

## 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, 2003.

### Principal Activities

The principal activities of the Group are the production and sales of alumina and primary aluminum.

### Financial Summary

The Consolidated Profit and Loss Account of the Group for the year ended December 31, 2003 are set out on page 39 of the Financial Statements. A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 2.

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

The consolidated assets and liabilities as of December 31, 2001 and the pro forma combined results of the Group for the year then ended are extracted from the 2001 annual reports. The consolidated assets and liabilities as of December 31, 2002 and the consolidated results of the Group for the year then ended are extracted from the 2002 annual reports.

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.

### Dividend

The Board of Directors has proposed to declare a final dividend of RMB0.096 per share, being in total RMB1,060,788,000 based on 11,049,876,153 total issued shares of the Company as of March 29, 2004. The profit distribution plan proposed by the Board of Directors will be submitted to the shareholders for review and approval at the Annual General Meeting for 2003.

### 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 28 to the financial statements.

### Fixed Assets

Details of the movements in fixed assets of the Group and of the Company are set out in Note 16 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 accounting principles generally accepted 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 2003 dividends) as of December 31, 2003, calculated based on the above principle, amounted to approximately RMB3,146.7 million.

## Report of the Directors *(Continued)*

### Use of Proceeds

The net proceeds from the Global Offering amounted to approximately RMB3,303 million. As of December 31, 2003, approximately RMB689 million was used to settle the current portion of the long-term liabilities and RMB2,120 million was used for capital expenditures. Net proceeds from the Global Offering in an amount of approximately RMB494 million, which remained unused, are currently deposited with banks in the PRC. In January 2004, the Company's net proceeds from its new H share placement amounted to HK\$3,068 million.

### Designated Deposits and Overdue Time Deposits

As of December 31, 2003, 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 year.

### Taxation

In February 2004, a notice was issued by the State Tax Bureau clarifying the tax matters in relation to the treatment of the Company's taxation for the year ended December 31, 2001. For details please refer to Note 11 (c) (iii) of the financial statements.

### Pre-emptive Rights

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

### Donations

Donations made by the Company during the year amounted to RMB 4,033,100.

### Litigation and Contingent Liabilities

#### (a) Litigation

As of December 31, 2003, the Group has no significant pending litigation.

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

Details regarding the 50/50 equity joint venture to be jointly established by the Company and Alcoa are set out in Note 31 to the financial statements.

### Directors, Supervisors and Senior Management

The Directors and Supervisors during the year were:

#### Executive Directors

Mr. Guo Shengkun  
Mr. Xiong Weiping  
Mr. Liang Zhongxiu  
Mr. Yin Yufu

#### Non-executive Directors

Mr. Wu Weicheng  
Mr. Chen Xiaozhou  
Mr. Joseph C. Muscari

#### Independent non-executive Directors

Mr. Chiu Chi Cheong Clifton  
Mr. Wang Dianzuo

#### Supervisors

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

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

## Report of the Directors *(Continued)*

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. The first Board of Directors and Supervisory Committee will resign from their offices in advance at the close of the Annual General Meeting to be held on June 7, 2004, and the new Board of Directors and Supervisory Committee will come into effect upon an approval at such Annual General Meeting. Candidates of the new Board of Directors and Supervisory Committee are:

Executive Directors: Guo Shengkun, Xiong Weiping, Luo Jianchuan (an existing senior management executive of the Company)

Non-executive Directors: Xiao Yaqing, Chen Xiaozhou, Joseph C. Muscari

Independent non-executive directors: Jiang Qianguai, Chiu Chi Cheong Clifton, Wang Dianzuo

Supervisors: Luo Tao, Yuan Li, Ou Xiaowu

Biographical details of Guo Shengkun, Xiong Weiping, Luo Jianchuan, Chen Xiaozhou, Joseph C. Muscari, Chiu Chi Cheong Clifton, Wang Dianzuo, Luo Tao, Yuan Li, Ou Xiaowu can be referred to on page 5, while biographical details of Xiao Yaqing and Jiang Qianguai are as follows:

Xiao Yaqing, aged 44, is Deputy General Manager of Chinalco. Mr. Xiao graduated from Central South University of Technology and majored in pressure processing in 1982. Mr. Xiao is a professor-grade senior engineer. Mr. Xiao has extensive experience in the fields of metallic materials and management. He has been the engineer, Department Head, Deputy Chief Engineer and Chief Engineer of Technology Division at Northeast Light Alloy Fabrication Plant. He has also been the General Manager of Northeast High Alloy Corporation Limited, the factory manager of Southwest Aluminum Fabrication Plant, and Chairman and General Manager of Southwest Aluminum Industry Group.

Jiang Qianguai, aged 62, is Deputy Chairman member of Legal Committee of National People's Congress and senior engineer. Ms. Jiang graduated from Guizhou College of Technology and majored in basic organic synthesis in 1964. Ms. Jiang has been the Deputy Section Head of Beijing Organic Chemical Plant, Head of Enterprise Management Department, Research Director, Member of Economic Committee and Deputy Chairman of Economic Committee of Beijing Economic Commission. She once served as Administrator, Secretary General and Deputy Head of Enterprises Administration of the State Economic & Trade Commission. She has extensive professional experience in the fields of corporate reforms and management.

### 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 7 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, 2003.

In addition to fixed remuneration, the Directors, Supervisors and senior management executives are entitled to performance bonuses as well as the welfare treatment such as the relevant housing subsidies provided under the relevant PRC laws and regulations. The Company has resolved to provide performance bonus totaling approximately RMB11,223,000 to 69 persons, including 5 Directors, 3 Supervisors and 61 executives who hold office of Deputy General Managers or above in the Company or senior management executives in branches of the Company and its subsidiaries. Out of the total amount of performance bonus, RMB1,624,000 in

## Report of the Directors *(Continued)*

total will be provided to 5 Directors and RMB576,400 in total will be provided to 3 Supervisors. Payments of the performance bonus to the Directors and Supervisors are subject to approval by the shareholders of the Company at the forthcoming Annual General Meeting to be held on June 7, 2004.

The Company has resolved to pay housing subsidies of approximately RMB5,942,300 to the relevant Directors, Supervisors and senior management executives, of which RMB1,175,400 will be paid to one Director, and RMB4,766,900 in total will be paid to 4 senior management executives. Payments of the housing subsidy to the Directors are subject to approval by the shareholders of the Company at the forthcoming Annual General Meeting to be held on June 7, 2004.

As of December 31, 2003, no stock appreciation rights have been granted 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, 2003, none of the Directors or Chief Executives or Supervisors or their respective associates had any interests in the Company or any associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) which are (A) required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (B) required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO; (C) required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

During the year ended December 31, 2003, 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 corporations (within the meaning of the SFO).

### **Directors' and Supervisors' Interests in Contracts**

During the year ended December 31, 2003, 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.

### **Employees, Pension Plans and Welfare Fund**

The Group had approximately 67,400 employees as of December 31, 2003. 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, 2003.

## Report of the Directors *(Continued)*

### Share Capital Structure

The share capital structure of the Company as of December 31, 2003 was as follows:

| Holders of<br>Domestic Shares or H Shares | As of December 31, 2003        |  |
|---|--------------------------------|--|
|   | No. of shares<br>(in millions) | Percentage of issued<br>share capital<br>(%) |
| <u> Holders of Domestic Shares </u>       |                                |  |
| Chinalco                                  | 4,656.3                        | 44.35  |
| China Cinda                               | 1,610.3                        | 15.34  |
| China Orient                              | 602.2                          | 5.74   |
| China Development Bank                    | 554.9                          | 5.29   |
| Guangxi Investment                        | 196.8                          | 1.87   |
| Guizhou Development                       | 129.4                          | 1.23   |
| <u> Holders of H Shares </u>              |                                |  |
| Alcoa                                     | 840.2                          | 8.00   |
| Other public investors                    | 1,909.7                        | 18.18  |

## Report of the Directors *(Continued)*

The Company placed H shares on January 16, 2004 and the share capital structure of the Company after the placement was as follows:

| Holders of<br>Domestic Shares or H Shares | As of January 16, 2004         |  |
|---|--------------------------------|--|
|   | No. of shares<br>(in millions) | Percentage of issued<br>share capital<br>(%) |
| <u> Holders of Domestic Shares </u>       |                                |  |
| Chinalco                                  | 4,656.3                        | 42.14  |
| China Cinda                               | 1,610.3                        | 14.57  |
| China Orient                              | 602.2                          | 5.45   |
| China Development Bank                    | 554.9                          | 5.02   |
| Guangxi Investment                        | 196.8                          | 1.78   |
| Guizhou Development                       | 129.4                          | 1.17   |
| <u> Holders of H Shares </u>              |                                |  |
| Alcoa                                     | 884.2                          | 8.00   |
| Other public investors                    | 2,415.7                        | 21.87  |

Details of the movements in the share capital of the Company are set out in Note 28 to the financial statements.

## Report of the Directors *(Continued)*

### SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as of December 31, 2003, the persons other than a Director, Chief Executive or Supervisor of the Company who have interests or short positions in the shares or underlying shares of the Company which are discloseable under Divisions 2 and 3 of Part XV of the SFO are as follows (the interests in shares and short positions disclosed herein are in addition to those disclosed in respect of the Directors, the Chief Executive and the Supervisors):

| Name of Substantial Shareholders | class of shares | Number of shares held  | Capacity                           | Type of interest | Percentage in the relevant class of share capital | Percentage in total share capital |
|----------------------------------|-----------------|--|------------------------------------|------------------|---|-----------------------------------|
| Chinalco                         | Domestic Shares | 4,656,261,060 (L)  | Beneficial Owner                   | Corporate        | 60.08%  | 44.35%                            |
| China Cinda                      | Domestic Shares | 1,610,332,210 (L)  | Beneficial Owner                   | Corporate        | 20.78%  | 15.34%                            |
| China Orient                     | Domestic Shares | 602,246,135 (L)  | Beneficial Owner                   | Corporate        | 7.77%   | 5.74%                             |
| China Development Bank           | Domestic Shares | 554,940,780 (L)  | Beneficial Owner                   | Corporate        | 7.16%   | 5.29%                             |
| Alcoa Inc.                       | H Shares        | 840,209,728 (L)  | Interest of controlled corporation | Corporate        | 30.55%  | 8.00%                             |
| Alcoa                            | H Shares        | 840,209,728 (L)  | Beneficial Owner                   | Corporate        | 30.55%  | 8.00%                             |
| J.P. Morgan Chase & Co.          | H Shares        | 217,601,358 (L)<br>(Note 1)<br>(including 91,134,758 (P))<br>(Note 2)                | Interest of controlled corporation | Corporate        | 7.91%   | 2.07%                             |
| Credit Suisse Group              | H Shares        | 189,611,000 (L)<br>(Note 3)<br>894,174 (P)<br>(Note 4)<br>81,714,000 (S)<br>(Note 5) | Interest of controlled corporation | Corporate        | 6.90%<br>0.03%<br>2.97%                           | 1.81%<br>0.0085%<br>0.78%         |

## Report of the Directors (Continued)

### Notes:

1. As of December 31, 2003, J.P. Morgan Chase & Co. was taken to be interested in 7.91% of the Company's total H Shares or 2.07% of the Company's total share capital through the following companies:
- (h) 20,000 H Shares (representing approximately 0.0007% of the Company's total H Shares) in a long position held by J.P. Morgan Securities Inc., which is an indirectly controlled by corporation of J.P. Morgan Chase & Co.
- (1) in the capacity as an investment manager,
- (a) 3,018,000 H Shares (representing approximately 0.11% of the Company's total H Shares) in a long position held by JF International Management Inc., which is an indirectly controlled corporation of J.P. Morgan Chase & Co.
- (b) 103,736,000 H Shares (representing approximately 3.80% of the Company's total H Shares) in a long position held by JF Asset Management Limited, which is a controlled corporation of J.P. Morgan Chase & Co.
- (c) 1,716,000 H Shares (representing approximately 0.06% of the Company's total H Shares) in a long position held by J.P. Morgan Fleming Asset Management (UK) Limited, which is an indirectly controlled corporation of J.P. Morgan Chase & Co.
- (d) 1,340,000 H Shares (representing approximately 0.05% of the Company's total H Shares) in a long position held by J.P. Morgan Investment Management Limited, which is an indirectly controlled corporation of J.P. Morgan Chase & Co.
- (e) 3,057,600 H Shares (representing approximately 0.11% of the Company's total H Shares) in a long position held by J.P. Morgan Investment Management Inc., which is a directly controlled corporation of J.P. Morgan Chase & Co.
- (f) 12,539,300 H Shares (representing approximately 0.46% of the Company's total H Shares) in a long position held by J.P. Morgan Whitefriars Inc., which is an indirectly controlled corporation of J.P. Morgan Chase & Co.
- (g) 1,039,700 H Shares (representing approximately 0.04% of the Company's total H Shares) in a long position held by J.P. Morgan Securities Ltd., which is an indirectly controlled corporation of J.P. Morgan Chase & Co.
2. The total number of H Shares held included interest in 91,134,758 H Shares (representing approximately 3.31% of the Company's total H Shares) held by J.P. Morgan Chase Bank in a lending pool.
3. As of December 31, 2003, Credit Suisse Group was taken to be interested in 189,611,000 H Shares or 6.90% of the Company's total H Shares or 1.81% of the Company's total share capital through the following companies:
- (a) 49,200,000 H Shares (representing approximately 1.79% of the Company's total H Shares) in a long position held by Credit Suisse First Boston, which is a directly controlled corporation of Credit Suisse Group.
- (b) 87,853,000 H Shares (representing approximately 3.20% of the Company's total H Shares) in a long position held by Credit Suisse, which is a directly controlled corporation of Credit Suisse Group.
- (c) 3,450,000 H Shares (representing approximately 0.13% of the Company's total H Shares) in a long position held by Credit Suisse First Boston, LLC., which is an indirectly controlled corporation of Credit Suisse Group.
- (d) 2,000,000 H Shares (representing approximately 0.07% of the Company's total H Shares) in a long position held by Credit Suisse First Boston (Europe) Limited, which is an indirectly controlled corporation of Credit Suisse Group.
- (e) 22,796,000 H Shares (representing approximately 0.83% of the Company's total H Shares) in a long position held by Credit Suisse First Boston (Hong Kong) Limited, which is an indirectly controlled corporation of Credit Suisse Group.
- (f) 24,312,000 H Shares (representing approximately 0.88% of the Company's total H Shares) in a long position held by Credit Suisse First Boston International, which is an indirectly controlled corporation of Credit Suisse Group.
4. The total number of H Shares held included interest in 894,174 H Shares (representing approximately 0.03% of the Company's total H Shares) held by Credit Suisse First Boston New York Branch, which is an indirectly controlled corporation of Credit Suisse Group in a lending pool.



## Report of the Directors *(Continued)*

5. As of December 31, 2003, Credit Suisse Group was also taken to be interested in 81,714,000 H Shares or 2.97% of the Company's total H Shares or 0.78% of the Company's total share capital through the following companies:
- (a) 49,200,000 H Shares (representing approximately 1.79% of the Company's total H Shares) in a short position held by Credit Suisse First Boston, which is a directly controlled corporation of Credit Suisse Group.
  - (b) 11,100,000 H Shares (representing approximately 0.40% of the Company's total H Shares) in a short position held by Credit Suisse, which is a directly controlled corporation of Credit Suisse Group.
  - (c) 3,450,000 H Shares (representing approximately 0.13% of the Company's total H Shares) in a short position held by Credit Suisse First Boston, LLC., which is an indirectly controlled corporation of Credit Suisse Group.
  - (d) 5,418,000 H Shares (representing approximately 0.19% of the Company's total H Shares) in a short position held by Credit Suisse First Boston (Europe) Limited, which is an indirectly controlled corporation of Credit Suisse Group.
  - (e) 12,546,000 H Shares (representing approximately 0.46% of the Company's total H Shares) in a short position held by Credit Suisse First Boston (Hong Kong) Limited, which is an indirectly controlled corporation of Credit Suisse Group.
6. The letter "L" denotes a long position. The letter "S" denotes a short position. The letter "P" denotes interest in a lending pool.

### Repurchase, Sale or Redemption of the Company's Shares

The Company did not redeem any of its shares during 2003. Neither the Company nor any of its subsidiaries purchased or sold any of its shares during 2003.

### 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.

### Major Customers and Suppliers

The largest customer and the five largest customers of the Group's alumina accounted for 5.1% and 16.3%, respectively, of the Group's total alumina revenue for the year ended December 31, 2003. All of these major customers during the year were domestic aluminum smelters.

The largest customer and the five largest customers of the Group's primary aluminum accounted for 4.8% and 13.8%, respectively, of the Group's primary aluminum revenue for the year ended December 31, 2003.

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 2.5% and 8.7%, 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 6.1% and 9.1%, 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, 2003.

## Report of the Directors *(Continued)*

### 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 2003. The Company had the following connected transactions based on the consolidated profit and loss account for the year ended December 31, 2003:

| <b>Transactions</b>   | <b>Consolidated<br/>amounts<br/>(Year ended<br/>December 31, 2003)<br/>(in RMB millions)</b> | <b>Comparison<br/>2003<br/>consolidated<br/>amounts<br/>(% of turnover<br/>or consolidated<br/>amounts in<br/>RMB millions)</b> | <b>Annual<br/>limits<br/>(% of turnover<br/>or consolidated<br/>amount in<br/>RMB millions)</b> |
|---|--|---|---|
| <b>Expenditure</b>  |  |   |   |
| 1. Social Welfare and Logistics Services<br>Provision of social welfare and logistics services by Chinalco to the Group                               | 745  | 3.2%  | 4%  |
| 2. Mutual Provision of Production Supplies and Ancillary Services<br>Provision of production supplies and ancillary services by Chinalco to the Group | 317  | 1.4%  | 5%  |
| 3. Purchase of Minerals<br>Supply of bauxite and limestone by Chinalco to the Group   | 75   | 0.3%  | 1.5%  |
| 4. Engineering Design and Other Services<br>Provision of engineering design and other services by Chinalco to the Group                               | 784  | 3.4%  | 4.7%  |
| 5. Land Rental paid to Chinalco   | 166  | 166   | 168   |
| 6. Buildings Rental paid to Chinalco  | 8  | 8   | 8   |
| 7. Aluminum Ingots Agency Agreement<br>Sale of aluminum ingots and alumina by Guizhou Development as agent for the Group                              | 1  | 1   | 2   |

## Report of the Directors *(Continued)*

| Transactions   | Consolidated<br>amounts<br>(Year ended<br>December 31, 2003)<br>(RMB in millions) | Comparison<br>2003  |   |
|--|---|---|---|
|  |   | consolidated<br>amounts<br>(% of turnover<br>or consolidated<br>amounts in<br>RMB millions) | Annual<br>limits<br>(% of turnover<br>or consolidated<br>amount in<br>RMB millions) |
| <b>Revenue</b>   |   |   |   |
| 1. Mutual Provision of Production Supplies<br>and Ancillary Services<br>Provision of product supplies and<br>ancillary services by the Company to Chinalco                                 | 719   | 3.1%  | 5%  |
| 2. Buildings Rental paid by Chinalco   | 0.7   | 0.7   | 3   |
| 3. Engineering Design and Other Services<br>Annual revenue from the provision of engineering<br>design and other services by the Group   | 0.4   | 0.4   | 3.5   |
| 4. Aluminum Ingots and Alumina Supply Agreement<br>Supply of aluminum ingots and alumina to<br>Guangxi Aluminum Development and Investment<br>Co. Ltd., an associate of Guangxi Investment | —   | —   | 126   |
| 5. Primary Aluminum Supply Agreement<br>Annual revenue from the supply of primary aluminum<br>to Xinan Aluminum (Group) Company Limited,<br>an associate of China Cinda                    | 559   | 2.4%  | 7.5%  |

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:

- the transactions were conducted by the Company in the ordinary and usual course of the Company's business;
- the transactions were entered into on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- 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
- in accordance with the terms of the agreements governing such transactions.

## Report of the Directors *(Continued)*

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.

Regarding the waiver for the continuing connected transactions of the Company for the three years from 2004 to 2006, the Company has applied to the Hong Kong Stock Exchange for a waiver in accordance with the Hong Kong Listing Rules. The Hong Kong Stock Exchange has granted the waiver to the Company.

On December 16, 2003, the Company through its wholly owned subsidiary, China Aluminum International Trading Co., Ltd. ("Chalco Trading"), and Chinalco jointly established China Aluminum International Engineering Corporation Ltd. ("Chaleco"), with a registered capital of RMB200 million. Chinalco contributed 95% of the total registered capital of Chaleco by way of the evaluated net assets amounting to RMB190 million in two of its subsidiaries, Guiyang Aluminum and Magnesium Research and Design Institute and Shenyang Aluminum and Magnesium Research and Design Institute, while Chalco Trading contributed 5% of the total registered

capital of Chaleco by way of cash in the amount of RMB10 million. Chaleco is principally engaged in the investigation, survey, design, consultancy and supervision of bauxite mining, metallurgical and construction projects and overall project contracting. Chaleco is for an indefinite duration from the date of its establishment. The establishment of Chaleco by a wholly owned subsidiary and the substantial shareholder of the Company constituted a connected transaction of the Company.

### Significant Events

1. On February 6, 2003, the Company dispatched a circular to shareholders in respect of the establishment of Shanxi-Huaze Aluminum & Power Company Limited, a joint venture with Shanxi Zhangze Power Co., Ltd.
2. On November 4, 2003, the Company convened the 11th meeting of the first Board of Directors, at which certain resolutions were approved, including: (1) the former secretary to the Board of Directors, Mr. Ding Haiyan, resigned from his office, and Ms. Liu Qiang was appointed as the Secretary to the Board of Directors of the Company. (2) Mr. Liang Zhongxiu resigned from his former office as a Senior Vice President, and Mr. Li Henglong resigned from his former office as a Vice President. Mr. Luo Jianchuan was appointed as a Vice President of the Company.
3. On November 14, 2003, the Company published an announcement and dispatched a circular to its shareholders in respect of an application to the Hong Kong Stock Exchange for a renewal of the waiver from strict compliance with the Hong Kong Listing Rules in respect of the Company's ongoing connected transactions.

## Report of the Directors *(Continued)*

4. On December 29, 2003, at the extraordinary general meeting of the Company, the ongoing connected transactions under the terms as set out in the announcement and circular to the shareholders and the application for a waiver thereunder to the Hong Kong Stock Exchange of Hong Kong Limited were approved. The Board of Directors of the Company was authorized to give effect to the ongoing connected transactions based on the terms and conditions of the waiver granted by the Hong Kong Stock Exchange.
5. Progresses of the following projects of the Company and its subsidiaries which were set out in the annual report of 2002 are summarised as follows:
- The 400,000-tonne alumina project at Pingguo Phase II was completed and commenced operation at the end of June 2003.
  - The Zhongzhou 300,000-tonne alumina ore-dressing Bayer Project in No.5 and No.6 kilns was basically completed and commenced operation at the end of 2003.
  - The Shanxi 800,000-tonne alumina Phase III Project commenced construction in August 2003 ahead of schedule, and is expected to be completed and commence operation by the end of 2005.
  - The Qinghai 85,000-tonne aluminum project was completed and commenced operation in August 2003.
  - The Shanxi-Huaze 280,000-ton Aluminum & Power jointly invested project, a joint venture with Shanxi Zhangze Power Co., Ltd., commenced construction in August 2003, and is expected to be completed and commence operation in 2005.

### The Code of Best Practice

During the year ended December 31, 2003, 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 Effective Audit Committees" published by the Hong Kong Society of Accountants. For details, please refer to page 13.

### Auditors

The financial statements have been audited by PricewaterhouseCoopers who have retired and, being eligible, offer themselves for re-appointment. The Company did not change its auditors in any of the three preceding financial years.

On behalf of the Board  
**Guo Shengkun**  
*Chairman*

Beijing, PRC  
 March 29, 2004