

The Board submits the Directors' report together with the audited financial statements for the year ended December 31, 2005.

Principal Activities

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

Financial Summary

The results of the Group for the year ended December 31, 2005 are set out in the consolidated profit and loss account on page 58. A financial summary of the Group for the last four years extracted from the annual reports of the respective years is set out on page 4.

The results of the Group for the years ended December 31, 2002, 2003 and 2004, pro forma combined results of the Group for the year ended December 31, 2001, the consolidated assets and liabilities as of December 31, 2001, 2002, 2003 and 2004 have been reclassified/restated to reflect the adoption of the new / revised standards and interpretation of HKFRSs as set out in Note 2(a) of the consolidated financial statements.

Dividend

The Board of the Company proposed to declare a final dividend of RMB0.214 per share, totaling RMB2,364,673,000 for 2005 based on 11,049,876,153 shares in the total share capital as of December 31, 2005. The proposal to declare and pay this final dividend is to be submitted to shareholders at the Annual General Meeting scheduled on May 10, 2006 for review and approval. The final dividend is expected to be paid on or before May 30, 2006.

Share Capital

Details of the share capital of the Company are set out in Note 17(a) to the consolidated financial statements.

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 59 and Note 17 to the consolidated financial statements.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group and of the Company are set out in Note 6 to the consolidated 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 2005 dividends) as of December 31, 2005, calculated based on the above principle, amounted to approximately RMB10,270 million.

Use of Proceeds

As of December 31, 2005, RMB1,837 million of the Company's net proceeds from its new H Share placement in January 2004 was used for capital expenditures.

Designated Deposits and Overdue Time Deposits

As of December 31, 2005, 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.

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 shareholdings.

Donations

Donations made by the Group during the year amounted to approximately RMB4,259,000.

Litigation and Contingent Liabilities

(a) Litigation

As of December 31, 2005, the Group has no significant pending litigation.

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

Details of compensation with regard to the formation of an equity joint venture with Alcoa International (Asia) Limited are set out in Note 32(b) to the consolidated financial statements.

Directors, Supervisors and Senior Management

The Directors and Supervisors during the year and up to the date of this report were:

Executive Directors

Mr. Xiao Yaqing
Mr. Xiong Weiping
Mr. Luo Jianchuan
Mr. Chen Jihua

Non-executive Directors

Mr. Joseph C. Muscari
Mr. Shi Chungui appointed on June 9, 2005
Mr. Chen Xiaozhou resigned on March 27, 2005

Independent Non-Executive Directors

Mr. Wang Dianzuo
Mr. Kang Yi
Mr. Poon Yiu appointed on October 14,
 Kin, Samuel 2005
Mr. Chiu Chi Cheong, resigned on October 14,
 Clifton 2005

Supervisors

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

Brief biographical details of Directors, Supervisors and Senior Management are set out on pages 8 to 11.

The second session of the Board and Supervisory Committee began upon approval at the Annual General Meeting held on June 7, 2004. 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 of appointment is renewable upon re-election.

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 23 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, 2005.

As of December 31, 2005, no stock appreciation rights had been granted under the Stock Appreciation Rights Plan adopted by the Company.

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

During the year ended December 31, 2005, 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 Stock Exchange of Hong Kong Limited ("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 Issuers.

During the year ended December 31, 2005, 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).

Interests of Directors and Supervisors in Contracts

During the year ended December 31, 2005, 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 68,200 employees as of December 31, 2005. 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 the relevant 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 is at approximately 20%, depending in part on the location of the plant and the average age of the employees. The Group also contributes to a welfare fund for its employees. The rates of contributions of the Group to this welfare fund range from 5% to 10% of the Group's after-tax profit. The Group had not paid retirement benefits to its employees as of December 31, 2005.

Share Capital Structure

The share capital structure of the Company as of December 31, 2005 was as follows:

Shareholders of Domestic Shares or H Shares	As of December 31, 2005	
	No. of shares (in millions)	Percentage in issued share capital (%)
<u>Shareholders of Domestic Shares</u>		
Chinalco	4,656.3	42.14
China Cinda	900.6	8.15
China Construction Bank	709.8	6.42
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>Shareholder of H Shares</u>		
Alcoa	884.2	8.00
Other shareholders in the public	2,415.7	21.87

Based on information that is publicly available to the Company and within the knowledge of the Directors as at March 13, 2006, being the latest practicable date prior to the issue of this report, there is sufficient public float in the share capital structure of the Company as required under the Hong Kong Listing Rules.

Substantial Shareholders

So far as the Directors are aware, as of December 31, 2005, the persons other than Directors, Chief Executives or Supervisors 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, Chief Executives and 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	Beneficial owner	corporate	60.08%	42.14%
China Cinda	Domestic Shares	900,559,074	Beneficial owner	corporate	11.62%	8.15%
China Construction Bank	Domestic Shares	709,773,136	Beneficial owner	corporate	9.16%	6.42%
China Orient	Domestic Shares	602,246,135	Beneficial owner	corporate	7.77%	5.45%
China Development Bank	Domestic Shares	554,940,780	Beneficial owner	corporate	7.16%	5.02%
Alcoa	H Shares	884,207,808	Beneficial owner	corporate	26.79%	8.00%
Alliance Capital Management L. P.	H Shares	262,566,000 (L)	Interest of controlled Corporations	corporate	7.96%	2.38%
Templeton Asset Management Limited	H Shares	265,842,000 (L)	Beneficial owner	corporate	8.06%	2.41%
JP Morgan Chase & Co	H Shares	239,207,828 (L) (including 99,532,000 (P))	Interest of controlled Corporations	corporate	7.25%	2.06%

Notes:

- (a): The interest in shares of Alliance Capital Management L.P. is held through a number of controlled corporations including Alliance Capital Ltd., New-Alliance Asset Management (Asia) Limited, Alliance Capital Australia Limited, Alliance Capital Management Australia Limited and Alliance Capital Management New Zealand Limited.
- (b): The interest in shares of JP Morgan Chase & Co. includes 20,565,828 H shares held in the capacity as beneficial owner, 119,110,000 H shares held in the capacity as investment manager and 99,532,000 H shares held in the capacity as custodian corporation/approved lending agent.

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 2005. Neither the Company nor any of its subsidiaries purchased or sold any of its shares during 2005.

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 3.59% and 12.90%, respectively, of the Group's total sales amount of alumina for the year ended December 31, 2005. All of these major customers were domestic aluminum smelters.

The largest customer and the five largest customers of the Group's primary aluminum accounted for 9.75% and 21.05%, respectively, of the Group's total sales amount of primary aluminum for the year ended December 31, 2005.

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 2.93% and 10.22%, 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 12.11% and 31.02%, 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, had any interests in the Group's five largest customers or suppliers of the alumina or the primary aluminum at any time during 2005.

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 as compared to the amounts incurred by the Group in 2005:

Transactions	Consolidated Consideration (For the year ended 31 December 2005) (in RMB millions)	Comparison with Consolidated Consideration in 2005 (percentage to turnover or Consolidated Consideration in RMB millions)	Annual limits (percentage to turnover or Consolidated Consideration in RMB millions)
Expenditure:			
1. Social Welfare and Logistics Services Provision of social welfare and logistics services by Chinalco to the Company	951	2.56%	4%
2. Mutual Provision of Product Supplies and Ancillary Services Provision of product supplies and ancillary services by Chinalco to the Company	464	1.25%	5%
3. Purchase of Minerals Supply of bauxite and limestone by Chinalco to the Company	237	0.64%	1.5%
4. Engineering Design and Other Services Provision of engineering design and other services by Chinalco to the Company	2,176	5.86%	6.7%
5. Land Rental paid to Chinalco (Note (a))	239	239	250
6. Buildings Rental paid to Chinalco	9	9	12
7. Aluminum Ingots Sales Agency Sale of aluminum ingots and alumina by Guizhou Development as agent for the Company	—	—	2
8. Factory and Asset Rental Shanxi Carbon Factory	6	6	11
9. Head office rental paid to Chinalco (Note (b))	45	45	62

Report of the Directors (Continued)

Transactions	Consolidated Consideration (For the year ended 31 December 2005) (in RMB millions)	Comparison with Consolidated Consideration in 2005 (percentage to turnover or Consolidated Consideration in RMB millions)	Annual limits (percentage to turnover or Consolidated Consideration in RMB millions)
Revenue			
1. Mutual Provision of Product Supplies and Ancillary Services Provision of product supplies and ancillary services by the Company to Chinalco	2,104	5.67%	12.0%
2. Engineering Design and Other Services Provision of engineering design and other services by the Company to Chinalco	1	1	3.5
3. Buildings Rental paid by Chinalco	1	1	5
4. Aluminum Ingots and Alumina Supply Supply of aluminum ingots and alumina to Guangxi associate	86	86	126
5. Primary Aluminum Supply Supply of primary aluminum to Xinan Aluminum	1,280	3.45%	7.8%

Notes:

- (a) The annual limit of this transaction has increased from RMB200 million to RMB250 million. See "Further Information on Connected Transactions During the Year" below.
- (b) On 28 March 2005, the Company entered into a tenancy agreement with China Aluminum Development Company Limited, a connected person, for the lease of its office premises at No. 62 Xizhimen Bei Street, Hai Dan District, Beijing. See "Further Information on Connected Transactions During the Year" for further information. This leasing transaction is subject to annual review by the Independent Non-Executive Directors and annual confirmation by the auditors under Rules 14A.37 to 14A.41 of the Hong Kong Listing Rules.

The Independent Non-Executive Directors have reviewed the above transactions and the leasing transaction and have confirmed that:

- the transactions were conducted in the ordinary and usual course of the Company's business;
- the transactions were entered into on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole;
- 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 Directors of 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 disclosed in previous announcements of the Company.

Further Information on Connected Transactions During the Year

In view of the adjustment made by the relevant local authorities of the PRC in the standard land price and the increases of land use tax in 2004, Chinalco, a connected person under the Hong Kong Listing Rules, had to pay the tax authorities an extra amount of RMB66,000,000 in respect of such adjustment. On January 11, 2005, after negotiations between the Company and Chinalco, the Company agreed to bear the annual tax increment beginning from January 1, 2004, and pursuant to which, the rental for land use rights payable by the Company increased from RMB173,000,000 to RMB239,000,000. The Company announced the increase in payment by an announcement on the Hong Kong Stock Exchange on January 20, 2005 and announced the amendment of the maximum annual limit of land rental payable by the Company

to Chinalco from RMB200,000,000 to RMB250,000,000.

On 28 March 2005, the Company entered into a tenancy agreement with China Aluminum Development Company Limited to lease of office premises at 12th to 16th floors and 18th to 31st floors of No. 62 Xizhimen Bei Street, Haidian District, Beijing. With a total rented area of 30,160.81 square metres, the annual rent amounted to a total of RMB61,649,000 for a term of three years beginning from October 15, 2005 to October 15, 2008, and will be paid semi-annually. Such connected transaction has been disclosed by an announcement on the Hong Kong Stock Exchange on March 30, 2005.

In October 2003, Shandong Aluminum Industry Co., Limited ("Shandong Aluminum"), a subsidiary of the Company and an A share listed company, signed an agreement to purchase two rotary kilns from Shandong Aluminum Company, a wholly-owned subsidiary of Chinalco, the controlling shareholder of the Company. The purchase price, totaling RMB115.1 million was determined by a professional valuer in the PRC. The purchase was approved by the independent shareholders of Shandong Aluminum at a general meeting duly convened to approve the purchase in accordance with the requirements of the Listing Rules of the Shanghai Stock Exchange and the transaction was completed in March 2004. Such connected transaction was disclosed by an announcement on the Hong Kong Stock Exchange dated May 13, 2005.

On February 28, 2003, the Company together with Guangxi Investment, a connected person of the Company, and China Minmetals Non-ferrous Metals Co., Ltd. 五礦有色金屬股份有限公司 ("China Minmetals") established Guangxi Huayin Aluminum Co., Ltd., (the "JV Co."), to invest in the exploration for bauxite resources and the production and sales of alumina and related products. The Company and other investors decided, subject to obtaining the relevant governmental approvals, to increase the total investment in the JV Co. While waiting for the relevant approval documents, the Company advanced RMB 49,500,000 to the JV Co. as working capital. Such connected transaction was disclosed in an announcement on the Hong Kong Stock Exchange dated January 27, 2005. On May 23 2005, the Phase One Project to be carried out by the JV Co. was approved by the State Development and Reform Commission and on July 31 2005, Guangxi Investment, China Minmetals and the Company entered into a Supplemental Agreement to increase the total investment from RMB10 million to approximately RMB8,491.26 million, of which 2,133 million, representing 25% of the total investment, was to be contributed by the shareholders proportionate to their equity interests in the JV Co. as registered capital. Guangxi Investment, China Minmetals and the Company would contribute an aggregate of approximately RMB721.5 million, RMB701 million and RMB701 million, respectively, to the registered capital of the JV Co. The payment for the registered capital would be paid in each of 2005, 2006 and 2007 as agreed by shareholders, and the Company made the first payment of the registered capital in the amount of RMB117 million in August 2005. The advance made by the Company to JV Co. as the working capital of the JV Co. amounted to RMB49.50 million and was included in the first payment. Such connected transaction has also been disclosed by an announcement on the Stock Exchange dated August 5, 2005.

Proposed Application to Issue A Shares in the PRC

On 28th March, 2005, the Board resolved and approved at the 2004 Annual General Meeting held on June 9, 2005 that the Company would apply (i) to the China Securities Regulatory Commission for the issue of a maximum of 1,500,000,000 A Shares to the PRC public, and (ii) to the Shanghai Stock Exchange for the listing of the A Shares on the Shanghai Stock Exchange. The amount to be raised from the proposed A Share issue is expected to be not more than RMB8,000 million. The net proceeds will be used principally for the construction of alumina and primary aluminum projects. No A Shares were issued pursuant to the resolutions passed at the 2004 Annual General Meeting.

Significant Events

1. The Company issued short-term corporate bonds in the PRC for a principal amount of RMB2,000 million on June 15, 2005 with a maturity of 365 days.
2. The amendments to the Articles of Association of the Company were approved at the Annual General Meeting of the Company on June 9, 2005.
3. Mr. Shi Chungui was elected as a Non-Executive Director of the Company at the 2004 Annual General Meeting on June 9, 2005.
4. Mr. Poon Yiu Kin, Samuel was elected as an Independent Non-Executive Director of the Company at the Special General Meeting on October 14, 2005.

Code on Corporate Governance Practices

During the year ended December 31, 2005, except for Code A.2.1, the Company was in compliance with the principles and code provisions in the "Code on Corporate Governance Practices" as set out in Appendix 14 of the Hong Kong Listing Rules.

Audit Committee

The power and written terms of reference in relation to the authorities and duties of the Audit Committee were prepared and adopted in accordance with and with reference to "A Guide for the Formation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountants and Rule 10A-3 of U.S. Securities and Exchange Commission.

The consolidated financial statements of the Group for the year ended December 31, 2005 have been reviewed by the Audit Committee of the Company.

Auditors

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

By order of the Board

Xiao Yaqing

Chairman

Beijing, PRC
March 13, 2006