading.

The following discussion, which constitutes "forward-looking statements" that involve risk and uncertainties, summarize our market-sensitive financial instruments including fair value, maturity and contract terms. Such discussions address market risk only and do not present other risks, which we face in the normal course of business.

##### Credit Risk

The carrying amount of accounts and other receivables included in the balance sheet represent our maximum exposure to credit risk in relation to our financial assets. We perform periodic credit evaluations of our customers and believe that we have made adequate provision for uncollectible accounts and other receivables in the financial statements.

None of our major customers exceed 10% of total turnover and do not individually present a material risk to our sales.

We maintain substantially all of our cash and cash equivalents in interest-bearing accounts in several major financial institutions in the PRC. No other financial assets carry a significant exposure to credit risk.

We use the majority of our futures contracts traded on the Shanghai Futures Exchange and LME to hedge against adverse fluctuations in aluminum price and do not hold other derivatives instruments. The futures contracts are marked to market at balance sheet dates and corresponding unrealized holding gains (loss) are recorded in the profit and loss account for the year. The fair value of the unrealized holding losses for the years ended December 31, 2004 and 2005 were RMB4,972,000 and RMB8,360,000, respectively.

##### Foreign Exchange Rate Risk

We conduct our business primarily in Renminbi, which is also our functional and reporting currency. We convert a portion of our Renminbi turnover into other currencies to meet foreign currency financial obligations and to pay for imported equipment and materials.

Many foreign currency exchange transactions involving Renminbi, including foreign exchange transactions under our capital account, are subject to foreign exchange controls and require the approval of the State Administration of

Foreign Exchange. Actions taken by the PRC government could cause future exchange rates to vary significantly from current or historical exchange rates. Although the Renminbi to U.S. dollar exchange rate has been relatively stable since 1994, we cannot predict nor give any assurance of its future stability. Fluctuations in exchange rates could adversely affect the value, translated or converted into U.S. dollars or Hong Kong dollars, of our net assets, earnings and any declared dividends. We cannot assure you that any future movements in the exchange rates of Renminbi against the U.S. dollar and other foreign currencies will not adversely affect our operating performances and financial condition.

As of December 31, 2005, our foreign currency denominated loans amounted to RMB1,552.2 million, of which RMB1,542.9 million was denominated in U.S. dollars and the remaining RMB9.3 million was denominated in Danish Krone. In addition, our foreign currency denominated short-term bank deposits amounted to RMB61.6 million, of which RMB58.0 million was denominated in U.S. dollars, RMB2.7 million was denominated in Hong Kong dollars and RMB0.9 million was denominated in euros. See Note 3 to our audited financial statements. We had U.S. dollar denominated accounts receivable of US\$0.7 million at the same date. Most of our sales are domestic and as such we have a limited amount of foreign currency denominated accounts receivable. We earn a small amount of foreign currency, primarily U.S. dollars, from primary aluminum exports, which totaled 13,000 tonnes in 2005.

A significant depreciation in the Renminbi against major foreign currencies could have an adverse impact on our capital expenditures program. We have incurred relatively small amounts of foreign currency denominated debt for capital expenditures primarily relating to development of our alumina refineries, and may incur foreign currency denominated debt in the future. To the extent the Renminbi devalues against any of these currencies, it would correspondingly increase our repayment costs on such loans.

#### Interest Rate Risk

We are exposed to interest rate risk resulting from fluctuations in interest rates on our debt, primarily on our long-term debt obligations. Our debt consists of fixed and variable-rate debt obligations with original maturities ranging from one to 15 years. We undertake debt obligations to support general corporate purposes including capital expenditures and working capital needs. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding variable rate borrowings. Fluctuations in interest rates can also lead to significant fluctuations in the fair values of our debt obligations. We do not currently use any derivative instruments to modify the nature of our debt so as to manage our interest rate risk.

The table below sets forth information about our interest rate sensitive financial instruments, including foreign currency denominated debt instruments that are sensitive to foreign currency exchange rates. The table presents principal cash flows and related weighted average interest rates by expected maturity dates. The information is presented in Renminbi equivalents. We do not have any capital lease obligations. The information below should be read in conjunction with our audited balance sheets and Note 16 to our audited financial statements beginning on page F-41.

#### Expected Maturity

| 2006 | 2007 | 2008 | 2009 | 2010 and<br>thereafter | Total | Fair<br>value |
|------|------|------|------|------------------------|-------|---------------|
|------|------|------|------|------------------------|-------|---------------|

(in thousands, except percentage data)

## Short-term loans:

|                  |           |   |   |   |   |           |           |
|------------------|-----------|---|---|---|---|-----------|-----------|
| Fixed rate (RMB) | 2,378,998 | - | - | - | - | 2,378,998 | 2,378,998 |
|------------------|-----------|---|---|---|---|-----------|-----------|

|                       |      |
|-----------------------|------|
| Average interest rate | 5.2% |
|-----------------------|------|

## Long-term loans:

|                     |           |           |           |           |           |            |            |
|---------------------|-----------|-----------|-----------|-----------|-----------|------------|------------|
| Variable rate (RMB) | 1,353,000 | 1,928,160 | 2,580,000 | 1,274,000 | 3,900,000 | 11,035,160 | 11,035,160 |
|---------------------|-----------|-----------|-----------|-----------|-----------|------------|------------|

|                       |      |      |      |      |      |
|-----------------------|------|------|------|------|------|
| Average interest rate | 5.7% | 5.3% | 5.0% | 4.7% | 5.5% |
|-----------------------|------|------|------|------|------|

|                            |     |     |     |     |       |       |       |
|----------------------------|-----|-----|-----|-----|-------|-------|-------|
| Fixed rate (Danish Krone)* | 980 | 980 | 980 | 980 | 5,393 | 9,313 | 7,400 |
|----------------------------|-----|-----|-----|-----|-------|-------|-------|

|                       |      |      |      |      |      |
|-----------------------|------|------|------|------|------|
| Average interest rate | 0.3% | 0.3% | 0.3% | 0.3% | 0.3% |
|-----------------------|------|------|------|------|------|

\* Data in Renminbi equivalents.

## Commodity Price Risk

We are exposed to fluctuations in the prices of alumina and primary aluminum. We import alumina from suppliers outside of China. Such purchases are made at market prices. In addition, all our sales of alumina and primary aluminum are made at market prices. Therefore, fluctuations in the prices of alumina and primary aluminum have a significant effect on our operating performances.

We enter into short-term futures contracts traded on the Shanghai Futures Exchange and LME to hedge a limited amount of sales of primary aluminum so as to minimize the impact of the fluctuations in the price of primary aluminum on our operating performances. Gains and losses on such futures contracts are recorded as other income or expenses at each balance sheet date. The contracts have maturity dates that do not exceed six months.

As of December 31, 2004 and 2005, we had outstanding the following primary aluminum futures contracts:

As of December 31

|                  | 2004           |              |            | 2005           |              |            |
|------------------|----------------|--------------|------------|----------------|--------------|------------|
|                  | Contract value | Market value | Fair value | Contract value | Market value | Fair value |
|                  | RMB            | RMB          | RMB        | RMB            | RMB          | RMB        |
| Future contracts | 220,961        | 225,933      | (4,972)    | 83,651         | 92,011       | (8,360)    |

(in thousands)

|                  |         |         |         |        |        |         |
|------------------|---------|---------|---------|--------|--------|---------|
| Future contracts | 220,961 | 225,933 | (4,972) | 83,651 | 92,011 | (8,360) |
|------------------|---------|---------|---------|--------|--------|---------|

The fair values of futures contracts are based on quoted market prices. As of December 31, 2004 and 2005, we held futures contracts covering 13,845 tonnes and 5,000 tonnes of primary aluminum maturing in the first three months of 2005 and in the first four months of 2006, respectively. Market prices of these primary aluminum futures contracts outstanding at December 31, 2004 and 2005 ranged from RMB16,214 to RMB16,430 per tonne and RMB18,353 to RMB18,419 per tonne, respectively.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

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PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

As of December 31, 2005, we were not in default in the payment of principal or interest of any lender.

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ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, an evaluation was carried out under the supervision of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-14(c) and 15d-14(c), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures as of December 31, 2005 were effective in timely alerting them to material information about us required to be disclosed in the reports we file or submit under the Act, and effectively ensure the recording, processing, summarizing and reporting of such material information in accordance with the rules and forms of the SEC.

During the period covered by this Annual Report, no significant change has occurred in our internal controls over financial reporting that has materially affected, or reasonably likely to materially affect, our internal controls over financial reporting. We are required under Section 404 of the Sarbanes-Oxley Act to complete an assessment of the effectiveness of our internal controls over financial reporting by the end of 2006. We have set up a special panel and a project management committee to consider the design, implementation and testing of a comprehensive system of



internal controls, including, among others, the introduction and implementation of anti-fraud and risk management programs. The Company is also establishing a new SAP information system which will enhance the effectiveness of our internal control and operational efficiency. We will exert our best efforts to plan and coordinate the establishment of such SAP information system in connection with the review and implementation of internal control in order to minimize the risk that control deficiencies may arise during the course of establishment of such information system.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Audit Committee members are Mr. Wang Dianzuo, Mr. Poon Yiu Kin, Samuel and Mr. Kang Yi. Our board of directors has determined that Mr. Poon Yiu Kin, Samuel is the financial expert serving on our Audit Committee as well as the Chairman of the Audit Committee. See "Item 6. Directors, Senior Management and Employees."

ITEM 16B. CODE OF ETHICS

We have adopted a Code of Ethics that applies to our Chief Executive Officer, Chief Financial Officer, other directors, Independent Non-executive Directors, senior management and employees. We have posted our Code of Ethics on our website: <http://www.chalco.com.cn>. A copy of this Code of Ethics is available, without charge, upon request from the address on the cover of this Form 20-F.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

PricewaterhouseCoopers served as our independent auditors for the 2005 fiscal year. A description of the fees billed to us by PricewaterhouseCoopers for professional services in each of the last two fiscal years is set forth below:

|                    | Year ended December |        |
|--------------------|---------------------|--------|
|                    | 31,                 |        |
|                    | 2004                | 2005   |
|                    | RMB                 | RMB    |
|                    | (in thousands)      |        |
| Audit fees         | 13,224              | 13,721 |
| Audit-related fees | 4,097               | 9,291  |
| All other fees     | 1,197               | 978    |
|                    | 18,518              | 23,990 |
| Total              |                     |        |

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"Audit Fees" are the aggregate fees billed by PricewaterhouseCoopers for the audit of our consolidated annual financial statements, reviews of interim financial statements and attestation services that are provided in connection with statutory and regulatory filings or engagements. "Audit-Related Fees" are fees charged by PricewaterhouseCoopers for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under "Audit Fees."

In April 2003, our Audit Committee established pre-approval policies and procedures under which all audit and non-audit services performed by our principal accountants must be approved by the Audit Committee. For 2005, all of the services provided by PricewaterhouseCoopers were pre-approved by the Audit Committee.

#### ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Currently, our Audit Committee consists of three Independent Non-executive Directors, namely, Mr. Wang Dianzuo, Mr. Poon Yiu Kin, Samuel and Mr. Kang Yi. Mr. Poon Yiu Kin, Samuel was appointed as a member and Chairman of our audit committee on October 14, 2005 to replace Mr. Chiu Chi Cheong, Clifton who resigned with effect on October 14, 2005. Mr. Kang Yi was appointed as a member by the Board on March 28, 2005 to replace the previous Audit Committee member Mr. Chen Xiaozhou, who resigned on March 27, 2005. We rely on the exemption under Section 303A.00 of the NYSE Corporate Governance Rules which allows foreign private issuers to comply with the audit committee standards set out in Section 303A.06. We believe our reliance on such exemption will not materially adversely affect the independence of our audit committee. Our Audit Committee is in compliance with the NYSE Corporate Governance Rules.

#### ITEM 16E. PURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS.

None.

### PART III

#### ITEM 17. FINANCIAL STATEMENTS

We have elected to provide the financial statements and related information specified in Item 18 in lieu of Item 17.

#### ITEM 18. FINANCIAL STATEMENTS

See pages F-1 to F-77 following Item 19.

#### ITEM 19. EXHIBITS

(a) See pages F-1 to F-77 following this item.

(b) Index of Exhibits

Documents filed as exhibits to this Annual Report:

| Exhibit Number | Description  |
|----------------|--|
| 8.1            | - List of Subsidiaries of Aluminum Corporation of China Limited as of December 31, 2005  |
| 4.1            | - Placing Agreement among Aluminum Corporation of China Limited, J.P.Morgan Securities Ltd., CLSA Limited and China International Capital Corporation Hong Kong Securities Limited, dated May 9, 2006. |
| 12.1           | - Certifications pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |

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|      |   |
|------|---|
| 12.2 | - Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) |
|------|---|

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ALUMINUM CORPORATION OF CHINA LIMITED

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2004 AND 2005 AND

FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005

| <u>Contents</u>   | <u>Pages</u> |
|---|--------------|
| Report of Independent Registered Public Accounting Firm                               | F-1          |
| Consolidated Balance Sheet as of December 31, 2004 and 2005                           | F-2          |
| Consolidated Statement of Income for the years ended December 31, 2003, 2004 and 2005 | F-3          |
| Consolidated Statements of Changes in Equity  |              |
| for the years ended December 31, 2003, 2004 and 2005                                  | F-4          |
| Consolidated Statement of Cash Flows  |              |
| for the years ended December 31, 2003, 2004 and 2005                                  | F-5          |

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

ALUMINUM CORPORATION OF CHINA  
LIMITED

By:           /s/ XIAO Yaqing            
XIAO Yaqing  
Chief Executive Officer

Date: May 29, 2006

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EXHIBIT 4.1

Dated 9th May 2006

(1) Aluminum Corporation of China Limited

(2) J.P. Morgan Securities Ltd.

(3) CLSA Limited

(4) China International Capital Corporation Hong Kong Securities Limited

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PLACING AGREEMENT

Relating to placing of 644,100,000 H Shares  
of par value RMB1.00 each  
in Aluminum Corporation of China Limited  
(comprising 600,000,000 new H Shares and  
44,100,000 H Shares to be converted from Domestic Shares)

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THIS PLACING AGREEMENT is made on 9th May 2006

BETWEEN:

- (1) Aluminum Corporation of China Limited (a joint stock limited company incorporated in the People's Republic of China with limited liability) whose registered office is situated at 12 B, Fuxing Road, Beijing 100814, PRC (the "**Company**"); and
- (2) J.P. Morgan Securities Ltd. of 10 Aldermanbury, London EC2B 7RF, CLSA Limited whose registered office is situate at 18/F., One Pacific Place, 88 Queensway, Hong Kong and China International Capital Corporation Hong Kong Securities Limited of Suite 2307, 23/F., One International Finance Centre, 1 Harbour View Street, Central, Hong Kong (the "**Placing Agents**" and each a "**Placing Agent**").

WHEREAS:

- (A) The Company has at the date of this Agreement an issued and registered capital of RMB11,049,876,153, divided into 3,299,865,968 H Shares of RMB1.00 each and 7,750,010,185 Domestic Shares of RMB1.00 each.
- (B) The Company obtained approval from shareholders at the Company's 2004 Annual General Meeting held on 9th June, 2005, pursuant to which the Company was granted an unconditional general mandate (the "**General Mandate**") to allot and issue additional H Shares in the ordinary share capital of the Company up to 20 per cent. of the aggregate nominal amount of H Shares of the Company in issue within the Relevant Period (as hereinafter defined).
- (C) Pursuant to the General Mandate, the Company proposes to allot and issue 600,000,000 new H Shares (the "**New Shares**") and to offer for sale 44,100,000 H Shares upon conversion of

44,100,000 Domestic Shares (the "**Sale Shares**") by the National Social Security Fund Council of the PRC (the "NSSF"), such Sale Shares to be allocated from Aluminum Corporation of China ("**Chinalco**") to NSSF as referred to in Recital (D), in a placing.

- (D) Pursuant to the approval of the State-owned Assets Supervision and Administration Commission ("**SASAC**") dated 3 April 2006, SASAC has approved the allocation of the Sale Shares from Chinalco to the NSSF. On 11 April 2006, the NSSF entrusted the Company to effect a sale of the Sale Shares as part of the Placing, referred to in Recital (C), and to remit the entire net proceeds of such sale to the NSSF.
- (E) The Company obtained the approval dated 28 April 2006 of the China Securities Regulatory Commission approving the Placing.
- (F) The Placing Agents, in reliance upon the representations, warranties and undertakings of the Company contained herein, have agreed to procure on a several basis in accordance with Clause 2.1, as agents of the Company and the NSSF, subscribers for or purchasers of, or failing which themselves to subscribe or purchase on a several basis in accordance with Clause 2.1, the New Shares and the Sale Shares at the Placing Price (as hereinafter defined) upon the terms and conditions set out in this Agreement (the "**Placing**").

IT IS HEREBY AGREED as follows:

1. INTERPRETATION

1.1 In this Agreement (including the Recitals hereto) unless specifically provided otherwise or the context otherwise requires.

(a) the following definitions are used:

"Accounts Date" means 31st December, 2005, being the date to which the last consolidated audited accounts of the Company were published in the annual report of the Company;

"ADRs" means American Depositary Receipts of the Company, each representing ownership of 100 H Shares, which are listed on NYSE;

"Agreement" means this placing agreement as amended or varied from time to time by an agreement in writing duly executed by the Parties;

"Alcoa" means Alcoa International (Asia) Limited, a limited company incorporated under the laws of Hong Kong;

"Associate" has the meaning ascribed thereto under Rule 1.01 of the Listing Rules;

"Business Day" means any day (excluding Saturdays) on which commercial banks generally are open for business in Hong Kong;

"CCASS" means the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited;

"Chinalco" means Aluminum Corporation of China;

"Companies Ordinance" means the Companies Ordinance (Cap. 32 of the Law of Hong Kong) for the time being in force;

"CSRC" means China Securities Regulatory Commission;

"Domestic Shares" means domestic ordinary shares, par value of RMB1.00 per share, in the ordinary share capital of the Company, which are subscribed for in RMB;

"Exchange Act" means the United States Securities Exchange Act of 1934, as amended;

"Group" means the Company and its Subsidiaries and the expression "member of the Group" shall be construed accordingly;

"Hong Kong" means the Hong Kong Special Administrative Region of the People's Republic of China;

"Hong Kong Share Registrar" means the share registration agent of the Company in Hong Kong, Hong Kong Registrars Limited;

"HK\$" means Hong Kong dollars, the lawful currency of Hong Kong;

"H Shares" means overseas listed foreign invested shares, par value of RMB1.00 per share, in the ordinary share capital of the Company which are subscribed for and traded in Hong Kong dollars and which are listed on the Stock Exchange (and the ADRs representing H Shares are listed on NYSE);

"Indemnified Persons" means each of the Placing Agents and any person or persons appointed as its sub-placing agents pursuant to Clause 2.2 together with their respective affiliates, their respective directors, officers, agents and employees and any other entity or person, if any, controlling any Placing Agent or any such sub-placing agents or any of their respective affiliates within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act and "Indemnified Person" means any one of them;

"Listing Rules" means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;

"New Shares" means 600,000,000 new H Shares to be issued and allotted pursuant to the General Mandate and the Placing;

"NSSF" means the National Social Security Fund Council of the PRC;

"NYSE" means The New York Stock Exchange, Inc.;

"Parties" means the named parties to this Agreement and their respective successors and permitted assigns;

"Placees" means the subscribers or purchasers of the Placing Shares pursuant to this Agreement comprising professional, institutional and other investors independent of the Company, the directors, promoters, supervisors, substantial shareholders and chief executive (as those terms are defined in the Listing Rules) of the Company, its Subsidiaries and their respective Associates selected and procured by or on behalf of the Placing Agents as contemplated by this Agreement;

"Placing Announcement" means the press announcement in the agreed form and set out in Schedule 1 proposed to be issued by the Company in substantially such form as soon as reasonably practicable immediately following the execution of this Agreement;

"Placing Commission" means a commission to be paid in respect of the Placing Shares set out in Clause 7.2;

"Placing Completion" means completion of the obligations of the parties under this Agreement pursuant to Clause 3 of this Agreement;

"Placing Completion Date" means the Business Day immediately after receipt of the listing approval referred to in Clause 2.5 or such other time and date as the Company and the Placing Agents shall agree on which completion of this Agreement shall take place pursuant to Clause 3;

"Placing Price" means HK\$7.25 per Placing Share;

"Placing Shares" means the 600,000,000 New Shares and the 44,100,000 Sale Shares to be placed pursuant to the terms set out in this Agreement;

"PRC" means the People's Republic of China excluding Hong Kong, Macau and Taiwan;

"Previous Announcements" means the annual report of the Company for the year ended on the Accounts Date, and any and all other announcements, reports and circulars issued by the Company on the Stock Exchange, NYSE and/or to the



shareholders of the Company and any public filings with the SEC and any other statutory filings and registrations since the Accounts Date;

"Proceedings" means claims, actions, liabilities, demands, proceedings or judgments;

"Regulation D" means Regulation D under the Securities Act;

"Regulation S" means Regulation S under the Securities Act;

"Relevant Period" means the period from the passing of the resolution (the "Resolution") relating to the General Mandate at the 2004 annual general meeting of the Company dated 9th June, 2005 until the earliest of:

- (i) the conclusion of the next annual general meeting of the Company following the passing of the Resolution;
- (ii) the expiration of the 12-month period following the passing of the Resolution; and
- (iii) the date on which the authority set out in the Resolution is revoked or varied by a special resolution of the shareholders of the Company in a general meeting;

"RMB" means the lawful currency of the PRC, the basic denomination of which is Yuan;

"Rule 144A" means Rule 144A under the Securities Act;

"Sale Shares" means 44,100,000 Domestic Shares to be allocated by Chinalco to the NSSF to be converted into 44,100,000 H Shares and to be sold in the Placing;

"SEC" means the United States Securities and Exchange Commission;

"Selling Shareholder" means the NSSF as owner of the Sale Shares;

"SFC" means the Securities and Futures Commission of Hong Kong;

"Securities Act" means the United States Securities Act of 1933, as amended;

"Shares" means the Domestic Shares and H Shares of the Company;

"Stock Exchange" means The Stock Exchange of Hong Kong Limited;

"Subsidiary" has the same meaning as in Section 2 of the Companies Ordinance;

"United States" has the meaning given in Regulation S under the Securities Act; and

"US\$" means United States dollars, the lawful currency of the United States.

(b) In this Agreement, unless otherwise specified:

- (i) references to Clauses and Schedules are to clauses of and the schedules to this Agreement;
- (ii) words importing the singular include the plural and vice versa, words importing a gender include every gender and references to person include bodies corporate or unincorporated;
- (iii) any document expressed to be "in the agreed form" means a document approved by the parties hereto and for the purpose of identification signed by the Company and the Placing Agent;
- (iv) the words "include", "includes" and "including" as used herein shall be construed as if followed by the words, "without limitation"; and
- (v) the Schedules shall constitute a part of, and are hereby incorporated into, this Agreement.

1.2 Headings are for convenience only and shall not affect the construction of this Agreement.

## 2. APPOINTMENT OF THE PLACING AGENTS AND THE PLACING OBLIGATIONS

2.1 The Company (for itself and as attorney on behalf of the Selling Shareholder) hereby appoints the Placing Agents to the exclusion of all others as its sole agents, severally (and not jointly nor jointly and severally) to procure Places for the Placing Shares at the Placing Price on the terms and subject to the conditions set out in this Agreement and the Placing Agents, relying on the representations, warranties and undertakings on the part of the Company contained herein and subject to the conditions mentioned hereinafter, accepts such appointment on the terms and subject to the conditions set out in this Agreement. Subject as specifically provided in this Agreement, any transaction carried out by the Placing Agents pursuant to this Agreement (other than any subscription or purchase by the Placing Agents of Placing Shares as principals pursuant to Clause 2.6) shall constitute a transaction carried out by the Placing Agents at the request of the Company and the Selling Shareholder and as their agents and not on account of or for the Placing Agents. The Placing Agents shall not be responsible for any loss or damage to the Company or the Selling Shareholder or any third parties arising from any such transaction or for any alleged insufficiency of the Placing Price (other than as a result of a breach by the relevant Placing

Agent of the terms of this Agreement) or to any party in connection with the Placing.

The obligations of the Placing Agents under this Agreement (and, in particular, each of their obligations in relation to the placing of the Placing Shares) shall be several only, and shall be in the following amounts:

| <u>Placing Agent</u>                    | <u>Placing Shares</u> |
|---|-----------------------|
| J.P. Morgan Securities Ltd.             | 386,460,000 H Shares  |
| CLSA Limited                            | 193,230,000 H Shares  |
| China International Capital Corporation |                       |
| Hong Kong Securities Limited            | 64,410,000 H Shares   |

None of the Placing Agents shall be liable for any failure on the part of any of the other Placing Agents to perform its obligations under this Agreement. Notwithstanding the foregoing, each of the Placing Agents shall be entitled to enforce any or all of its rights under this Agreement either alone or jointly with the other Placing Agent.

- 2.2 The Company (for itself and as attorney on behalf of the Selling Shareholder) hereby confirms that the appointment pursuant to Clause 2.1 confers on each of the Placing Agents in accordance with the provisions hereof all powers, authorities and discretions on their behalf which are reasonably necessary for, or reasonably incidental to, the making of the Placing (including the power and authority to delegate its functions hereunder to any other person or persons to act as agent or agents of the Placing Agent), and the Company (for itself and on behalf of the Selling Shareholder) hereby approves, ratifies and confirms everything which each Placing Agent may lawfully do or have done pursuant to or in anticipation of the terms of such appointment, powers, authorities and discretions in accordance with this Agreement. The Company (for itself and as attorney on behalf of the Selling Shareholder) agrees promptly on the reasonable request by each Placing Agent, to execute or do, or procure that there shall be executed and done, all such documents and things as such Placing Agent may deem necessary for such purposes. Each Placing Agent confirms and undertakes that it shall require persons to whom it delegates its functions hereunder or any sub-placing agents to observe the provisions of this Agreement and the applicable provisions of the Listing Rules.
- 2.3 The Placing Shares shall be offered by the Placing Agents as agents for the Company and the Selling Shareholder at the Placing Price (together with such brokerage, Stock Exchange trading fee, and SFC transaction levy as may be payable by Placees) during the period from the time of signature of this Agreement up to the Placing Completion Date (or such later time and date as the Company (for itself and on behalf of the Selling Shareholder) and the Placing Agents may agree in writing).
- 2.4 The Company (for itself and as attorney on behalf of the Selling Shareholder) shall procure that the Placing Shares shall be allotted and issued or sold pursuant to the Placing free and clear from all liens, charges and encumbrances, claims, options and third party rights and together with all rights attaching thereto at the Placing Completion Date, including the right

to receive all dividends or other distributions thereafter declared, made or paid on the Placing Shares.

- 2.5 Notwithstanding the other provisions contained herein, the Placing is conditional upon the listing of, and permission to deal in, the Placing Shares being granted by the Stock Exchange on or before 12:00 noon on 25 May 2006 (or such later time and date as the Company and the Placing Agents may agree in writing) (the "**Long Stop Date**").

If the condition referred to above is not fulfilled on or prior to the Long Stop Date, this Agreement shall terminate and none of the Company or the Placing Agents shall have any claim against the other for damages, compensation or otherwise and provided that the Company shall remain liable for the payment of any reasonable costs, charges and expenses referred to in Clause 7.2 (excluding the Placing Agents' legal fees and expenses). The Company shall use its best endeavours to procure that the condition set out in this Clause 2.5 is fulfilled on or before the Long Stop Date. The Placing Agents shall promptly provide to the Stock Exchange all information concerning themselves and the Placees in accordance with the relevant provisions of the Listing Rules and as the Stock Exchange may require.

- 2.6 The Placing Agents shall be entitled to conduct and undertake the Placing in such manner as they think fit, including, without prejudice to the generality of the foregoing, the manner of reporting the transaction to the Stock Exchange and the SFC and the choice of Placees, subject to compliance with the requirements of the Listing Rules.
- 2.7 The Placing Agents as agents of the Company severally agree themselves or through their sub-placing agent(s) to procure Placees for, or failing which themselves to subscribe for or purchase, the Placing Shares at the Placing Price (together with such brokerage, Stock Exchange trading fee, and SFC transaction levy as may be payable by Placees) on a several basis in accordance with Clause 2.1 and on the terms set out in this Agreement.
- 2.8 The Placing Shares shall be offered by the Placing Agents to not less than six Placees in board lots of 2,000 H Shares. The choice of Placees for the Placing Shares shall be determined solely by the Placing Agents, subject to the requirements of the Listing Rules, in particular, the Placing Guidelines in Appendix 6 of the Listing Rules.
- 2.9 By no later than 5:00 p.m. on 12 May 2006, the Placing Agents shall deliver to the Stock Exchange:
- (a) a schedule showing particulars of the Placees as required by the Stock Exchange, number of Placing Shares subscribed for or purchased by each Placee and the details of the CCASS stock accounts for the issue or sale of such Placing Shares; and
  - (b) such other information as required by the Stock Exchange and/or the relevant regulatory authority or governmental agency in Hong Kong for delivery to the Stock Exchange and/or the relevant regulatory authority or governmental agency in Hong Kong.

3. PLACING COMPLETION

3.1 Upon signing of this Agreement and before Placing Completion, the Company shall and each of the Placing Agents shall on a several basis, in respect of any documents required to be signed by it, deliver to, or procure the delivery to the Placing Agents or as the Placing Agents may direct:

- (a) a certified true copy of the board minutes of the Company approving the entering into of this Agreement by the Company, the Placing and all activities in connection with the Placing;
- (b) copies of the instruction to the Hong Kong Share Registrar and CCASS informing them of the appointment of the Placing Agents as the placing agents of the Company in connection with the Placing;
- (c) copies of instruction letters, placing forms and other documents issued by the Company to HKSCC Nominees Limited and the Hong Kong Share Registrar required for the deposit by the Placing Agents of the Placing Shares into CCASS;
- (d) a certified true copy of the approval of the Stock Exchange granting the listing and permission to deal in the Placing Shares;
- (e) a certified true copy of the approval dated 28 April 2006 by the CSRC approving the Placing and the approval of the SASAC dated 3 April 2006 approving the allocation of the Sale Shares from Chinalco to the NSSF; and
- (f) a PRC legal opinion in respect of the Placing issued by the Company's PRC Counsel, Haiwen & Partners in the form agreed by the Placing Agents.

3.2 On or before 12:00 noon on the Placing Completion Date, the Company shall:

- (a) issue and allot or transfer to, or for the benefit of, the Placees such number of Placing Shares fully paid as subscribed for or purchased by them and shall procure that the Placees, or, as appropriate, HKSCC Nominees Limited, are registered on the Company's H Share register in Hong Kong in respect thereof; and
- (b) provide to the Placing Agents either definitive share certificates issued in the names of the relevant Placees in respect of the relevant number of the Placing Shares subscribed for or purchased by each Placee or (if requested by a Placee) evidence satisfactory to the Placing Agents that the Company has issued and the Selling Shareholder has transferred the relevant share certificate(s) in the name of HKSCC Nominees Limited and delivered such certificates to Hong Kong Securities Clearing Company Limited for credit to each Placee's CCASS stock account in accordance with the Placee details as provided by the Placing Agents.

- 3.3 Against compliance by the Company with its obligations pursuant to Clause 3.2, the Placing Agents shall on a several basis on or before 12:00 noon on the Placing Completion Date, make or procure the making of payment in Hong Kong dollars to the Company (for itself and on behalf of the Selling Shareholder) in immediately available funds of an amount equal to the Placing Price multiplied by the Placing Shares less the Placing Commission, the brokerage, Stock Exchange trading fee and SFC transaction levy payable by the Company and the Selling Shareholder and/or any expenses that are deductible as referred in Clause 7, the payment of which shall constitute a complete discharge of the Placing Agents' obligations to subscribe for or purchase, or procure subscribers for or purchasers of, the Placing Shares hereunder. Such payment shall be made for value on the Placing Completion Date and to such bank account held with a leading bank in Hong Kong as may be notified by the Company (for itself and on behalf of the Selling Shareholder) to the Placing Agents at least one Business Day before Placing Completion.

4. REPRESENTATIONS, WARRANTIES AND UNDERTAKINGS

- 4.1 The Company hereby represents, warrants and undertakes to the Placing Agents that:

- (a) the information contained in Recitals (A), (B), (C), (D), (E) and (F) is true and accurate;
- (b)
  - (i) all necessary authorisations, consents and approvals (including without limitation in the PRC, in the United States and in Hong Kong and the approval of the CSRC for the issue of the Placing Shares), save for the satisfaction of the condition under Clause 2.5, have been obtained to enable the Placing Shares to be issued, offered and placed in accordance with this Agreement and listed on the Stock Exchange by the Company, the Company has power under its constitutional documents to permit its entry into this Agreement and the Placing in the manner set forth herein and this Agreement (and its performance) has been duly authorised (such authorisation remaining in full force and effect) and executed by the Company and constitutes legally binding obligations of the Company, and in entering into this Agreement the Company does not do so in breach of any existing obligation or applicable legislation and/or any rules and regulations; subject to the obtaining of the listing approval referred to in Clause 2.5, there is no authorization, consent, approval or notification required for the purposes of or as a consequence of the Placing either from governmental, regulatory or other public bodies (including, without limitation, the Stock Exchange) or authorities or courts or from any third party pursuant to any contractual or other arrangement to which the Company or any other member of the Group is a party which has not been obtained, and all necessary authorizations, approvals, consents and licenses relating to the same have been unconditionally obtained and are, and will be in full force and effect;
  - (ii) the Selling Shareholder is the beneficial owner of the Sale Shares; it has the necessary power and authority to sell the Sale Shares hereunder free and clean of all liens, encumbrances, equities or other third party rights, and

together with all rights attaching thereto at Placing Completion; and it has duly and validly authorised the Company to sell the Sale Shares on its behalf as part of the Placing;

- (c) the New Shares to be issued by the Company and the Sale Shares to be sold by the Selling Shareholder hereunder have been duly and validly authorized, and, when issued and delivered against payment therefor pursuant to this Agreement, will be duly and validly issued fully paid up and ranking pari passu in all respects with the other H Shares in issue as at the Placing Completion Date, including the right to receive all dividends and distributions which may be declared made or paid after the Placing Completion Date and will be issued free and clear of all liens, encumbrances, equities or other third party rights;
- (d) neither the Company, the Selling Shareholder nor any of their respective affiliates (as defined in Rule 405 under the Securities Act), or any person acting on its or their behalf (other than the Placing Agents or any of their affiliates as to which no representation is made) has engaged, or will engage, in any "directed selling efforts" (as defined in Regulation S) with respect to the Placing Shares;
- (e) all statements of fact contained in the Placing Announcement (other than those relating to statements as to the independence of placing agents and placing investors) are true and accurate in all material respects and are not misleading in any material respect in the form and context in which they appear, all expressions of opinion, intention or expectation contained therein are made on reasonable grounds and are truly and honestly held by the directors of the Company and are fairly based, all forecasts, and estimates therein are honest and fair and there are no other facts omitted the omission of which makes any such statement or expression in the Placing Announcement misleading in any material respect or which are or might be material in the context of the Placing;
- (f) neither the Company nor the Selling Shareholder is in possession of any non-public information relating to the Company or their respective businesses the release of which could materially affect the trading price of the Shares and there is not in existence any material information relating to the Company which will be required to be disclosed by the Company under the Listing Rules;
- (g) all material information (whether oral, written, electronic or in any other form) supplied by the Company or any of its officers, directors, employees or advisers, for the purpose of or in connection with the Placing, and all information and records of the Company supplied or published by the Company for dissemination to the public (including annual reports, statutory filings and registrations) were, when supplied or published, true and accurate in all material respects and not misleading. With respect to all the Previous Announcements, all statements of fact contained therein were true and accurate in all material respects and were not misleading in any material respect and all expressions of opinion or intention contained therein were made on reasonable grounds and were truly and honestly held by the directors of the Company and were fairly based and there were no other facts omitted so as to make any such statement or expression in any of the Previous Announcements

misleading in any material respect or which would or might have been material in the context in which the Previous Announcements were made;

- (h) the consolidated balance sheet of the Group as at the Accounts Date and the consolidated profit and loss account of the Group for the financial year ended on that date (including the notes thereto) as set out in the annual report and accounts of the Group for the year ended on the Accounts Date (collectively, the "Accounts") together gave a true and fair view of the state of affairs of the Group as at the Accounts Date and of the profits or losses of the Group for the financial year ended on that date and were prepared in accordance with accounting principles generally accepted in Hong Kong consistently applied;
- (i) save as disclosed in the Placing Announcement or the Previous Announcements, since the Accounts Date, the business of the Group has been carried on in the ordinary and normal course and no contracts or commitments of an unusual or unduly onerous nature have been entered into by any member of the Group; there has been no material depletion in the net assets of the Group taken as a whole; and there has been no material adverse change, nor any development reasonably likely to involve a prospective material adverse change, in the financial or trading position or prospects of the Group taken as a whole;
- (j) save as disclosed in the Placing Announcement or the Previous Announcements, neither the Company nor any of its Subsidiaries is engaged in any litigation, arbitration or governmental proceeding which (individually or in aggregate) may have or have had during the twelve months preceding the date hereof a material adverse effect on the financial or trading position or prospects of the Group or which individually or collectively are material for disclosure in the context of the Placing and no such litigation, arbitration or proceeding is threatened or pending; nor, to the best of the knowledge, information and belief of the directors of the Company are there any circumstances which may give rise to any such litigation, arbitration or proceeding;
- (k) so far as the directors of the Company are aware after reasonable enquiries and to the best of their knowledge, no circumstances or events have arisen or occurred or are likely to arise or occur such that any person is (or could, with the giving of notice and/or lapse of time and/or fulfilment of any condition and/or the making of any determination, become) entitled to repayment of any material indebtedness prior to its due date for payment by any member of the Group, or to take any step to enforce any security for any such indebtedness of any member of the Group and no person to whom any indebtedness for borrowed money of any member of the Group which is payable on demand is owed has demanded or threatened to demand repayment of the same; no member of the Group is party to or under any obligation which is material and which is of any unusual or unduly onerous nature; neither this Agreement nor the Placing will constitute or give rise to a breach of or default under any agreement or other arrangement to which the Company or any other member of the Group is party or give rise to any rights of any third party in respect of any assets of the Group;



- (l) the Company is not in material breach of any rules, regulations or requirements of the Stock Exchange, NYSE, the SFC, the SEC, the CSRC or any other regulatory authority or governmental agency (and, without limiting the foregoing, all announcements required to be made by the Company under or in accordance with any such rules, regulations or requirements, have been duly made); the Company has complied and will comply with all other applicable rules, regulations and other requirements material or relevant to the transactions contemplated by this Agreement (including rules governing restrictions on and/or disclosure of dealings);
- (m) the Company has adopted a code for transactions in its securities by its directors no less stringent than the Model Code for Securities Transactions by Directors of Listed Companies set out in the Listing Rules and such Code has been and will be fully complied with in connection with the Placing;
- (n) the Company will make all appropriate disclosures pursuant to, and will comply in all respects with, the Listing Rules, and any applicable provisions of the Hong Kong Code on Takeovers and Mergers and the Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong) in connection with the Placing;
- (o) each member of the Group has been duly incorporated and is validly existing under the laws of the jurisdiction of its incorporation; without limiting the foregoing, no person has any outstanding warrant, option, pre-emptive right or any other right of any description to require Shares to be allotted or issued by the Company;
- (p) the Company is a "foreign issuer" (as such term is defined in Regulation S) which reasonably believes that there is no "substantial U.S. market interest" (as such term is defined in Regulation S) in the Placing Shares or securities of the Company of the same class as the Placing Shares;
- (q) each member of the Group has power to own its assets and to conduct its business in the manner presently conducted and there has been no petition filed, order made or effective resolution passed for the liquidation or winding up of any member of the Group.
- (r) the Company will promptly provide the Placing Agents, at their reasonable request, with all such information known to it or which on reasonable enquiry ought to be known to it relating to the Group as may be required by the Placing Agents in connection with the Placing for the purpose of complying with any applicable law, regulation or direction (including the establishment of any defence to any action under any of the same, whether relating to due diligence or otherwise) or any requirement of the Stock Exchange, the NYSE, the SFC, the SEC, the CSRC or any other applicable regulatory body;
- (s) the Company is not aware of any circumstances whereby the listing of the H Shares (including Placing Shares) will be suspended (other than suspension resulting from any delay in clearance of the Placing Announcement in connection with the Placing by the Stock Exchange), cancelled or revoked;

- (t) there is no order, decree or judgement of any court or governmental agency or regulatory body outstanding or so far as the directors of the Company are aware after reasonable enquiries and to the best of their knowledge, anticipated against the Company and/or any of its Subsidiaries nor is there any investigation or enquiry by any governmental agency or regulatory body outstanding or so far as the directors of the Company are aware after reasonable enquiries and to the best of their knowledge, anticipated against the Company and/or its Subsidiaries which may have or has had a material adverse effect upon the financial position of the Company and/or any its Subsidiaries or which is material in the context of the Placing;
- (u) neither the Company, the Selling Shareholder nor any of their respective affiliates (as defined in rule 501(b) of Regulation D under the Securities Act) nor any person acting on its or their behalf has taken, directly or indirectly, any action designed to cause or result in, or that has constituted or which might reasonably be expected to cause, or to result in, the stabilisation in violation of applicable laws or manipulation of the price of any security of the Company to facilitate the sale or resale of the Placing Shares;
- (v) none of the Company, the Selling Shareholder nor any of their respective Affiliates, nor any person acting on behalf of any of them, has taken or will take, directly or indirectly, any action which would constitute a violation of Regulation M under the Exchange Act in connection with the Placing; and none of the Company, the Selling Shareholder nor any of their respective Affiliates, nor any person acting on behalf of any of them, will, either alone or with one or more other persons, until such time as the Placing Agent shall have notified the Company of the completion of the placing of the Placing Shares being made within the United States, bid for or purchase, for any account in which the Company or any of its respective Affiliates has a beneficial interest, any Shares, or induce or attempt to induce any other person to bid for or purchase any Shares or any right to purchase Shares, unless an exemption from Regulation M under the Exchange Act is available;
- (w) none of the Company, the Selling Shareholder nor any of their respective affiliates (as defined in Rule 501(b) of Regulation D), nor any person acting on its or their behalf (i) has made or will, directly or indirectly, make offers or sales of any security, or solicited or will, directly or indirectly, solicit offers to buy, or otherwise negotiated or will negotiate in respect of, any security, under circumstances that would require the registration of the Placing Shares under the Securities Act; or (ii) has engaged or will, directly or indirectly, engage in any form of general solicitation or general advertising (within the meaning of Regulation D) in connection with any offer or sale of the Placing Shares in the United States;
- (x) if any sales of Placing Shares are made by the Company in the United States through the Placing Agent (or any of Placing Agent's affiliates as agent), then not later than 15 days after the date of the first sale of the Placing Shares in the United States, the Company shall file with the SEC, in the manner required by Rule 503 of the SEC under the Securities Act, a Form D relating to the Placing Shares; the Company shall file with the SEC any amendment to such Form as may be required by such rule or any successor provision. The Company will also make such other

notice of sale filings as may be required under the laws of the states of the United States; and the Company shall as soon as practicable provide copies of such forms, amendments and notices to the Placing Agent;

- (y) none of the Company, the Selling Shareholder nor any of their respective subsidiaries nor any director, officer, agent, employee or affiliate of the Company or any of its subsidiaries is currently designated as a "Specially Designated National" by the Office of Foreign Assets Control of the U.S. Treasury Department ("OFAC"); and neither the Company nor the Selling Shareholder will directly or indirectly use the proceeds of the sale of the Placing Shares or direct such proceeds towards funding or financing any person, government, entity or activity that is subject to sanctions administered by the OFAC, including any "Specially Designated National" or "Blocked Person";
- (z) the Company shall procure that, until the expiration of 40 days after the Completion Date, securities shall not be permitted to be deposited with the depository administering the Company's American Depositary Receipts program;
  - (aa) the Placing will not constitute a violation by the Company, the Selling Shareholder or any of their respective Affiliates, nor any person acting on behalf of any of them, of Section 10(b) of, or Rule 10b-5 under, the Exchange Act;
  - (bb) at any time when the Company is neither subject to the periodic reporting requirements of Section 13 or 15(d) of the Exchange Act nor exempt from such reporting pursuant to Rule 12g3 2(b) thereunder, the Company will, upon request of a holder of Placing Shares or a prospective purchaser (as designated by such holder), to any such holder or prospective purchaser of Placing Shares the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act;
  - (cc) within the six months preceding the date of this Agreement, neither the Company, nor any person acting on its behalf has offered or sold to any person any H Shares or any securities of the same or a similar class as the Placing Shares. The Company will take reasonable precautions designed to ensure that any offer or sale, direct or indirect of any H Shares or any substantially similar securities issued by the Company, within six months subsequent to the date on which the distribution of the Placing Shares has been completed (as notified to the Company and the Vendors by the Placing Agent), is made under restrictions and other circumstances reasonably designed to ensure that any such offer or sale will not affect the status of the offer and sale of the Placing Shares contemplated by this Agreement as transactions exempt from the registration provisions of the Securities Act;
  - (ee) the Company is not, and as a result of the offer and sale of the Placing Shares contemplated herein will not, be an investment company (as defined in the Investment Company Act); and

- (ff) the Company is not, and as a result of the offer and sale of the Placing Shares will not, be a foreign personal holding company or a passive foreign investment company for the purposes of the United States Internal Revenue Code of 1986, as amended.

4.2 Each of the Placing Agents represents, warrants and undertakes to the Company on a several basis that no action has been taken to permit a public offering on the Placing Shares in any jurisdiction where action would be required for such purpose. In particular,

(a) United States

- (i) The Placing Shares have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from the registration requirements of the Securities Act.
- (ii) The Placing Shares will be offered and sold only (x) outside the United States, in offshore transactions as defined in, and in accordance with, Rule 903 of Regulation S or (y) within the United States, to "qualified institutional buyers" within the meaning of Rule 144A under the Securities Act.
- (iii) Neither the Placing Agent nor its affiliates (as defined in Rule 501(b) of Regulation D under the Securities Act) nor any person acting on its or their behalf has engaged or will engage in any form of general solicitation or general advertising (within the meaning of Regulation D under the Securities Act) in connection with any offer or sale of the Placing Shares in the United States.
- (iv) All offers and sales of the Placing Shares shall only be made under restrictions and other circumstances designed to preclude a distribution that would otherwise require registration of the Placing Shares under the Securities Act and in all cases in compliance with the Securities Act, the U.S. Securities Exchange Act of 1934 and applicable United States laws.

(b) United Kingdom

The Placing Shares have not been approved by an authorized person in the United Kingdom and has not been registered with the Registrar of Companies in the United Kingdom. Each of the Placing Agents represents and agrees that (a) it has not offered or sold and, prior to the expiry of the period of six months from the Placing Completion Date, will not offer or sell any Placing Shares to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or

disposing of investments (as principal or agent) for the purpose of their business or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended), and where applicable, provisions of the Financial Services and Markets Act 2000 of the United Kingdom ; (b) (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purpose of its business and (ii) it has not offered or sold and will not offer or sell any Placing Shares other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their business or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purpose of their business where the issue or sale of the Placing Shares would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the "FSMA") by the Company; (c) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Placing Shares in circumstances in which Section 21 (1) of the FSMA does not apply to the Company; and (d) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Placing Shares in, from or otherwise involving the United Kingdom.

(c) Hong Kong

Each of the Placing Agents represents and agrees that (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Placing Shares other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or as agent, or otherwise in circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap.32 of the Laws of Hong Kong) and do not constitute an offer to the public within the meaning of that Ordinance; (ii) it has not issued or caused to be issued and will not issue or cause to be issued advertisement, invitation or documents in relation to the Placing Shares whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (unless permitted to do so under the securities laws of Hong Kong) other than with respect to Placing Shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong) and any rules made thereunder.

(d) General

Each of the Placing Agents represents and agrees that it will not offer, sell or deliver any Placing Shares or distribute or publish any documents

(including, without limitation to the foregoing, any prospectus, form of application, offering circular, advertisement or other offering material or any report or other document calculated to invite or lead to offers or agreements being made to subscribe Placing Shares) or make any representations or statements in relation to the Placing in any country or jurisdiction except such as, and under circumstances that, will not result in or constitute a breach of any applicable laws and regulations or give rise to a requirement for any prospectus to be published or filed or any registration or qualification to be made or obtained (other than such as are made or obtained by the Placing Agent) in any country or jurisdiction.

4.3 Each of the Placing Agents represents and warrants to the Company that it has the full right, power and authority to enter into and perform its obligations under this Agreement and all necessary authorisations, approvals and consents relating to the same have been, or will, prior to completion of the Placing, be in full force and effect, and this Agreement is a legal, valid and binding agreement of the Placing Agents enforceable in accordance with its terms. Each of the Placing Agents hereby represents, warrants and undertakes with the Company that it will not offer or sell any Placing Shares in any jurisdiction and it will and will procure that its sub-placing agents will comply with the relevant selling restrictions under applicable laws and regulation in respect of the Placing.

4.4 The representations, warranties and undertakings set out in this Clause 4 are given as at the date hereof and shall remain true and accurate and in force up to and including the Placing Completion as if given or made on such date, with reference in each case to the facts and circumstances then subsisting. Each party undertakes to notify the other parties of any matter or event coming to its attention prior to the Placing Completion which shows or may show any of the representations, warranties and undertakings set out in this Clause 4 to be or to have been untrue, inaccurate or misleading.

## 5. INDEMNITY

5.1 The Company (for itself and on behalf of the Selling Shareholder) undertakes to each of the Placing Agents for itself and as trustees for each other Indemnified Person to indemnify and hold harmless each Indemnified Person against all or any costs, expenses (including legal fees as they are reasonably incurred), fees, losses and liabilities arising from Proceedings (including, but not limited to, all such losses, costs, charges, expenses and liabilities which the relevant Indemnified Person may pay or incur in investigating, disputing or defending any Proceedings and/or in establishing its rights to be indemnified pursuant to this Clause and/or in seeking advice in relation to any Proceedings) brought or established or threatened to be brought or established against any of the Indemnified Person by any Placee or by any governmental agency, regulatory body or other person:

- (a) directly or indirectly arising out of or in connection with any breach or alleged breach of any of the representations, warranties and undertakings of the Company contained in this Agreement;

- (b) which are, directly or indirectly, occasioned by or resulting from or are attributable to the performance by the Placing Agent of its obligations under this Agreement in relation to the Placing and which do not in any such case arise from the Placing Agent's gross negligence, or wilful default as determined by final judgment of a court of competent jurisdiction; or
- (c) in respect of any breach or alleged breach of any applicable laws or regulations of any jurisdiction resulting from the Placing which do not arise from the Placing Agent's gross negligence or wilful default as determined by final judgment of a court of competent jurisdiction.

It is hereby confirmed and acknowledged by the Company that the Placing Agents' willingness to enter into this Agreement depends upon the provision by the Company of the undertakings set out in this Clause 5.1 and that without such undertaking the transactions contemplated in this Agreement may not have proceeded.

The Company agrees that none of the Indemnified Persons will have any liability (save for the obligations imposed on them under this Agreement) to the Company or any other person, directly or indirectly, arising out of or in connection with the Placing or any transactions contemplated hereby.

- 5.2 The indemnities contained in Clause 5.1 shall remain in full force and effect notwithstanding completion of the Placing in accordance with the terms set out in this Agreement. The relevant Indemnified Person shall be entitled to have full control over the conduct of any such Proceedings, provided that it shall as soon as reasonably practicable give notice to the Company and provide the Company with copies of correspondence and documentation and shall not make any admission of liability, settlement, compromise or consent to the entry of any judgment with respect to any actual, pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder whether or not the Company is an actual or potential party to such claim or action without the prior written consent of the Company (such consent not to be unreasonably withheld or delayed). The Company shall not make any admission of liability or settlement of any such Proceedings without the prior written consent of the Placing Agents (such consent not to be unreasonably withheld or delayed).

## 6. RESTRICTIONS

- 6.1 In order to induce the Placing Agents to enter into this Agreement and in consideration of the obligations of the Placing Agents hereunder, the Company undertakes to the Placing Agents that (except for (i) the Placing Shares to be allotted and issued and the Sale Shares to be sold pursuant to this Agreement and (ii) any H Shares or other securities or rights issued or granted to shareholders by way of bonus or under any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with its Articles of Association or on the exercise of rights existing at the date of this Agreement) it will not, for a period commencing from and including the date hereof until the expiry of 90 days after the date hereof (without the prior written consent of the Placing Agents) (i) allot or issue or offer to allot or issue or

grant any option, right or warrant to subscribe (either conditionally or unconditionally, or directly or indirectly, or otherwise) any H Shares or any interests in H Shares or any securities convertible into or exercisable or exchangeable for or substantially similar to any H Shares or interest in H Shares or (ii) agree (conditionally or unconditionally) to enter into or effect any such transaction with the same economic effect as any of the transaction described in (i) above or (iii) announce any intention to enter into or effect any such transaction described in (i) or (ii) above. For the avoidance of doubt, the above provision does not restrict the Company from issuing and allotting new Domestic Shares for the purpose of listing those new Domestic Shares on the stock exchanges of the PRC.

7. COMMISSION AND EXPENSES

7.1 The Company shall (for itself and on behalf of the Selling Shareholder) pay to the Placing Agents in respect of the Placing the Placing Commission which the Placing Agents are hereby authorised to deduct from the payment to be made by them to the Company pursuant to Clause 3.3. In addition, the Placing Agents reserve the right to charge the Placees normal commission and/or brokerage and the Placing Agents shall be entitled to retain any such commission and/or brokerage.

7.2 In consideration of the services of the Placing Agents in relation to the Placing and conditional upon completion of the Placing taking place in accordance with Clause 3, the Company shall (for itself and on behalf of the Selling Shareholder) pay to the Placing Agents a total commission of HK\$109,094,438.00.

Such commission shall be divided amongst the Placing Agents pro rata to their obligations as set out in Clause 2.1, with which the Company shall not be concerned.

7.3 Whether or not the Placing is completed, the Company (for itself and on behalf of the Selling Shareholder) will pay all costs associated with the Placing (excluding the Placing Agents' legal fees and expenses which shall be paid and borne by the Placing Agents), including any sellers' and purchasers' stamp duty (if applicable) payable under applicable Hong Kong and PRC laws, any Stock Exchange trading fee and SFC transaction levy payable by the Company and the Selling Shareholder in respect of the Placing Shares and all charges, fees and expenses of the Hong Kong Share Registrar in connection therewith, which amounts the Placing Agents are hereby authorized to deduct from the payments to be made by the Placing Agents to the Company and the Selling Shareholder pursuant to Clause 3.3 for the purposes of paying on the Company's and the Selling Shareholder's behalf such costs, charges, fees and expenses, provided, however, that no stamp duty shall be so deducted and paid without the Company's prior written consent.

8. TERMINATION

8.1 Subject always to Clause 2.5 above, the obligation of the Placing Agents to proceed to Placing Completion is subject to:

- (a) there not having come to the attention of the Placing Agents at any time prior to the Placing Completion (i) any material breach of, or any event rendering untrue,



incorrect or breached in any material respect, any of the representations, warranties or undertakings referred to in this Agreement or (ii) any breach of, or failure to perform, any of the other obligations of the Company which are required to be performed at or before the Placing Completion;

(b) there not having come to the attention of the Placing Agents at any time prior to the Placing Completion (i) any significant change in financial, political, military, economic or market (including stock market) conditions or currency exchange rates or exchange controls in Hong Kong, the United States, any country of the European Union or the PRC or (ii) any suspension of dealings in the H Shares for any period whatsoever (other than suspension necessary or desirable in connection with the Placing), or any cancellation of the listing of the H Shares, on the Stock Exchange or NYSE or (iii) any adverse announcement, determination or ruling of any governmental or other regulatory body, which would (in any case mentioned in (i), (ii) or (iii) above), in the opinion of the Placing Agent, be likely to prejudice materially the success of the Placing;

(c) there not having occurred at any time prior to the Placing Completion:

(i) any event, or series of events in Hong Kong, the United States, any country of the European Union or the PRC, beyond the reasonable control of the Placing Agents (including, without limitation, acts of government, strikes, labour disputes, lock-outs, fire, explosion, flooding, civil commotion, economic sanctions, epidemic, terrorism, outbreak or escalation of hostilities, acts of war and acts of God);

(ii) any material adverse change, or development in Hong Kong, the United States, any country of the European Union or the PRC (including, without limitation, the introduction of any new law or regulation or change in existing laws or regulations (or the judicial interpretation thereof) or any other similar event) (whether or not permanent) involving a prospective material adverse change, in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company or the Group as a whole, whether or not arising in the ordinary course of business;

(iii) any significant change (whether or not permanent) in local, national or international securities market conditions or currency exchange rates or exchange controls;

(iv) there is any such adverse change, or any development involving a prospective change, in the management, business, stockholders' equity or in the financial or trading position of the Group as a whole.

any of which events referred to in paragraph (c), in the opinion of the Placing Agents, is likely to prejudice materially the success of the Placing;

(d)

there not having been imposed any moratorium, suspension or material restriction on trading in shares or securities generally on the Stock Exchange or NYSE due to exceptional financial circumstances or otherwise at any time prior to the Placing Completion.

The Company (for itself and on behalf of the Selling Shareholder) undertakes promptly to inform the Placing Agents of any matter or circumstance which comes to its attention which may fall within (a) to (d) above. If any of such conditions shall not have been fulfilled or (alternatively) waived by the Placing Agents before the Placing Completion, this Agreement and the obligations of the Placing Agents hereunder shall ipso facto cease and terminate at that time (or at such earlier time as the relevant condition shall have become incapable of fulfilment and the Placing Agents shall have determined not to waive fulfilment and notified the same to the Company (for itself and on behalf of the Selling Shareholder)) and no party shall be under any liability to any other for costs, damages, charges, compensation or otherwise under this Agreement, except (i) in relation to obligations, agreements and liabilities arising prior to such termination (including liabilities arising prior to such termination under the representations, warranties and undertakings referred to in Clause 4), (ii) in relation to any antecedent breach of any obligation under this Agreement, (iii) that the Company shall remain liable for the payment of all costs, charges, fees and expenses referred to in Clause 7.3 already incurred or to be incurred in consequence of such termination and (iv) that the provisions of Clause 5 shall remain in full force and effect.

9. ANNOUNCEMENTS, ETC.

- 9.1 Save as otherwise required by the Stock Exchange, NYSE, the SFC, the SEC, the CSRC or as required by any rules, regulations or laws to which the Company or any of its Subsidiaries is subject, the Company undertakes that no public announcement, circular, prospectus, report or communication (other than the Placing Announcement) to shareholders of the Company or to the Stock Exchange concerning the Placing or its associated transactions and/or the Company and/or any other member of its Subsidiaries which is directly related to the Placing shall be issued, made or despatched by the Company or any other member of its Subsidiaries between the date hereof and the day falling one week after the Placing Completion Date without prior written approval of the Placing Agents as to the content, timing and manner of making or despatch thereof. The Placing Agents hereby agree with the Company that such approval shall not be unreasonably withheld or delayed.
- 9.2 The Company will promptly make all notifications, registrations and filings as may from time to time be required in relation to the Placing Shares and the transactions contemplated under this Agreement including, without prejudice to the generality of the foregoing, all filings with the Stock Exchange.
- 9.3 The Company will pay any printing or publishing costs associated with the Placing and the publication of the Placing Announcement and any costs, charges, fees and expenses of the Company's share registrars in Hong Kong including their fees and expenses in effecting the transfer of the Placing Shares, and the issue of certificates therefor in board lots of 2,000 H Shares, to the Placees and, where appropriate, the Placing Agents. For the avoidance of

doubt, the Company will also pay any printing or publishing costs associated with the Placing arising by virtue of the Company's ADR listing in the US.

- 9.4 Subject to the Placing Completion having taken place and any applicable law, rules or regulations, the Company hereby expressly consents to the Placing Agents making use of the name and/or trademark and/or logo of the Company in, or in connection with, any advertisement or publication (solely for record purposes) by the Placing Agents for their own account in respect of the Placing.

10. ASSIGNMENT

- 10.1 The Company agrees and acknowledges that each of the Placing Agents shall be entitled at any time to assign, transfer or otherwise dispose of all or any of its rights and/or obligations under this Agreement or sub-contract or delegate the performance of any of its respective obligations under this Agreement to any person or persons. The Company further agrees and acknowledges that each such assignee, transferee, sub-contractor or delegate of the Placing Agent shall have the benefit of the representations, warranties, covenants, agreements and indemnities given by it herein.

- 10.2 Each party undertakes with the other party that it shall from time to time execute and perform and procure that there are executed and performed such further documents and acts as the other party may reasonably require to give effect to the provisions of this Agreement.

11. TIME OF THE ESSENCE

Time shall be of the essence of this Agreement, both as to times, dates and periods, mentioned herein and as to any times, dates or periods which may by agreement in writing be substituted therefor.

12. COSTS

Subject as specifically provided herein, each of the parties to this Agreement will bear its own costs and expenses incurred in connection with the Placing.

13. NOTICES

Each notice, demand or other communication given or made under this Agreement shall be in writing and delivered or sent to the relevant party at its address or fax number set out below (or such other address or fax number as the addressee has by one (1) day's prior written notice specified to the other party):

To the Company:

Aluminum Corporation of  
China Limited  
12 B, Fuxing Road  
Beijing 100814

PRC

Fax No.: (86 10) 63963874  
Attention: Chen Jihua

To the Placing Agents:

J.P. Morgan Securities Ltd.  
10 Aldermanbury,  
London EC2B 7RF

Fax No.: 44 20 7325 8168  
Attention: Equity Syndicate Desk

CLSA Limited  
18/F, One Pacific Place,  
88 Queensway,  
Central, Hong Kong

Fax No.: (852) 2877 0110  
Attention: Richard Taylor

China International Capital  
Corporation  
Hong Kong Securities Limited  
Suite 2307, 23/F.,  
One International Finance  
Centre,  
1 Harbour View Street,  
Central, Hong Kong

Fax No.: (852) 2872 2106  
Attention: Law & Compliance  
Department

Any notice, demand or other communication so addressed to the relevant party shall be deemed to have been delivered (a) if given or made by letter, when actually delivered to the relevant address; and (b) if given or made by fax, when despatched.

14. COUNTERPARTS

This Agreement may be executed in one or more counterparts, and by the parties on separate counterparts, but shall not be effective until each party has executed at least one counterpart and each such counterpart shall constitute an original of this Agreement but all the counterparts shall together constitute one and the same instrument.

15. GOVERNING LAW; SUBMISSION TO JURISDICTION

- 15.1 This Agreement shall be governed by and construed in accordance with the laws of Hong Kong.
- 15.2 The parties hereto irrevocably agree that the courts of Hong Kong shall have jurisdiction to settle any disputes which may arise out of or in connection with this Agreement. The parties each submit irrevocably to the non-exclusive jurisdiction of the courts of Hong Kong in relation to such matters.
- 15.3 Each of the parties hereto irrevocably waives any objection it may now or hereafter have to the laying of venue of any action or proceeding in any court and any claim it may now or hereafter have that any action or proceeding has been brought in an inconvenient forum.
- 15.4 Each of the parties hereto agrees that in any legal action or proceedings against it or any of its assets in connection with this Agreement (i) no immunity from such legal action or proceedings (which shall include, without limitation, suit, attachment prior to judgment, other attachment, the obtaining of judgment, execution or other enforcement) shall be claimed by it or on its behalf or with respect to its assets, (ii) it irrevocably waives any such right of immunity which it or any of its assets now have or may hereafter acquire or which may be attributed to it or to its assets and (iii) it consents generally in respect of any such legal action or proceedings to the giving of any relief or the issue of any process in connection with any such action or proceedings including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgement which may be made or given to such action or proceedings.

16. LANGUAGE

This Agreement shall be signed in an English language version with a Chinese language version for reference only. The English language version shall be the prevailing version.

IN WITNESS whereof this Agreement has been entered into the day and year first above written.

SIGNED by )  
duly authorised for and on behalf of )  
Aluminum Corporation ) Signed Chen Jihua  
of China Limited )  
in the presence of: )

SIGNED by )  
duly authorised for and on behalf of )  
J.P. Morgan Securities Ltd. ) Signed Fang Fang  
in the presence of: )

SIGNED by )  
duly authorised for and on behalf of )  
CLSA Limited ) Signed Richard Taylor  
in the presence of: )

SIGNED by )  
duly authorised for and on behalf of )  
China International Capital ) Signed Liu Jingsheng  
Corporation Hong Kong Securities )  
Limited in the presence of: )

## SCHEDULE 1

### PLACING ANNOUNCEMENT

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or reliance upon the whole or any part of the contents of this announcement.

The securities have not been registered under the United States Securities Act of 1933, as amended (the "Securities Act") and may not be offered or sold in the United States or to U.S. persons unless the securities are registered under the Securities Act, or an exemption from the registration requirements of the Securities Act is available. For so long as the securities are restricted securities within the meaning of Rule 144(a)(3) under the Securities Act and until the expiration of applicable holding periods, the securities will not be eligible for deposit under any unrestricted depositary receipt facility.

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 2600)

Placing of H Shares and Resumption of Trading

Joint Global Coordinators, Joint Placing Agents

and Joint Bookrunners

J.P. Morgan Securities Ltd.

CLSA Limited

China International Capital  
Corporation  
Hong Kong Securities Limited

On 9 May 2006, Aluminum Corporation of China Limited (the "**Company**") entered into a placing agreement (the "**Placing Agreement**") with J.P. Morgan Securities Ltd., CLSA Limited and China International Capital Corporation Hong Kong Securities Limited (the "**Joint Placing Agents**") in relation to the placing (the "**Placing**"), on a fully underwritten basis, of an aggregate of 644,100,000 overseas listed foreign invested shares of RMB1.00 each ("**H Shares**") in the share capital of the Company (the "**Placing Shares**") at a price of HK\$7.25 per H Share (the "**Placing Price**").

The Placing Shares comprise (1) 600,000,000 H Shares (the "**New Shares**") to be allotted and issued by the Company and (2) 44,100,000 H Shares (the "**Sale Shares**") to be converted from the same number of existing State-owned domestic shares that are to be allocated from Aluminum Corporation of China to the National Social Security Fund Council (the "**NSSF**") of the PRC.

The Placing Shares represent approximately 5.83% of the existing issued share capital of the Company and approximately 5.53% of the issued share capital of the Company as enlarged by the issue of the New Shares.

The Placing Shares will be sold to no less than six independent professional and institutional investors on a fully underwritten basis subject to termination in certain events, set out below under the heading "**Conditions of the Placing**".

The net proceeds of the Placing of the New Shares will be approximately HK\$4,247 million. The Company intends to use the net proceeds from the Placing of the New Shares for the funding of any possible acquisitions of domestic primary aluminum projects and for general corporate purposes.

The New Shares will be issued under the general mandate granted to the directors of the Company (the "**Directors**") at the annual general meeting of the Company held on 9 June 2005.

The Company requested for suspension of trading in the H Shares on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") from 12:25 p.m. on 8 May 2006 pending the release of this announcement, and will request for resumption of trading in the H Shares on the Stock Exchange with effect from 9:30 a.m. on 10 May 2006.

## THE PLACING AGREEMENT

Date: 9 May 2006

Parties: (i) The Company  
(ii) The Joint Placing Agents

## PLACING

The Joint Placing Agents agree as agents for the Company to severally procure, on a fully underwritten basis, institutional and other investors to subscribe for and purchase an aggregate of 644,100,000 Placing Shares. The Placing Shares comprise of (1) 600,000,000 New Shares to be allocated and issued by the Company; and (2)

44,100,000 Sale Shares to be converted from the same number of existing State-owned domestic shares that are to be allocated from Aluminum Corporation of China to NSSF.

#### INDEPENDENCE OF THE JOINT PLACING AGENTS

The Joint Placing Agents are not connected persons (as defined in the Listing Rules) of the Company or the NSSF and each of them is independent of and not connected with any promoter, supervisor, director, chief executive or substantial shareholder of the Company or the NSSF or any of their respective subsidiaries or associates (as defined in the Listing Rules).

#### NUMBER OF PLACING SHARES

The 644,100,000 H Shares represent approximately 19.52 per cent. and 5.83 per cent. respectively of the existing H Shares in issue and the registered capital of the Company prior to the Placing, and approximately 16.33 per cent. and 5.53 per cent. respectively of the H Shares in issue and the registered capital of the Company as enlarged by the issue of the New Shares.

#### PLACING PRICE

HK\$7.25 per Placing Share, representing a discount of approximately 2.68 per cent to the closing price of HK\$7.45 per H Share on the Stock Exchange on the previous trading day prior to suspension on 8 May 2006, being the date immediately preceding the date of the Placing Agreement and representing a discount of approximately 3.33 per cent to the average closing price of HK\$7.50 per H Share of the last 5 trading days on the Stock Exchange immediately preceding 8 May 2006, and a discount of approximately 5.10 per cent to the average closing price of HK\$7.64 per H Share of the last 10 trading days on the Stock Exchange immediately preceding 8 May 2006. The Placing Price was agreed after arm's length negotiation between the Company and the Joint Placing Agents.

The effective net placing price is estimated to be about HK\$7.08 per H Share.

#### CONDITIONS OF THE PLACING

The Placing is conditional upon the Stock Exchange granting listing of and permission to deal in the Placing Shares on or before 12:00 noon on 25 May 2006 (or such later time and date the Company and the Joint Placing Agents may agree in writing) and the Placing Agreement not having been terminated by the Joint Placing Agents in accordance with the terms thereof, such as on the grounds of material breach of the representations, warranties and undertakings of the Company given in the Placing Agreement or the occurrence of certain force majeure events.

#### SALE BY NSSF

Pursuant to the approval of the State-owned Assets Supervision and Administration Commission ("**SASAC**") dated 3 April 2006, SASAC has approved, as part of the Placing, the allocation of the Sale Shares from Aluminum Corporation of China to the NSSF in accordance with the requirements of the Provisional Administrative Measures for the Reduction of State Shares and the Raising of the Social Security Fund (the "**Regulations for the Reduction of State-owned Shares**") of the PRC. By another approval document dated 11 April 2006, the NSSF entrusted the Company to effect a sale of the Sale Shares (to be converted into H Shares) as part of the Placing, and to remit the entire net proceeds of the sale to the NSSF. NSSF is not an existing shareholder of the Company. Pursuant to the Regulations for the Reduction of State-owned Shares, the holders of the State-owned domestic shares of the Company have to sell such number of State-owned domestic shares equivalent to 10 per cent of the proceeds to be raised in the Placing. Aluminum Corporation of China is selling the Sale Shares for itself and for Guangxi Investment (Group) Co., Ltd., Guizhou Provincial Materials Development and Investment Corporation and China Construction



Bank. The other holders of State-owned domestic shares of the Company have obtained an exemption from the Ministry of Finance and are not required to sell their relevant percentage of State-owned domestic shares in the Placing.

#### COMPLETION OF THE PLACING

Completion is expected to take place on or before 25 May 2006 or such other time or date as the Company and the Joint Placing Agents shall agree (the "Placing Completion Date").

Shareholding Structure of the Company on the date of the Placing Agreement and on the Placing Completion Date

| Holder of<br>Domestic Shares or H Shares                                  | As at the date of<br>the Placing Agreement |   | On the Placing<br>Completion Date |   |
|---|--|---|-----------------------------------|---|
|   | No. of shares<br>(in millions)             | Percentage<br>of issued<br>share capital<br>(%) | No. of shares<br>(in millions)    | Percentage<br>of issued<br>share capital<br>(%) |
| <b>Holders of Domestic Shares</b>   |  |   |                                   |   |
| Aluminum Corporation of China   | 4,656.3(1)                                 | 42.14   | 4,612.2(2)                        | 39.59   |
| China Cinda Asset<br>Management Corporation                               | 900.6                                      | 8.15  | 900.6                             | 7.73  |
| China Construction Bank   | 709.8                                      | 6.42  | 709.8                             | 6.09  |
| China Orient Asset<br>Management Corporation                              | 602.2                                      | 5.45  | 602.2                             | 5.17  |
| China Development Bank  | 554.9                                      | 5.02  | 554.9                             | 4.76  |
| Guangxi (Group) Investment Co.,<br>Ltd.                                   | 196.8                                      | 1.78  | 196.8                             | 1.69  |
| Guizhou Provincial Materials<br>Development and<br>Investment Corporation | 129.4                                      | 1.17  | 129.4                             | 1.11  |
| <b>Holders of H Shares</b>  |  |   |                                   |   |
| Alcoa International (Asia) Limited  | 884.2                                      | 8.00  | 884.2                             | 7.59%   |
| Other public investors  | 2,415.7                                    | 21.87   | 3,059.8                           | 26.26%  |
|   | 11,049.9                                   | 100.00  | 11,649.9                          | 100.00  |

Notes:

(1) Includes the 44,100,000 Sale Shares.

(2) After allocation of the 44,100,000 Sale Shares as approved by SASAC.

#### GENERAL MANDATE TO ISSUE THE NEW SHARES

The New Shares will be allotted and issued under the general mandate (the "**General Mandate**") granted to the Directors of the Company at the last annual general meeting of the Company held on 9 June 2005. The issue of the Placing Shares was approved by the China Securities Regulatory Commission ("**CSRC**") on 28 April 2006.

#### REGULATORY APPROVALS

The Company has obtained all relevant PRC regulatory approvals for the Placing, being approvals from the CSRC, SASAC, NSSF, as well as the General Mandate and board approval.

#### UNITED STATES SELLING RESTRICTIONS

The Placing Shares have not been and will not be registered under the U.S. Securities Act and may not be offered or sold in the United States or to U.S. Persons unless the Placing Shares are registered under the Securities Act, or an exemption from the registration requirements of the U.S. Securities Act is available. During the 40 days immediately following the Placing Completion Date, no H Shares will be accepted for deposit in the American Depository Shares programme of the

Company.

#### RANKING

The Placing Shares will rank pari passu in all respects with the existing H Shares in issue on the Placing Completion Date, including the right to receive all dividends and distributions declared, paid or made after the Placing Completion Date.

#### REASONS FOR THE PLACING

In view of current market conditions, the Directors consider that the Placing represents a good opportunity for the Company to raise further financing and also broaden the shareholder and capital base. The Directors consider that the current environment is favourable for the Company to make acquisitions of domestic primary aluminum projects for which funding will be required. As stated in the Company's 2005 annual report, the Company has entered into letters of intent for the acquisition or formation of several investment projects. However, the Company currently has not entered into any definitive agreement relating to such acquisitions or new investments.

#### USE OF PROCEEDS

The amount to be raised by the Company from the Placing of the New Shares will be approximately HK\$4,247 million, after deducting the commission and expenses of the Placing payable by the Company. The Company will not receive any proceeds from the placing of the Sale Shares. The net proceeds of the Sale Shares will be paid to the NSSF.

The Company intends to use the net proceeds from the Placing of the New Shares for the funding of any possible acquisitions of domestic primary aluminum projects and for general corporate purposes.

The Company has not raised funds by way of issue of shares in the 12 months immediately preceding the date of this announcement.

#### SUSPENSION OF TRADING

The Company requested for suspension of trading in the H Shares on the Stock Exchange from 12:25 p.m. on 8 May 2006 pending the release of this announcement, and will request for resumption of trading in the H Shares on the Stock Exchange with effect from 9:30 a.m. on 10 May 2006.

#### APPLICATION FOR LISTING

Application has been made to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Placing Shares on the Stock Exchange.

#### GENERAL

As at the date of this announcement, the Board of Directors comprises Mr. Xiao Yaqing, Mr. Xiong Weiping, Mr. Luo Jianchuan, Mr. Chen Jihua (executive Directors), Mr. Shi Chungui and Mr. Joseph C. Muscari (non-executive Directors) and Mr. Poon Yiu Kin, Samuel, Mr. Wang Dianzuo and Mr. Kang Yi (independent non-executive Directors).

By Order of the Board of Directors  
Aluminum Corporation of China  
Limited  
Liu Qiang  
Company Secretary

9 May 2006  
Beijing, PRC

\* for identification only

#### SCHEDULE 2 PLACING LETTER

[On U.S. Affiliate Broker-Dealer Letterhead]

Private & Confidential

TO: All Places

DATE: May 8, 2006

Ladies and Gentlemen,

PLACING (THE "PLACING") CONSISTING OF 644,100,000 H SHARES OF PAR VALUE RMB 1.00 EACH (THE "SALE SHARES"), COMPRISING OF 600,000,000 NEW H SHARES AND 44,100,000 H SHARES TO BE

CONVERTED FROM DOMESTIC SHARES HELD BY THE NATIONAL SOCIAL SECURITY FUND COUNCIL OF THE PRC (THE "SECONDARY VENDOR") IN THE SHARE CAPITAL OF ALUMINUM CORPORATION OF CHINA LIMITED (THE "COMPANY") ON BEHALF OF THE COMPANY AND THE SECONDARY VENDOR AT A PLACING PRICE OF HK\$[7.125] PER SALE SHARE

We are appointed by the Company and the Secondary Vendor to act as the placing agent in relation to the Placing.

We refer to the telephone conversation you have had earlier with our representative in relation to the Placing. During this telephone conversation an oral contract was concluded between you and ourselves, acting as agents on behalf of the Company and the Secondary Vendor. Pursuant to this contract, you agreed to the following:

- 1 You have agreed to purchase in cash, Sale Shares (the "**Allocated Shares**") and to make payment for your Allocated Shares (being the full amount of the consideration representing the aggregate placing price for the Allocated Shares, together with stamp duty, SFC transaction levy and Stock Exchange trading fee and brokerage thereon (the "**Total Consideration**") subject only to the placing agreement (the "**Placing Agreement**") between, inter alia, the Company, J.P. Morgan Securities Ltd., CLSA Limited and China International Capital Corporation Hong Kong Securities Limited (the "**Placing Agents**") not having been terminated by the Placing Agents in accordance with its terms.
  
- 2 Settlement of the Allocated Shares will be made on a delivery-against-payment basis on [\*] May 2006 through the Central Clearing and Settlement System ("**CCASS**") in Hong Kong.

Our CCASS account details are as follows:

CCASS Participant Name: [\*]

CCASS Participant ID: [\*]

Contact Person: [\*]

- 3 If there is any delay in payment of the Total Consideration, we may at our option:
  - (a) be deemed to have your instructions and authority to pay on your behalf the Total Consideration for the Allocated Shares, in which event you will reimburse us therefor. In addition, we may charge default interest at 2% per annum over the best lending rate for Hong Kong Dollars quoted from time to time by The Hongkong and Shanghai Banking Corporation Limited for every 24 hours or part thereof during which such amount remains unpaid; or
  - (b) terminate the contract recorded in this letter and in such event all obligations and liabilities on the part of the Company, the Secondary Vendor and ourselves arising in connection herewith shall cease and terminate but without prejudice to any claim which the Company, the Secondary Vendor or we may have against you arising out of your failure to comply with your obligations hereunder.

- 4 All Allocated Shares have been or will be deposited in CCASS, therefore no share certificates will be issued to you. We have your irrevocable authority to arrange for and/or effect registration of the Allocated Shares allocated to you in the name of HKSCC Nominees Limited for credit into your investor participant stock account or your designated CCASS participant's stock account as indicated by you on the enclosed Form of Acknowledgement. If you fail to return the Form of Acknowledgement thereof prior to 5:00 p.m. on [\*], the Company, the Secondary Vendor and we shall have the right not to allot any Sale Shares to you and your Allocated Shares may, at our discretion, be allocated to other places. If we choose in our sole discretion not to exercise this right, your Allocated Shares will be credited to our CCASS account (as your nominee) and the costs of any subsequent transfer to you will be payable by you.

We may select brokers of our choice to report on or around 8 May 2006 the placing of all of the Sale Shares to The Stock Exchange of Hong Kong Limited and to effect the placing of all of the Sale Shares on The Stock Exchange of Hong Kong Limited as a cross-trade. We have your irrevocable authority to novate the contract recorded in this letter as agent on your behalf to any brokers of our choice.

- 5 By agreeing to purchase the Allocated Shares, you have represented and acknowledged your agreement that:
- (a) you (i) are either (x) a qualified institutional buyer ("**QIB**") within the meaning of Rule 144A ("**Rule 144A**") under the U.S. Securities Act of 1933 (the "**Securities Act**") or (y) an "accredited investor" within the meaning of Rule 501 under the Securities Act, or an entity in which all of the equity owners are "accredited investors" within the meaning of Rule 501 under the Securities Act (an "**Institutional Accredited Investor**"), (ii) are acquiring the Sale Shares for your own account (if you are a QIB or an Institutional Accredited Investor) or for the account of a QIB or Institutional Accredited Investor, for investment purposes only, and not with a view to, or for resale in connection with, the distribution (within the meaning of the U.S. securities laws) thereof, in whole or in part, and upon your purchase of the Sale Shares no other person will have a direct or indirect beneficial interest therein, (iii) if you are purchasing for the accounts of other QIBs or Institutional Accredited Investors, (1) you reasonably believe that each such QIB or Institutional Accredited Investor can bear the economic risk of its investment in the Sale Shares and (2) you have all necessary authority to make the foregoing representations on behalf of, and to act for, each such QIB or Institutional Accredited Investor and (iv) are aware, and each beneficial owner of such Sale Shares has been advised, that the sale of such Sale Shares may be being made in reliance on the exemption from the registration requirements of the Securities Act;
  - (b) since no action has been taken to permit an offering of the Sale Shares in any jurisdiction, you will not offer or sell any of the Sale Shares which may be acquired by you in any jurisdiction or in any circumstances in which such offer or sale is not authorised or to any person to whom it is unlawful to make such offer, sale or invitation except under circumstances that will result in compliance with any applicable laws and/or regulations. In particular, you understand that the Sale

Shares have not been and will not be registered under the Securities Act or with any State or other jurisdiction of the United States, are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act and you agree that you will not reoffer, resell, pledge or otherwise transfer the Sale Shares except in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act. To the extent that the Sale Shares are "restricted securities" within the meaning of Rule 144 under the Securities Act, and for so long as they remain restricted securities, such Sale Shares may not be deposited into any unrestricted depositary receipt facility with respect to the shares in the Company;

- (c) you have the ability to bear the economic risk of your investment in the Sale Shares, have adequate means of providing for your current and contingent needs, have no need for liquidity with respect to your investment in the Sale Shares, and are able to sustain a complete loss of your investment in the Sale Shares;
- (d) you acknowledge that (i) the Company's ordinary shares are listed on The Stock Exchange of Hong Kong Limited and the Company is therefore required to publish certain business and financial information in accordance with the rules and practices of such exchange (the "**Exchange Information**"), which includes, amongst other things, a description of the Company's principal activities and the Company's balance sheet, income statement and cash flow statement and any information relating to the Company and its subsidiaries (if any) which is necessary to enable the holders of the shares of the Company and the public to appraise the position of the Company and its subsidiaries (if any), and that you are able to obtain or access the Exchange Information without undue difficulty; (ii) you have conducted your own investigation with respect to the Sale Shares; (iii) you have received all information that you believe is necessary or appropriate in connection with your purchase of the Sale Shares; (iv) you have consulted your own independent advisors or otherwise have satisfied yourselves concerning, without limitation, the tax, legal, currency and other economic considerations related to the investment in the Sale Shares, and have only relied on the advice of, or have only consulted with, such independent advisers; and (v) you have such knowledge and experience in financial and business matters that you are capable of evaluating the merits and risks of the prospective investment in the Sale Shares;
- (e) you are aware that no analysis has been undertaken to determine if the Company is a "passive foreign investment company" within the meaning of Section 1297 of the U.S. Internal Revenue Code of 1968. You understand that if the Company were determined to be a passive foreign investment company, there would be adverse tax consequences for a U.S. holder of the Sale Shares;
- (f) you understand that no disclosure or offering document has been prepared in connection with the placing of the Sale Shares;
- (g) you will not hold us or any of our affiliates responsible for any misstatements in or omissions from any publicly available information concerning the Company, including any Exchange Information;

- (h) you may not rely, and agree that you have not relied, on any investigation or due diligence that we, any of our affiliates or any person acting on our or their behalf, may have conducted with respect to the Sale Shares, business and properties of the Company, and none of such persons has made any representation to you, express or implied, with respect to the Sale Shares, business and properties of the Company and the accuracy, completeness or adequacy of any publicly available information;
- (i) you will on demand indemnify and keep indemnified the Company and the Secondary Vendor, any other sub-underwriter(s) and their respective affiliates, and their respective officers, agents and employees as well as ourselves and our affiliates, and the respective officers, agents and employees of ourselves and our affiliates for losses or liabilities incurred by any of them arising out of or in connection with any breach by you of the oral contract to purchase the Allocated Shares constituted by our telephone conversation, or any other breach of your obligations hereunder;
- (j) your agreement to purchase the Allocated Shares constituted your authorisation to us to complete, on your behalf, any application for Sale Shares and all other necessary application and transfer forms required in connection with the purchase of the Sale Shares and (subject to paragraph 4 above) for the registration of the Sale Shares in the name of HKSCC Nominees Limited;
- (k) you had at all relevant times and still have full power and authority to enter into the contract recorded in this letter to purchase the Allocated Shares for your own account and/or for the account of one or more persons for whom you exercise investment discretion and your oral agreement to do so as recorded herein constitutes your valid and legally binding obligation and is enforceable in accordance with its terms;
- (l) you will comply with all laws, regulations and restrictions which may be applicable in your jurisdiction and you have obtained or will obtain any consent, approval or authorisation required for your agreement to purchase and accept delivery of the Allocated Shares;
- (m) you acknowledge the confidential nature of the matters to which the Placing relates and, accordingly, you will not disclose this letter or any related matter to any third party without our prior written consent;
- (n) you will comply strictly with the terms of this letter and the enclosed Form of Acknowledgement letter in purchasing the Allocated Shares;
- (o) you (and any nominee and any person on whose behalf you are subscribing for the Allocated Shares (the "**Beneficial Owner**") as specified in the Form of Acknowledgement) are not a, and will not immediately after completion of the Placing be a, and are, and will immediately after completion of the Placing be, independent of any, "connected person" of the Company as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

(the "Listing Rules"), including but not limited to any director, chief executive or substantial shareholder (being anyone who is entitled to exercise or control the exercise of 10% or more of the voting power at any general meeting of the Company) of the Company or any of its subsidiaries or any associate of any of them within the meaning of the Listing Rules, and you are independent of, and do not act in concert with, any of such persons in relation to the control of the Company;

- (p) you will accept the Allocated Shares on and subject to the terms and conditions of the memorandum and articles of association of the Company;
- (q) we neither make nor have made any warranty, representation or recommendation as to the merits of the Allocated Shares, the purchase or offer thereof, or as to the condition, financial or otherwise, of the Company or its subsidiaries or as to any other matter relating thereto or in connection therewith. Nothing herein shall be construed as a recommendation to you to purchase the Allocated Shares. Your confirmation of your agreement will constitute your acknowledgement that you have not relied on any statement, opinion or representation made by us or on our behalf to induce you to purchase the Allocated Shares and that you have and will continue to make your own appraisal of the Placing and the other matters referred to in this Placing Letter. No information has been supplied by us or the Company or the Secondary Vendor and you confirm that you have relied upon your own investigations and resources in deciding to invest in the Sale Shares; and
- (r) you understand that certain of the foregoing representations and acknowledgments are required in connection with United States and other securities laws. You acknowledge that we and others will rely upon the truth and accuracy of your representations and acknowledgments set forth herein, and you agree to notify us promptly in writing if any of your representations or acknowledgments herein ceases to be accurate and complete. You irrevocably authorize us to produce this letter to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters set forth herein.

- 6 You should be aware of your rights and obligations under the Personal Data (Privacy) Ordinance (Cap 486 of the Laws of Hong Kong). Information and personal data provided by you to us in connection with the Placing are required to enable us, the Secondary Vendor and the Company to perform services connected with the Placing and to observe any rules, legal or regulatory requirements including the disclosure of such data to certain regulatory bodies (including The Stock Exchange of Hong Kong Limited and the Securities and Futures Commission). Your agreement to purchase the Allocated Shares constitutes your authorisation to us to disclose to the Secondary Vendor and the Company all information and personal data provided by you to us in connection with the Placing and we, the Secondary Vendor and the Company may provide such data to any agent, representative and associate which provides services in connection with the Placing and to regulatory bodies. You may also be requested by the regulatory bodies, the Secondary Vendor, the Company and us (including for submission to regulatory bodies) to provide reasonable evidence that such information and personal data as well as matters referred to in this letter are true and correct.



- 7 Time shall be of the essence in the contract concluded between us. All times referred to in this letter and the attachments hereto shall be references to Hong Kong time.
- 8 This letter constitutes confirmation of a pre-existing contract which, subject to our termination rights in paragraph 3 above, remains in force regardless of whether or not you return the Form of Acknowledgement. The oral contract concluded between you and ourselves in respect of your agreement to purchase the Allocated Shares as recorded in this letter is governed by, and shall be construed in accordance with, the laws of the Hong Kong Special Administrative Region of the People's Republic of China.

Please acknowledge your receipt of this letter, which records the terms and conditions of the oral contract concluded between us relating to your purchase of the Allocated Shares, by signing and returning the enclosed Form of Acknowledgement as soon as possible, and in any event, so as to reach us by not later than 5:00 p.m. (Hong Kong time) on [\*]. The documents should, whenever possible, be returned to us by personal delivery. In the alternative, they may be sent to us for the attention: [\*] by facsimile, at fax no. [\*], with the original to follow as soon as possible. All purchasers must complete the Form of Acknowledgement.

By signing and returning the Form of Acknowledgement enclosed herewith, you undertake that, in the event that you are purchasing the Sale Shares for the account of any of your clients, you shall procure that such client shall be informed of the foregoing provisions and shall agree to be bound by the foregoing provisions as if such client were party to the agreement evidenced by this letter.

No amendment to the terms and conditions of this letter will be acceptable to us.

Yours faithfully  
For and on behalf of  
[J.P. Morgan Securities Ltd.

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[\*]  
Authorised Signatory]

[For and on behalf of  
CLSA Limited

---

[\*]  
Authorised Signatory]

[For and on behalf of  
China International Capital Corporation Hong Kong Securities Limited

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[\*]  
Authorised Signatory]

[ON THE LETTERHEAD OF THE PLACEE]

FORM OF ACKNOWLEDGEMENT

To: [\*] Date: [ ]

Attention: [\*]

Fax No.: [\*]

Note: Original letter via post to:  
[\*]

Ladies and Gentlemen,

For the account of [Name of Placee]

PLACING (THE "PLACING") CONSISTING OF 644,100,000 H SHARES OF PAR VALUE RMB 1.00 EACH (THE "SALE SHARES") IN THE SHARE CAPITAL OF ALUMINUM CORPORATION OF CHINA LIMITED (THE "COMPANY") AT A PLACING PRICE OF HK\$[7.125] PER SALE SHARE

TO BE COMPLETED BY ALL PLACEES

We acknowledge receipt of your letter dated May 8, 2006 confirming the terms and conditions of the oral contract which was concluded between you and ourselves (the "Placing Letter"). We confirm that we have agreed to purchase the Allocated Shares specified in the Placing Letter on the terms and conditions of the contract recorded in the Placing Letter and we have agreed to the various representations, warranties and agreements contained in the Placing Letter, including those set forth in paragraph 5 therein.

Yours faithfully,  
For and on behalf of

---

 Authorised Signatory:

Title:

Name of Company:

EXHIBIT 8.1

## List of Subsidiaries of Aluminum Corporation of China Limited as of December 31, 2005

The following table lists information concerning the subsidiaries of Aluminum Corporation of China Limited:

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| Name   | Jurisdiction of<br>Incorporation | Percentage of<br>Interest held by<br>Chalco |
|--|----------------------------------|---|
| Subsidiaries:  |                                  |   |
| Shandong Aluminum Industry Co., Ltd.                                       | PRC                              | 71.4%                                       |
| Shanxi Longmen Aluminum Co., Ltd.  | PRC                              | 55%   |
| The Design Institute of Shandong Aluminum Corporation                      | PRC                              | 100%  |
| Zibo Wancheng Industrial Trading Co., Ltd.                                 | PRC                              | 100%  |
| Zhengzhou Hicer Hitech Ceramics Co., Ltd.                                  | PRC                              | 80%   |
| Shanxi Aluminum Factory Carbon Plant                                       | PRC                              | 72.6%                                       |
| China Aluminum International Trading Co., Ltd.                             | PRC                              | 90.5%                                       |
| Shandong Aluminum Electronic Technology Co., Ltd.                          | PRC                              | 53.6%                                       |
| Research & Design Institute of China Great Wall Aluminum Corporation       | PRC                              | 100%  |
| Shanxi Huaze Aluminum and Power Co., Ltd.                                  | PRC                              | 60%   |
| China Aluminum Qinghai International Trading Corp., Ltd.                   | PRC                              | 81.5%                                       |
| Chalco Foshan Trading Co., Ltd.  | PRC                              | 89.6%                                       |
| Chalco Chongqing Trading Co., Ltd.   | PRC                              | 90.1%                                       |
| China Aluminum International Shipping and Forwarding (Beijing) Corp., Ltd. | PRC                              | 88.7%                                       |

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|  |           |       |
|--|-----------|-------|
| Chalco Kelin Aluminum of Shanghai Co., Ltd.            | PRC       | 89.6% |
| Chalco Western Qinghai International Trading Co., Ltd. | PRC       | 81.5% |
| Shanxi Huatai Coal Co., Ltd.                           | PRC       | 97.8% |
| Chalco Shandong International Trading Co., Ltd.        | PRC       | 81.9% |
| Chalco Henan International Trading Co., Ltd.           | PRC       | 81.9% |
| Aluminum Corporation of China (Hong Kong) Ltd.         | Hong Kong | 100%  |

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EXHIBIT 12.1

CERTIFICATION PURSUANT TO RULE 13a-14 OR 15d-14  
OF THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, XIAO Yaqing, certify that:

- 1 I have reviewed this annual report on Form 20-F of Aluminum Corporation of China Limited;
- 2 Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
- 3 Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
- 4 The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - 4.1 designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - 4.2 evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

- 4.3 disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5 The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of registrant's board of directors (or persons performing the equivalent function):
- 5.1 all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- 5.2 any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ XIAO Yaqing

.....  
XIAO Yaqing  
Chief Executive Officer  
May 29, 2006

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EXHIBIT 12.1

CERTIFICATION PURSUANT TO RULE 13a-14 OR 15d-14  
OF THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, CHEN Jihua, certify that:

- 1 I have reviewed this annual report on Form 20-F of Aluminum Corporation of China Limited;
- 2 Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
- 3 Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this

annual report;

- 4 The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
- 4.1 designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - 4.2 evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
  - 4.3 disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5 The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of registrant's board of directors (or persons performing the equivalent function):
- 5.1 all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - 5.2 any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ CHEN Jihua

.....

CHEN Jihua  
Chief Financial Officer  
May 29, 2006

CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)

In connection with the annual report of Aluminum Corporation of China Limited, a joint stock limited company incorporated in the People's Republic of China with limited liability (the "Company"), on Form 20-F for the year ended December 31, 2005 as filed with the Securities and Exchange Commission (the "Report"), I, XIAO Yaqing, Chief Executive Officer of the Company, certify, pursuant to O906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. O 1350), that to the best of my knowledge: (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ XIAO Yaqing  
.....  
XIAO Yaqing  
Chief Executive Officer  
May 29, 2006

\*A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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EXHIBIT 12.2

CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)

In connection with the annual report of Aluminum Corporation of China Limited, a joint stock limited company incorporated in the People's Republic of China with limited liability (the "Company"), on Form 20-F for the year ended December 31, 2005 as filed with the Securities and Exchange Commission (the "Report"), I, CHEN Jihua, Chief Financial Officer of the Company, certify, pursuant to O906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. O 1350), that to the best of my knowledge: (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ CHEN Jihua

.....

CHEN Jihua  
Chief Financial Officer  
May 29, 2006

\*A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Aluminum Corporation of China Limited  
Consolidated Financial Statements

For the years ended December 31, 2004 and 2005

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ALUMINUM CORPORATION OF CHINA LIMITED  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2005

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Report of Independent Registered Public Accounting Firm  
 To the Board of Directors and Shareholders of Aluminum Corporation of China Limited

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in equity and cash flows, present fairly, in all material respects, the financial position of Aluminum Corporation of China Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as of December 31, 2004 and 2005, the results of their operations and their cash flows for each of the three years ended December 31, 2003, 2004 and 2005 in conformity with accounting principals generally accepted in Hong Kong ("HK GAAP"). These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and auditing standards generally accepted in Hong Kong. Those standards required that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion.

The Group adopted the new / revised Hong Kong Financial Reporting Standards ("HKFRS") in 2005, which resulted in changes of accounting policies, and the effects of adopting these new / revised HKFRSs are set out in Note 2(a) to the consolidated financial statements.

HK GAAP vary in certain significant respects from accounting principles generally accepted in the United States of America ("U.S. GAAP"). Information relating to the nature and effect of such differences is presented in Note 33 relating to the U.S. GAAP reconciliation to the consolidated financial statements.

PricewaterhouseCoopers

Certified Public Accountants  
 Hong Kong, May 29, 2006

F-1

CONSOLIDATED BALANCE SHEET

As of December 31, 2004 and 2005

(RMB and US\$ amounts in thousands, except share and per share amount)

|        |      | As restated |      |      |
|--------|------|-------------|------|------|
|        | Note | 2004        | 2005 | 2005 |
|        |      | RMB         | RMB  | US\$ |
| Assets |      |             |      |      |

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Current assets

|                           |   |           |           |         |
|---------------------------|---|-----------|-----------|---------|
| Cash and cash equivalents | 5 | 6,223,763 | 7,597,727 | 941,455 |
| Accounts receivable, net  | 6 | 1,965,127 | 961,191   | 119,104 |
| Inventories               | 7 | 5,231,907 | 7,234,731 | 896,475 |
| Other current assets      | 8 | 935,791   | 1,169,021 | 144,857 |

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|                      |  |            |            |           |
|----------------------|--|------------|------------|-----------|
| Total current assets |  | 14,356,588 | 16,962,670 | 2,101,891 |
|----------------------|--|------------|------------|-----------|

---

Non-current assets

|   |          |            |            |           |
|---|----------|------------|------------|-----------|
| Investments in securities               | 9        | 10,800     | -          | -         |
| Available-for-sale financial assets     | 9        | -          | 10,200     | 1,264     |
| Interest in jointly controlled entities | 10(a)    | 66,877     | 184,399    | 22,849    |
| Interest in associated companies        | 10(b)    | 45,000     | 886,375    | 109,833   |
| Intangible assets                       | 11       | 729,153    | 721,479    | 89,400    |
| Property, plant and equipment           | 12       | 34,026,233 | 39,773,607 | 4,928,454 |
| Land use rights                         | 13       | 16,048     | 62,275     | 7,717     |
| Deferred tax assets                     | 26(d)(i) | 307,370    | 408,874    | 50,665    |

---

|                          |  |            |            |           |
|--------------------------|--|------------|------------|-----------|
| Total non-current assets |  | 35,201,481 | 42,047,209 | 5,210,182 |
|--------------------------|--|------------|------------|-----------|

---

|              |  |            |            |           |
|--------------|--|------------|------------|-----------|
| Total assets |  | 49,558,069 | 59,009,879 | 7,312,073 |
|--------------|--|------------|------------|-----------|

---

Liabilities and Equity

Liabilities

Current liabilities

|                                    |       |           |           |         |
|------------------------------------|-------|-----------|-----------|---------|
| Accounts payable                   | 14    | 2,047,831 | 2,649,249 | 328,276 |
| Other payables and accruals        | 15    | 5,544,567 | 5,585,317 | 692,093 |
| Income tax payable                 |       | 1,078,508 | 999,117   | 123,803 |
| Current portion of long-term loans | 16(a) | 1,073,658 | 1,353,980 | 167,775 |
| Unsecured short-term bank loans    | 16(b) | 3,448,910 | 2,378,998 | 294,788 |
| Short-term bonds                   | 17    | -         | 1,970,840 | 244,212 |

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|                           |  |            |            |           |
|---------------------------|--|------------|------------|-----------|
| Total current liabilities |  | 13,193,474 | 14,937,501 | 1,850,947 |
|---------------------------|--|------------|------------|-----------|

---

Non-current liabilities

|                          |           |           |           |           |
|--------------------------|-----------|-----------|-----------|-----------|
| Long-term loans          | 16(a)     | 7,391,663 | 9,690,493 | 1,200,675 |
| Deferred tax liabilities | 26(d)(ii) | 167,054   | 176,991   | 21,931    |

---

|                               |  |           |           |           |
|-------------------------------|--|-----------|-----------|-----------|
| Total non-current liabilities |  | 7,558,717 | 9,867,484 | 1,222,706 |
|-------------------------------|--|-----------|-----------|-----------|

---

|                   |  |            |            |           |
|-------------------|--|------------|------------|-----------|
| Total liabilities |  | 20,752,191 | 24,804,985 | 3,073,653 |
|-------------------|--|------------|------------|-----------|

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|                               |           |  |  |  |
|-------------------------------|-----------|--|--|--|
| Contingencies and commitments | 30 and 31 |  |  |  |
|-------------------------------|-----------|--|--|--|

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Equity

|                   |       |            |            |           |
|-------------------|-------|------------|------------|-----------|
| Share capital     | 18(a) | 11,049,876 | 11,049,876 | 1,369,220 |
| Reserves          |       | 8,696,143  | 10,242,615 | 1,269,190 |
| Retained earnings |       | 7,820,776  | 11,351,948 | 1,406,650 |

---

|  |  |            |            |           |
|--|--|------------|------------|-----------|
| Equity attributable to shareholders of the Company |  | 27,566,795 | 32,644,439 | 4,045,060 |
|--|--|------------|------------|-----------|

|                   |  |           |           |         |
|-------------------|--|-----------|-----------|---------|
| Minority interest |  | 1,239,083 | 1,560,455 | 193,360 |
|-------------------|--|-----------|-----------|---------|

---

|              |  |            |            |           |
|--------------|--|------------|------------|-----------|
| Total equity |  | 28,805,878 | 34,204,894 | 4,238,420 |
|--------------|--|------------|------------|-----------|

---

|                              |  |            |            |           |
|------------------------------|--|------------|------------|-----------|
| Total liabilities and equity |  | 49,558,069 | 59,009,879 | 7,312,073 |
|------------------------------|--|------------|------------|-----------|

---

The accompanying notes are an integral part of these consolidated financial statements

## CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2003, 2004 and 2005

(RMB and US\$ amounts in thousands, except share and per share amount)

|  | Note  | As restated<br>2003<br>RMB | As restated<br>2004<br>RMB | 2005<br>RMB | 2005<br>US\$ |
|--|-------|----------------------------|----------------------------|-------------|--------------|
| Sales of goods   | 19    | 23,245,858                 | 32,313,076                 | 37,110,319  | 4,598,439    |
| Cost of goods sold                                       |       | 16,460,283                 | 21,503,250                 | 24,822,109  | 3,075,774    |
| Gross profit   |       | 6,785,575                  | 10,809,826                 | 12,288,210  | 1,522,665    |
| Other revenues, net                                      | 19    | 50,642                     | 101,293                    | 116,441     | 14,429       |
| Selling and distribution expenses                        | 20    | 549,432                    | 647,532                    | 686,717     | 85,093       |
| General and administrative expenses                      | 21    | 1,047,461                  | 1,220,902                  | 1,523,317   | 188,758      |
| Research and development expenses                        |       | 173,359                    | 132,635                    | 113,381     | 14,049       |
| Operating income   |       | 5,065,965                  | 8,910,050                  | 10,081,236  | 1,249,194    |
| Finance costs  | 25    | 439,897                    | 109,948                    | 366,908     | 45,465       |
| Operating income after finance costs                     |       | 4,626,068                  | 8,800,102                  | 9,714,328   | 1,203,729    |
| Share of income (loss) of jointly<br>controlled entities | 10(a) | 1,193                      | (3,953)                    | 372         | 46           |
| Share of income of an associated<br>company              | 10(b) | -                          | -                          | 26,947      | 3,339        |
| Income before income taxes                               |       | 4,627,261                  | 8,796,149                  | 9,741,647   | 1,207,114    |
| Income taxes   | 26    | 920,159                    | 2,161,086                  | 2,495,213   | 309,189      |
| Income after income taxes                                |       | 3,707,102                  | 6,635,063                  | 7,246,434   | 897,925      |

Attributable to:

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|                               |  |           |           |           |         |
|-------------------------------|--|-----------|-----------|-----------|---------|
| Equity holders of the Company |  | 3,549,732 | 6,391,523 | 7,022,422 | 870,167 |
| Minority interest             |  | 157,370   | 243,540   | 224,012   | 27,758  |

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|  |  |           |           |           |         |
|--|--|-----------|-----------|-----------|---------|
|  |  | 3,707,102 | 6,635,063 | 7,246,434 | 897,925 |
|--|--|-----------|-----------|-----------|---------|

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|           |    |           |           |           |         |
|-----------|----|-----------|-----------|-----------|---------|
| Dividends | 27 | 1,060,788 | 1,944,778 | 2,364,673 | 293,013 |
|-----------|----|-----------|-----------|-----------|---------|

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Basic earning per share for income attributable

|                                      |    |         |         |         |          |
|--------------------------------------|----|---------|---------|---------|----------|
| to the equity holders of the Company | 28 | RMB0.34 | RMB0.58 | RMB0.64 | US\$0.08 |
|--------------------------------------|----|---------|---------|---------|----------|

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The accompanying notes are an integral part of these consolidated financial statements

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2003, 2004 and 2005

(RMB and US\$ amounts in thousands, except share and per share amount)

| Attributable to equity holders of the Company |                 |                           |                               |                   | Minority interest | Total equity |
|---|-----------------|---------------------------|-------------------------------|-------------------|-------------------|--------------|
| Share capital                                 | Capital reserve | Statutory surplus reserve | Statutory public welfare fund | Retained earnings |                   |              |
| (Note 18(a))                                  | (Note 18(b)(i)) | (Note 18(b)(ii))          | (Note 18(b)(iii))             | (Note 18(b)(iv))  |                   |              |
| RMB   | RMB             | RMB                       | RMB                           | RMB               | RMB               | RMB          |

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|   |            |           |         |         |           |         |            |
|---|------------|-----------|---------|---------|-----------|---------|------------|
| As of January 1,<br>2003, as previously<br>reported                                       | 10,499,900 | 3,310,258 | 198,486 | 190,469 | 1,324,834 | -       | 15,523,947 |
| As of January 1,<br>2003, as previously<br>separately reported<br>as minority<br>interest | -          | -         | -       | -       | -         | 437,809 | 437,809    |
| Effect of adopting<br>HKAS 23   | -          | -         | -       | -       | 245,367   | -       | 245,367    |

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|                                       |            |           |         |         |           |         |            |
|---------------------------------------|------------|-----------|---------|---------|-----------|---------|------------|
| As of January 1,<br>2003, as restated | 10,499,900 | 3,310,258 | 198,486 | 190,469 | 1,570,201 | 437,809 | 16,207,123 |
|---------------------------------------|------------|-----------|---------|---------|-----------|---------|------------|

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|                                    |   |         |         |         |           |          |           |
|------------------------------------|---|---------|---------|---------|-----------|----------|-----------|
| Issue of shares                    | - | -       | -       | -       | -         | 80,748   | 80,748    |
| Net income for the<br>year         | - | -       | -       | -       | 3,549,732 | 157,370  | 3,707,102 |
| Transfer to                        |   |         |         |         |           |          |           |
| - capital reserve                  | - | 44,476  | -       | -       | (44,476)  | -        | -         |
| - statutory surplus<br>reserve     | - | -       | 394,196 | -       | (394,196) | -        | -         |
| - statutory public<br>welfare fund | - | -       | -       | 372,548 | (372,548) | -        | -         |
| Dividends paid                     | - | -       | -       | -       | (472,496) | (23,999) | (496,495) |
| Other reserve                      | - | 138,860 | -       | -       | -         | -        | 138,860   |

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|   |            |           |         |         |           |         |            |
|---|------------|-----------|---------|---------|-----------|---------|------------|
| As of December 31,<br>2003, as restated | 10,499,900 | 3,493,594 | 592,682 | 563,017 | 3,836,217 | 651,928 | 19,637,338 |
|---|------------|-----------|---------|---------|-----------|---------|------------|

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|                                    |         |           |         |         |           |         |           |
|------------------------------------|---------|-----------|---------|---------|-----------|---------|-----------|
| Issue of shares                    | 549,976 | 2,750,672 | -       | -       | -         | 360,500 | 3,661,148 |
| Share issue expenses               | -       | (49,998)  | -       | -       | -         | -       | (49,998)  |
| Net income for the<br>year         | -       | -         | -       | -       | 6,391,523 | 243,540 | 6,635,063 |
| Transfer to                        |         |           |         |         |           |         |           |
| - capital reserve                  | -       | 9,777     | -       | -       | (9,777)   | -       | -         |
| - statutory surplus<br>reserve     | -       | -         | 685,107 | -       | (685,107) | -       | -         |
| - statutory public<br>welfare fund | -       | -         | -       | 651,292 | (651,292) | -       | -         |

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|                |   |   |   |   |             |          |             |
|----------------|---|---|---|---|-------------|----------|-------------|
| Dividends paid | - | - | - | - | (1,060,788) | (16,885) | (1,077,673) |
|----------------|---|---|---|---|-------------|----------|-------------|

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|                                      |            |           |           |           |           |           |            |
|--------------------------------------|------------|-----------|-----------|-----------|-----------|-----------|------------|
| As of December 31, 2004, as restated | 11,049,876 | 6,204,045 | 1,277,789 | 1,214,309 | 7,820,776 | 1,239,083 | 28,805,878 |
|--------------------------------------|------------|-----------|-----------|-----------|-----------|-----------|------------|

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|                                 |   |        |         |         |             |          |             |
|---------------------------------|---|--------|---------|---------|-------------|----------|-------------|
| Issue of shares                 | - | -      | -       | -       | -           | 180,938  | 180,938     |
| Net income for the year         | - | -      | -       | -       | 7,022,422   | 224,012  | 7,246,434   |
| Transfer to                     |   |        |         |         |             |          |             |
| - capital reserve               | - | 14,711 | -       | -       | (14,711)    | 58       | 58          |
| - statutory surplus reserve     | - | -      | 783,897 | -       | (783,897)   | -        | -           |
| - statutory public welfare fund | - | -      | -       | 747,864 | (747,864)   | -        | -           |
| Dividends paid                  | - | -      | -       | -       | (1,944,778) | (83,636) | (2,028,414) |

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|                         |            |           |           |           |            |           |            |
|-------------------------|------------|-----------|-----------|-----------|------------|-----------|------------|
| As of December 31, 2005 | 11,049,876 | 6,218,756 | 2,061,686 | 1,962,173 | 11,351,948 | 1,560,455 | 34,204,894 |
|-------------------------|------------|-----------|-----------|-----------|------------|-----------|------------|

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|                                 |           |         |         |         |           |         |           |
|---------------------------------|-----------|---------|---------|---------|-----------|---------|-----------|
| As of December 31, 2005 in US\$ | 1,369,220 | 770,583 | 255,469 | 243,138 | 1,406,650 | 193,360 | 4,238,420 |
|---------------------------------|-----------|---------|---------|---------|-----------|---------|-----------|

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The accompanying notes are an integral part of these consolidated financial statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2003, 2004 and 2005

(RMB and US\$ amounts in thousands)

| Note | As restated | As restated | 2005 | 2005 |
|------|-------------|-------------|------|------|
|      | 2003        | 2004        |      |      |
|      | RMB         | RMB         | RMB  | US\$ |

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## Cash flow from operating activities

|  |    |           |           |           |           |
|--|----|-----------|-----------|-----------|-----------|
| Operating income after finance costs                     |    | 4,626,068 | 8,800,102 | 9,714,328 | 1,203,729 |
| Depreciation of property, plant and equipment            | 24 | 2,064,732 | 2,350,711 | 2,477,877 | 307,040   |
| Loss on disposal of property, plant and equipment        | 24 | 160,823   | 43,740    | 63,355    | 7,851     |
| Impairment loss on property, plant and equipment         | 12 | 74,485    | 20,227    | 4,225     | 524       |
| Amortization of intangible assets                        | 11 | 48,464    | 58,468    | 36,396    | 4,510     |
| Amortization of land use rights                          | 13 | -         | 890       | 10,671    | 1,322     |
| Loss (gain) on financial assets at fair value            |    |           |           |           |           |
| through profit or loss                                   | 19 | 2,979     | 514       | (5,582)   | (692)     |
| Realized and unrealized loss (gain) on futures contracts | 19 | 65,214    | 25,492    | (5,760)   | (714)     |
| Income from held-to-maturity investments                 | 19 | (351)     | (351)     | (193)     | (24)      |
| Interest waived  | 19 | (44,476)  | (9,777)   | (14,711)  | (1,823)   |
| Interest income  | 19 | (26,204)  | (61,540)  | (89,363)  | (11,073)  |
| Interest expense   | 25 | 431,663   | 120,800   | 404,478   | 50,120    |

|  |  |           |             |             |           |
|--|--|-----------|-------------|-------------|-----------|
| Operating income before working capital changes                        |  | 7,403,397 | 11,349,276  | 12,595,721  | 1,560,770 |
| Increase in inventories  |  | (819,477) | (1,164,495) | (1,972,698) | (244,442) |
| Decrease (increase) in accounts receivable and other current assets    |  | 1,069,109 | (982,300)   | 702,941     | 87,103    |
| (Decrease)increase in accounts payable and other payables and accruals |  | (223,159) | 1,255,177   | 616,847     | 76,435    |

|                                |  |           |            |            |           |
|--------------------------------|--|-----------|------------|------------|-----------|
| Cash generated from operations |  | 7,429,870 | 10,457,658 | 11,942,811 | 1,479,866 |
|--------------------------------|--|-----------|------------|------------|-----------|

|                       |  |           |             |             |           |
|-----------------------|--|-----------|-------------|-------------|-----------|
| Interest paid         |  | (600,836) | (456,291)   | (686,432)   | (85,058)  |
| PRC income taxes paid |  | (826,528) | (1,736,164) | (2,666,171) | (330,372) |

|  |  |             |             |             |           |
|--|--|-------------|-------------|-------------|-----------|
|  |  | (1,427,364) | (2,192,455) | (3,352,603) | (415,430) |
|--|--|-------------|-------------|-------------|-----------|



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|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Net cash inflow from operating activities | 6,002,506 | 8,265,203 | 8,590,208 | 1,064,436 |
|---|-----------|-----------|-----------|-----------|

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**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

For the years ended December 31, 2003, 2004 and 2005

(RMB and US\$ amounts in thousands)

|   |       | As restated<br>2003 | As restated<br>2004 | 2005        | 2005      |
|---|-------|---------------------|---------------------|-------------|-----------|
|   | Note  | RMB                 | RMB                 | RMB         | US\$      |
| <b>Investing activities</b>   |       |                     |                     |             |           |
| Purchase of intangible assets   | 11    | (17,542)            | (81,606)            | (28,722)    | (3,559)   |
| Purchase of property, plant and equipment,<br>excluding interest capitalized  |       | (5,352,771)         | (8,972,400)         | (7,986,073) | (989,576) |
| Purchase of land use rights   | 13    | -                   | -                   | (56,898)    | (7,050)   |
| Sale of property, plant and equipment   |       | 50,038              | 53,864              | 9,355       | 1,159     |
| Purchase of financial assets at fair value<br>through profit or<br>loss/short-term listed<br>investments/unlisted investments |       | (61,067)            | (3,405)             | -           | -         |
| Sales of long-term unlisted equity<br>investments   |       | 100                 | -                   | -           | -         |
| Investment in a jointly controlled entity   | 10(a) | (3,300)             | (49,500)            | (117,150)   | (14,516)  |
| Investment in an associated company   | 10(b) | -                   | (45,000)            | (799,038)   | (99,011)  |
| Disposal of held-to-maturity investments  |       | -                   | -                   | 11,053      | 1,370     |
| Disposal of financial assets at fair value<br>through profit or loss/short-term listed<br>investments                         |       | 4,869               | 11,441              | 47,754      | 5,917     |
| (Loss) gain on settlement of futures<br>contracts   |       | (41,790)            | (30,764)            | 9,148       | 1,134     |
| Interest received   | 19    | 26,204              | 61,540              | 89,363      | 11,073    |

---

|                                       |             |             |             |             |
|---------------------------------------|-------------|-------------|-------------|-------------|
| Net cash used in investing activities | (5,395,259) | (9,055,830) | (8,821,208) | (1,093,059) |
|---------------------------------------|-------------|-------------|-------------|-------------|

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**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

For the years ended December 31, 2003, 2004 and 2005

(RMB and US\$ amounts in thousands)

|   | Note | As restated<br>2003<br>RMB | As restated<br>2004<br>RMB | 2005<br>RMB | 2005<br>US\$ |
|---|------|----------------------------|----------------------------|-------------|--------------|
| Net cash inflow (outflow) before financing              |      | 607,247                    | (790,627)                  | (231,000)   | (28,623)     |
| Financing activities                                    | 29   |                            |                            |             |              |
| Issue of shares   |      | -                          | 3,300,648                  | -           | -            |
| Share issue expenses                                    |      | -                          | (49,998)                   | -           | -            |
| Issue of bonds  |      | -                          | -                          | 1,943,200   | 240,787      |
| New loans borrowed                                      |      | 5,631,789                  | 7,302,829                  | 6,987,888   | 865,888      |
| Repayment of amounts borrowed                           |      | (5,654,603)                | (5,418,356)                | (5,478,648) | (5,478,648)  |
|   |      | (22,814)                   | 1,884,473                  | 1,509,240   | 187,014      |
| Decrease in bank deposit pledged                        |      | 46,169                     | -                          | -           | -            |
| Dividends paid by subsidiaries to minority shareholders |      | (23,851)                   | (16,885)                   | (83,636)    | (10,364)     |
| Other contribution from shareholders                    |      | 85,500                     | -                          | -           | -            |
| Capital injection by minority shareholders              |      | 80,600                     | 360,500                    | 180,938     | 22,421       |
| Dividends paid  |      | (472,496)                  | (1,060,788)                | (1,944,778) | (240,983)    |
| Net cash (outflow) inflow from financing                |      | (306,892)                  | 4,417,950                  | 1,604,964   | 198,875      |

---

|  |           |           |           |         |
|--|-----------|-----------|-----------|---------|
| Increase in cash and cash equivalents              | 300,355   | 3,627,323 | 1,373,964 | 170,252 |
| Cash and cash equivalents at beginning of the year | 2,296,085 | 2,596,440 | 6,223,763 | 771,203 |

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|  |           |           |           |         |
|--|-----------|-----------|-----------|---------|
| Cash and cash equivalents at end of the year | 2,596,440 | 6,223,763 | 7,597,727 | 941,455 |
|--|-----------|-----------|-----------|---------|

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Analysis of balances of cash and cash equivalents:

|                        |   |           |           |           |         |
|------------------------|---|-----------|-----------|-----------|---------|
| Bank balances and cash | 5 | 2,596,440 | 6,223,763 | 7,597,727 | 941,455 |
|------------------------|---|-----------|-----------|-----------|---------|

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The accompanying notes are an integral part of these consolidated financial statements

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(RMB and US\$ amounts in thousands, except share and per share amount)*

### 1. Basis of preparation

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements of Aluminum Corporation of China Limited (Chinese Character) (the "Company") and its subsidiaries (together the "Group") have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention except that financial assets at fair value through profit or loss, available-for-sale financial assets and futures contracts are stated at fair value.

The Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("HKFRSs") which are effective for accounting periods commencing on or after January 1, 2005. The changes to the Group's accounting policies and the effect of adopting these new policies are set out in Note 2(a) below.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

The consolidated financial statements are expressed in Renminbi ("RMB"), the national currency of the PRC. Solely for the convenience of the reader, the financial statements as of and for the year ended December 31, 2005 have been translated into United States Dollars ("US\$") at the noon buying rate in New York City on December 31, 2005 for cable transfers in RMB as certified for customs purposes by the Federal Reserve Bank of New York of US\$1.00=RMB8.0702. No representation is made that the RMB amounts could have been, or could be, converted into US\$ at that rate or at any other certain rate on December 31, 2005, or at any other date.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(RMB and US\$ amounts in thousands, except share and per share amount)*

2. Summary of Significant Policies

(a) Effect of adopting new / revised HKFRSs

In 2005, the Group adopted the following new / revised standards and interpretations of HKFRSs, which are relevant to its operations. The 2003 and 2004 comparatives have been reclassified / restated as required, in accordance with the relevant requirements.

|         |   |
|---------|---|
| HKAS 1  | Presentation of Financial Statements                            |
| HKAS 2  | Inventories   |
| HKAS 7  | Cash Flow Statements  |
| HKAS 8  | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 10 | Events after the Balance Sheet Date                             |
| HKAS 16 | Property, Plant and Equipment                                   |
| HKAS 17 | Leases  |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates                |
| HKAS 23 | Borrowing Costs   |
| HKAS 24 | Related Party Disclosures                                       |
| HKAS 27 | Consolidated and Separate Financial Statements                  |
| HKAS 28 | Investments in Associates                                       |
| HKAS 31 | Investments in Joint Ventures                                   |

|             |  |
|-------------|--|
| HKAS 32     | Financial Instruments: Disclosures and Presentation                      |
| HKAS 33     | Earnings per Share   |
| HKAS 36     | Impairment of Assets   |
| HKAS 38     | Intangible Assets  |
| HKAS 39     | Financial Instruments: Recognition and Measurement                       |
| HKAS-Int 12 | Scope of HKAS - Int 12 Consolidation - Special Purpose Entities          |
| HKAS-Int 15 | Operating Leases - Incentives  |
| HKFRS 3     | Business Combinations  |
| HKFRS 4     | Insurance Contracts  |
| HKFRS Int-1 | Changes in Existing Decommissioning, Restoration and Similar Liabilities |

The adoption of new / revised HKASs 1, 2, 7, 8, 10, 16, 21, 24, 27, 28, 31, 33, HKAS-Int 12, HKAS-Int 15, HKFRS 4 and HKFRS-Int 1 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and jointly controlled entities and other disclosures.
- HKASs 2, 7, 8, 10, 16, 27, 28, 31, 33, HKAS-Int 12, HKAS-Int 15, HKFRS 4 and HKFRS-Int 1 had no material effect on the Group's accounting policies.
- HKAS 21 had no material effect on the Group's accounting policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency (RMB) as the presentation currency for respective entity financial statements.
- HKAS 24 has affected the identification of related parties and some other related party disclosures.

HKAS 17 has affected the property, plant and equipment and land use rights disclosures. Land use rights and property, plant and equipment are separately disclosed under the new requirement. The up-front prepayments made for the land use rights are expensed in the statements of income on a straight-line basis over the period of the lease. In prior years, land use rights were stated at cost less accumulated amortization and accumulated impairment loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(RMB and US\$ amounts in thousands, except share and per share amount)*

2. Summary of Significant Policies *(Continued)*

(a) Effect of adopting new / revised HKFRSs *(Continued)*

The adoption of HKAS 23 has resulted in a change in accounting policy relating to the capitalization of borrowing costs. Borrowing costs capitalized are those costs that would have been avoided if the expenditure on the qualifying asset had not been made, which are either the actual costs incurred on a specific borrowing or an amount calculated using the weighted average method, considering all the general borrowings outstanding. In prior years, borrowing costs were capitalized to the extent that funds are borrowed specially for the purpose of obtaining a qualifying asset.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until December 31, 2004, goodwill was:

- Amortized on a straight-line basis over a period not more than 20 years; and
- Assessed for impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

- The Group ceased amortization of goodwill from January 1, 2005;
- Accumulated amortization has been eliminated against cost as of December 31, 2004;
- From January 1, 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment. Any impairment loss will be charged to the consolidated statements of income directly.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. All standards adopted by the

Group require retrospective application other than:

- HKFRS 3 and HKAS 38 - prospectively after the adoption date
- HKAS 39 - does not permit to recognize, derecognize and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Statement of Standard Accounting Practices No. 24 ("SSAP 24") "Accounting for investments in securities" to investments in securities for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognized at January 1, 2005.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(RMB and US\$ amounts in thousands, except share and per share amount)*

### 2. Summary of Significant Policies *(Continued)*

#### (a) Effect of adopting new / revised HKFRSs *(Continued)*

- (i) The adoption of HKFRS 3 and HKAS 38 has resulted in:

|   | As of<br>December 31,<br>2005<br>RMB              |
|---|---|
|   |   |
| Increase in intangible assets                   | 24,648  |
| Increase in retained earnings                   | 24,648  |
|   |   |
|   | For the year ended<br>December 31,<br>2005<br>RMB |
|   |   |
| Decrease in general and administrative expenses | (24,648)  |

Increase in basic net income per share for income attributable to the

equity holders of the Company RMB0.002

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(ii) The adoption of HKAS 17 has resulted in:

|   | As of December 31, |          |
|---|--------------------|----------|
|   | 2004               | 2005     |
|   | RMB                | RMB      |
| Increase in land use rights               | 16,048             | 62,275   |
| Decrease in property, plant and equipment | (16,048)           | (62,275) |
|   |                    |          |

(iii) The adoption of HKAS 23 has resulted in:

|  | As of<br>January 1,<br>2004<br>RMB | As of<br>December<br>31,<br>2004<br>RMB | As of<br>December<br>31,<br>2005<br>RMB |
|--|------------------------------------|---|---|
|  |                                    |   |   |