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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 20-F

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

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

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

Title of each Class	Name of Each Exchange on which Registered
American Depositary Shares, each representing 100 H Shares	**New York Stock Exchange, Inc.**
Class H Ordinary Shares	**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)

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	3,299,865,968
(including 425,934,600 H Shares in the form of American Depository Shares)	

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 ____v____ No ____

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

Item 17 ____ Item 18 __v__

TABLE OF CONTENTS

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;

"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;

"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.

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 (restated[1])	RMB (restated[1])	RMB (restated[1])	RMB (restated[1])	RMB	USD[2]
	(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

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

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
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
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
Income after income tax	1,654,317	1,464,503	3,707,102	6,635,063	7,246,434	897,925
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
	1,654,317	1,464,503	3,707,102	6,635,063	7,246,434	897,925
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
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

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)
Total operating income	2,932,490	2,131,778	5,065,965	8,910,050	10,081,236	1,249,194

	Years Ended December 31,					
	2001	2002	2003	2004	2005	2005
	RMB (restated[1])	RMB (restated[1])	RMB (restated[1])	RMB (restated[1])	RMB	USD[2]
	(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
Total assets	33,703,483	32,249,540	35,406,870	49,558,069	59,009,879	7,312,073
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

Short-term bonds	-	-	-	-	1,970,840	244,212
Total long-term loans (excluding current portion of 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 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 (excluding current portion of 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 (restated[1])	RMB (restated[1])	RMB (restated[1])	RMB (restated[1])	RMB	USD[2]
	(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

Net cash used in investing activities	(2,575,617)	(3,780,812)	(5,395,259)	(9,055,830)	(8,821,208)	(1,093,059)
Net cash generated from (used 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

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

---

(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:

	Noon Buying Rate			
Period	Period End	Average[1]	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.

* 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.

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. 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;

* 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.

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:

	2005 Production Capacity	
Plant	Alumina	Primary Aluminum
	(in thousand tonnes) [1]	

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[(2)]	-	160.0
Research Institute	20.0	18.0
Total	8,330.0	1,499.2

---

(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:

	Years Ended December 31,		
Production Volume by Product	2003	2004	2005
	(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 [(1)(2)]	762.0	770.0	1,051.6

Carbon	556.3	623.0	672.0

---

(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

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 Production Capacity [1]	Alumina Production Output	Alumina Chemical Products Production Output	Utilization Rate [2] (%)	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
Total	8,330.0	7,181.0	937.0	93.8	

---

(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 Production Capacity[1]	Aluminum Output	Utilization Rate [2] (%)	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 pre-bake
Guangxi plant	139.5	139.9	100.3	160kA &320kA 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(3)	160.0	126.0	78.8	

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

---

(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
Total	11,294.3	100%	13,628.0	100%	15,792.5	100%

The following table sets forth information regarding our own mines:

	Year Ended December 31, 2005

Mine	Location (Province)	Annual Production Capacity	Bauxite Production
		(in thousand 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
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:

	Years Ended December 31,		
Plant	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
Total	1,476.1	1,483.5	1,692.8

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.

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

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

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.

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%

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:

* 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 as of December 31, 2005	Expected Production Capacity as of December 31, 2006
	(RMB in millions)	(in thousand tonnes)	
Alumina	6,700	8,330	9,050
Primary aluminum	7,300	1,499[1]	3,000[1]

(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,

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

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

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 RMB2,161.1million 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

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 Inter-segment Sales		Before Elimination of Inter-segment Sales	After Elimination of Inter-segment 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