

REPORT OF THE DIRECTORS

The Board of Directors submits to the Company and its subsidiaries (the “Group”) the report together with the audited financial statements for the year ended December 31, 2002.

Principal Activities and Geographical Distribution of Operations

The principal activities of the Group are the production and sales of alumina and primary aluminum. The activities of the Company’s subsidiaries are set out in Note 19 to the financial statements.

An analysis of the performance of the Group for the year in terms of business and geographical distribution is set out in Note 3 to the financial statements.

Results and Appropriations

The results of the Group for the year ended December 31, 2002 are set out in the consolidated profit and loss account on page 41.

The Board of Directors recommends the payment of a final dividend of RMB0.045 per share, totalling approximately RMB472.5 million.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on page 44 and Note 30 to the financial statements.

Donations

Donations made by the Company during the year amounted to RMB2,125,000.

Fixed Assets

Details of the movements in fixed assets of the Group and of the Company are set out in Note 18 to the financial statements.

REPORT OF THE DIRECTORS (CONTINUED)

Share Capital

The share capital structure of the Company as of December 31, 2002 was as follows:

| Holders of Domestic Shares or H Shares | As of December 31, 2002 | |
|--|--------------------------------|--|
| | No. of shares (in millions) | Percentage of issued share capital (%) |
| Holders of Domestic Shares | | |
| Chinalco | 4,656.3 | 44.4 |
| China Cinda | 1,610.3 | 15.3 |
| China Orient | 602.2 | 5.7 |
| China Development Bank | 554.9 | 5.3 |
| Guangxi Development | 196.8 | 1.8 |
| Guizhou Development | 129.4 | 1.2 |
| Holders of H Shares | | |
| Alcoa | 840.2 | 8.0 |
| Other public investors | 1,909.7 | 18.3 |

Details of the movements in the share capital of the Company are set out in Note 30 to the financial statements.

Distributable Reserves

Pursuant to Article 147 of the Company's Articles of Association, where the financial statements prepared in accordance with PRC accounting standards differ from those prepared under generally accepted accounting principles in Hong Kong, distributable profit for the relevant accounting period shall be deemed to be the lesser of the amounts shown in the two different financial statements. Distributable reserves of the Company (before the 2002 dividends) as of December 31, 2002, calculated based on the above principle, amounted to approximately RMB1,262.5 million.

Pre-emptive Rights

Under the Articles of Association of the Company or the laws of the PRC, no pre-emptive rights exist that require the Company to offer new shares to existing shareholders in proportion to their shareholding.

Financial Summary for Last Five Years

A summary of the results and of the assets and liabilities of the the Group for the last five financial years is set out on page 10.

The pro forma combined results of the Group for each of the three years ended December 31, 1998, 1999 and 2000 and the pro forma combined assets and liabilities of the Company and its subsidiaries as of December 31, 1998, 1999 and 2000 are extracted from the prospectus for the initial public offering of the Company's H shares dated November 30, 2001.

REPORT OF THE DIRECTORS (CONTINUED)

The pro forma combined results of the Group for the year ended December 31, 2001 and the audited statement of the assets and liabilities of the Group are extracted from the 2001 annual report, respectively.

The pro forma combined results and the pro forma combined assets and liabilities have been prepared on a combined basis as if the current group structure had been in existence throughout the periods and as if the relevant operations and business were transferred to the Group.

Repurchase, Sale or Redemption of the Company's Shares

The Company did not redeem any of its shares during 2002. Neither the Company nor any of its subsidiaries purchased or sold any of its shares during 2002.

Directors and Supervisors

The Directors and Supervisors during the year were:

Executive Directors

| | |
|--------------------|--------------------------------------|
| Mr. Guo Shengkun | |
| Mr. Liang Zhongxiu | |
| Mr. Xiong Weiping | |
| Mr. Yan Yufu | (appointed on June 12, 2002) |
| Mr. Ding Haiyan | (resigned effective on May 31, 2002) |

Non-executive Directors

| | |
|-----------------------|-----------------------------|
| Mr. Wu Weicheng | |
| Mr. Joseph C. Muscari | (appointed on July 5, 2002) |
| Mr. Chen Xiaozhou | (appointed on July 5, 2002) |

Independent non-executive Directors

| |
|------------------------------|
| Mr. Chiu Chi Cheong, Clifton |
| Mr. Wang Dianzuo |

Supervisors

| |
|---------------|
| Mr. Luo Tao |
| Mr. Yuan Li |
| Mr. Ou Xiaowu |

In accordance with Articles 95 and 117 of the Company's Articles of Association, all Directors and Supervisors were appointed for a three-year term. At the expiry of the term of office, the term is renewable upon re-election.

REPORT OF THE DIRECTORS (CONTINUED)

Directors' and Supervisors' Service Contracts and Remuneration

Each of the Directors and Supervisors has entered into a service contract with the Company for a term of three years. No Director or Supervisor has entered into a service contract with the Company which is not terminable by the employer within one year without payment of compensation (other than statutory compensation). Details of the Directors' and Supervisors' remuneration and the five highest paid individuals in the Company are set out in Note 8 to the financial statements contained in this report. There were no arrangements under which a Director or Supervisor of the Company had waived or agreed to waive any remuneration in respect of the year ended December 31, 2002.

In addition to fixed remuneration, the Directors are entitled to performance bonuses and stock appreciation rights. The executive Directors are also entitled to the welfare treatment provided under the relevant PRC laws and regulations.

Up to December 31, 2002, no stock appreciation rights have been issued under the Stock Appreciation Rights Plan adopted by the Company.

Directors', Chief Executives', and Supervisors' Interests in Shares of the Company

During the year ended December 31, 2002, none of the Directors or Chief Executives or Supervisors or their associates had any personal, family, corporate or other interests in the shares of the Company or any associated corporation (within the meaning of the Securities (Disclosure of Interests) Ordinance) which are required to be notified or kept pursuant to sections 28 or 29 of the Securities (Disclosure of Interests) Ordinance or as otherwise required to be notified pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

During the year ended December 31, 2002, none of the Directors or Chief Executives, Supervisors, senior management or their spouses or children under the age of 18 was given the right to acquire shares or debentures of the Company or any associated corporation (within the meaning of the Securities (Disclosure of Interests) Ordinance).

Directors' and Supervisors' Interests in Contracts

During the year ended December 31, 2002, none of the Directors or Supervisors had a material interest, directly or indirectly, in any contract of significance to which the Company or its subsidiaries was a party.

Biographical Details of Directors, Supervisors and Senior Management

Brief biographical details of Directors, Supervisors and Senior Management are set out on pages 5 to 7.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Employees, Pension Plans and Welfare Fund

The Group had approximately 67,200 employees as of December 31, 2002. The remuneration package of the employees includes salary, bonuses and allowances. Employees also receive welfare benefits including medical care, housing subsidies, child care and education, retirement and other miscellaneous items.

In accordance with applicable PRC regulations, the Group currently joins pension contribution plans organized by provincial and municipal governments, under which each of the Group's plants is required to contribute to the pension fund an amount equal to a specified percentage of the sum of its employees' salaries, bonuses and various allowances. The amount of contribution as a percentage of the employees' salary varies from plant to plant, ranging from 18.0% to 22.9%, depending in part on the location of the plant and the average age of the employees. The Company also contributes to a welfare fund for its employees. The contributions of the Company to this welfare fund are made at rates ranging from 5% to 10% of the Company's after-tax profit. The Company had not paid retirement benefits to its employees for the year ended December 31, 2002.

Up to December 31, 2002, no stock appreciation rights have been issued under the Stock Appreciation Rights Plan adopted by the Company.

Major Customers and Suppliers

The largest customer and the five largest customers of the Group's alumina accounted for 4.81% and 15.07%, respectively, of the Group's total alumina turnover for the year ended December 31, 2002. All of these major customers during the year were domestic smelters.

The largest customer and the five largest customers of the Group's primary aluminum accounted for 3.08% and 13.02%, respectively, of the Group's primary aluminum turnover for the year ended December 31, 2002.

The amount of raw materials (including bauxite) provided by the largest supplier and the five largest suppliers of the Group's alumina segment accounted for 1.3% and 4.54%, respectively, of the Group's total cost of raw materials for the alumina segment.

The amount of raw materials provided by the largest supplier and the five largest suppliers of the Group's primary aluminum segment accounted for 1.26% and 2.79%, respectively, of the Group's total cost of raw materials for the primary aluminum segment.

None of the Company's Directors or their respective associates (as defined in the Hong Kong Listing Rules) or the existing shareholders, which, to the knowledge of the Directors of the Company, holding more than 5% of the Company's issued share capital, has any interests in the Group's five largest customers or five largest suppliers of the alumina segment or the primary aluminum segment at any time during the year ended December 31, 2002.

REPORT OF THE DIRECTORS (CONTINUED)

Use of Proceeds

The net proceeds from the Global Offering amounted to approximately RMB3,303 million, including the net proceeds of approximately RMB205 million from the Over-allotment Option, which was exercised in January 2002. As of December 31, 2002, approximately RMB689 million was used to settle the current portion of the long-term liabilities and RMB1,140 million was used for capital expenditures. An amount of approximately RMB1,474 million worth of net proceeds from Global Offering remains unused and is currently deposited with banks. The proceeds from the Global Offering including the proceeds from the Over-allotment Option will continue to be used as set out in the Hong Kong prospectus of the Company dated November 30, 2001.

Litigation and Contingent Liabilities

(a) Litigation

- (i) As of December 31, 2002, the Group has no significant pending litigation.
- (ii) In July 2002, a service provider of the Company sued the Company in Hong Kong for recovery of service fee for document processing, printing and translation services provided in respect of the prospectus during the listing process of the Company. The lawsuit was subsequently settled out of court in January 2003 when an agreement was reached by both parties to settle the outstanding service fee. Adequate provision has been made for the agreed settlement amount in the financial statements.

(b) Compensation with regard to the formation of an equity joint venture

Pursuant to a memorandum of understanding dated November 12, 2001 (the "MOU") signed between the Company and Alcoa International (Asia) Limited ("Alcoa"), the two parties have agreed to form a 50/50 equity joint venture which will own and operate the alumina and primary aluminum production facilities owned by Pingguo Plant (the "Pingguo JV"). Pursuant to the Subscription Agreement pertaining to which Alcoa acquired shares in the Company, if the final joint venture agreement of the Pingguo JV is not executed within eight months of the closing of the Company's Global Offering or if all necessary relevant PRC government approvals for the Pingguo JV are not obtained within 12 months of the closing of the Company's Global Offering, due to the failure of a party to abide by its expressions of intent in the MOU, then that party would be obliged to pay US\$7.5 million (equivalent to RMB62.1 million) to the other party as compensation.

Although the final joint venture agreement was not executed within eight months of the closing of the Company's Global Offering, the Company continues to work actively and closely with Alcoa to conclude the joint venture agreement consistently with its expressed intentions in the MOU.

On December 17, 2002 a joint announcement was made by the Company and Alcoa regarding the revised timetable in formalizing the Pingguo JV. According to this joint announcement, both parties are satisfied with the progress of preparations made during 2002 and expect to finalize the necessary arrangements and obtain government approvals by the second half of 2003. The Company has not made a claim against Alcoa nor, according to the Directors, has Alcoa asserted a claim against the Company for compensatory payment.

Connected Transactions

Transactions between the Company and its connected persons or their respective associates (as defined in the Hong Kong Listing Rules) are governed by and have to comply with the requirements for disclosure under the Hong Kong Listing Rules. The following table sets out the annual limits for the connected transactions in respect of which a waiver has been granted by the Hong Kong Stock Exchange as compared to the amounts incurred by the Group in 2002. The Company had the following connected transactions based on the consolidated profit and loss account for the year ended December 31, 2002:

Transactions

| | Consolidated amounts (Year ended December 31, 2002) (RMB in millions) | Comparison | |
|--|---|---|---|
| | | 2002 consolidated amounts (% of turnover or consolidated amounts in RMB millions) | Annual limits (% of turnover or consolidated amount in RMB millions) |
| Expenditure | | | |
| 1. <i>Social Welfare and Logistics Services</i> Provision of social welfare and logistics services by Chinalco to the Company | 542 | 3% | 4% |
| 2. <i>Mutual Provision of Production Supplies and Ancillary Services</i> Provision of production supplies and ancillary services by Chinalco to the Company | 236 | 1% | 5% |
| 3. <i>Purchase of Minerals</i> Supply of bauxite and limestone by Chinalco to the Company | 60 | 0.36% | 1.5% |
| 4. <i>Engineering Design and Other Services</i> Provision of engineering design and other services by Chinalco to the Company | 582 | 3.5% | 4.7% |
| 5. <i>Land Rental</i> paid to Chinalco | 134 | 134 | 150 |
| 6. <i>Buildings Rental</i> paid to Chinalco | 8 | 8 | 8 |
| 7. <i>Aluminum Ingots Agency Agreement</i> Sale of aluminum ingots and alumina by Guizhou Development as agent for the Company | — | — | 2 |
| Revenue | | | |
| 1. <i>Mutual Provision of Production Supplies and Ancillary Services</i> Provision of product supplies and ancillary services by the Company to Chinalco | 675 | 4% | 5% |
| 2. <i>Engineering Design and Other Services</i> Provision of engineering design and other services by the Company to Chinalco | — | — | 3.5 |
| 3. <i>Buildings Rental</i> paid by Chinalco | 3 | 3 | 3 |
| 4. <i>Aluminum Ingots and Alumina Supply Agreement</i> Supply of aluminum ingots and alumina to Guangxi Aluminum Development and Investment Co. Ltd., an associate of Guangxi Development | 35 | 35 | 126 |
| 5. <i>Primary Aluminum Supply Agreement</i> Annual revenue from the supply of primary aluminum to Xinan Aluminum (Group) Company Limited, an associate of China Cinda | 286 | 2% | 7.5% |

REPORT OF THE DIRECTORS (CONTINUED)

The Hong Kong Stock Exchange has granted a waiver to the Company from strict compliance with the requirements of the connected transaction rules of the Hong Kong Listing Rules in respect of the connected transactions set out above.

The non-executive Directors have reviewed the above transactions and have confirmed that:

1. the transactions were conducted by the Company in the ordinary and usual course of the Company's business;
2. the transactions were entered into on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
3. the transactions were entered into on normal commercial terms or, where there was no available comparison, on terms no less favorable than those available to and from independent third parties; and
4. in accordance with the terms of the agreements governing such transactions.

The auditors of the Company have reviewed such transactions and have provided a letter to the Company stating that:

1. the transactions had been approved by the Company's Directors;
2. the transactions were entered into in accordance with the pricing policies of the Company and its subsidiaries;
3. the transactions were entered into in accordance with the terms of the agreements governing such transactions; and
4. such transactions, where applicable, did not exceed the relevant annual limits as agreed with the Hong Kong Stock Exchange.

Substantial Shareholders

The register of substantial shareholders maintained under section 16(1) of the Securities (Disclosure of Interests) Ordinance shows that as of December 31, 2002, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors, the Chief Executive Officers and the Supervisors.

| Name of shareholder | Number of shares (million shares) | Percentage of total issued shares % |
|---------------------|--------------------------------------|--|
| Chinalco | 4,656.3 | 44.4 |
| China Cinda | 1,610.3 | 15.3 |

Designated Deposits and Overdue Time Deposits

As of December 31, 2002, the Group had not placed any designated deposits with any financial institution in the PRC, nor had it failed to collect any time deposits upon maturity during the period.

The Code of Best Practice

During the year ended December 31, 2002, the Company was in compliance with the Code of Best Practice as set out in the Hong Kong Listing Rules.

Audit Committee

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in respect of the scope of the Group's audit. It also reviews the effectiveness of internal and external audit, internal monitoring and risk evaluation. The Committee comprises two independent non-executive Directors, namely Mr. Chiu Chi Cheong, Clifton and Mr. Wang Dianzuo, and one non-executive Director, namely, Mr Wu Weicheng.

Auditors

The financial statements have been audited by PricewaterhouseCoopers who has retired and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Guo Shengkun
Chairman

Beijing, PRC
April 14, 2003