

BUSINESS REVIEW

The first half of 2004 experienced a comprehensive price increase in raw materials and fuel, power shortage and ongoing transportation bottleneck as well as the significant fluctuation in aluminum price. Despite such unfavourable factors, the Group rapidly reacted to the changing market according to the timely forecast of market trends, and capitalized on the opportunities arising from the increased prices of alumina and aluminum to press ahead its various initiatives. Accordingly, desirable results were achieved in terms of production, operation, overseas development, research and development and management.

Aiming at high efficiency, steady production and low resource consumption, the Group made efforts to bring its new alumina projects in line with the designed capacity and standards in the shortest time. As a result, the production volume of alumina products (including alumina, alumina hydrate and alumina chemicals) reached a historical high of 3,330,000 tonnes in the first half of this year, representing an increase of 16.3% over the same period last year. As to primary aluminum production, in response to the reduced production in Guangxi, Guizhou and Qinghai branches due to the impact of power shortages, the Group actively re-arranged its internal production and coordinated its external operations, and adopted flexible measures, such as implementing the smelting pot maintenance ahead of schedule, to minimize the negative influence of the reduced production. During the first half of this year, the production volume of primary aluminum products (including primary aluminum and other primary aluminum products) amounted to 358,000 tonnes, representing a decrease of 4.3% from the same period last year.

In response to market supply of bauxite, the Group timely adjusted the source structure of its bauxite supply, and strengthened its exploration for new bauxite mines, leading to an additional bauxite reserve of 76,000,000 tonnes in the first half of this year. Meanwhile, the Group reviewed its resource reserve, quality, mining terms and conditions of its existing bauxite mines, and integrated the Group's bauxite resources in major regions. Currently, the integration proposal has been formulated.

The Group also embarked on carrying out its overseas development strategy. On May 24, 2004, the Group entered into a non-binding framework agreement with Companhia Vale do Rio Doce of Brazil for the incorporation of a joint venture in Brazil. Subject to the satisfaction of certain prerequisites under the agreement, the joint venture will commence the feasibility study of establishing a new refinery, ABC Alumina Refinery, for alumina production in Brazil. Phase I of the project is expected to produce 1,800,000 tonnes of alumina per annum. Through gradual expansions, the ultimate capacity of the entire project is expected to reach 7,200,000 tonnes per annum. Phase I of the project with an estimated total investment of US\$1,000 million is expected to be completed and put into production in 2007.

Leveraging the favourable market opportunities, the Group expedited the merger of aluminum smelters. On June 16, 2004, the Group signed a letter of intent for cooperation with Lanzhou Aluminum Corporation Limited ("Lanzhou Aluminum"), pursuant to which the Group proposed to acquire a portion of the state shares held by Lanzhou Aluminum Plant in Lanzhou Aluminum. Upon completion of the acquisition, the Group will hold a 29% interest in the total share capital of Lanzhou Aluminum, thus becoming its largest shareholder.

The Group expedited construction of its projects towards its goal for 8,500,000 tonnes of alumina capacity and 1,330,000 tonnes of primary aluminum capacity in 2005. In order to ensure the progress and quality of the projects, the Group introduced project accountability system for project management. For the first half of 2004, the Group's capital expenditure amounted to approximately RMB3,800 million:

- The 300,000-tonne alumina ore-dressing Bayer project was put into production in Zhongzhou Branch, while the second 300,000-tonne production line also commenced equipment installation;
- For the 800,000-tonne alumina phase III project in Shanxi Branch, the main part of the project was in the stage of equipment installation;
- For the 700,000-tonne alumina project in Henan Branch, the entire construction work has been launched;
- For the 280,000-tonne aluminum and power joint venture project in Shanxi-Huaze Aluminum & Power Company Limited, construction work was in progress as planned.
- The 85,000-tonne aluminum project in Qinghai Branch was ready for pilot production.

Based on the centralized supply of major raw materials, the Group established logistic distribution center in each branch, which made a contribution to achieving the goal of cost reduction despite the increased prices of major raw materials such as coal.

The Group's 35 patent applications have been granted application numbers. 31 technological achievements have passed assessment, a number of which have realized commercialization. In addition, the Group's application for establishing the national technology research center for aluminum smelting engineering has been approved by relevant governmental authorities. Paying close attention to changes in the products market, the Group commenced studies focusing on the development of alumina chemicals products and the extension of primary aluminum product lines.

Attaching great importance to management fundamentals, the Group has further improved various systems for management rationalization. The Group has fully started the establishment and integration of the health-safety-environment system and the quality management system, and began to contrive to a more refined production mode.

Considerable efforts were devoted to corporate governance. After the appointment of the second board of directors, the Group timely organized a training programme for the directors with respect to director's responsibilities. In connection with the requirements of the United States laws and regulations and, in particular, the Sarbanes-Oxley Act of 2002, the Group provided systematic training with respect to internal control systems to directors, senior executives, management of the branches and department managers. In addition, the Group formulated the Guidelines Governing the Practice of Senior Management of Aluminum Corporation of China Limited, which has been uploaded to the Group's website for reference.