

# Chairman's Statement



**Mr. Xiao Yaqing**

Chairman of the Board and  
Chief Executive Officer

**Dear Shareholders,**

**I am pleased to present the annual report of the Group for the year ended December 31, 2006 for shareholders' review. On behalf of the Board of the Company and all employees, I would like to express my gratitude to all our shareholders for their support of the Company.**

## **Financial Results**

The consolidated revenue of the Group for 2006 amounted to RMB61,896 million, representing a year-on-year increase of 63.63%. The consolidated net profit attributable to the equity holders of the Company for the year was RMB11,745 million, representing a year-on-year increase of 67.26%. Earnings per share for profit attributable to the equity holders of the Company was RMB1.03, representing a year-on-year increase of 60.93%.

## **Dividend**

The Directors declared an interim dividend of RMB0.188 per share, totalling RMB2,190,177,000, which was paid on October 31, 2006.

Given the pending A share listing by the Company and the acquisitions of Shandong Aluminum and Lanzhou Aluminum by the Company, the Company will after completion of the proposed A share listing and the acquisitions of Shandong Aluminum and Lanzhou Aluminum declare the final dividend for the year 2006, which, based on 35% of the Company's profit after tax and after deducting the interim dividend paid, would amount to a distributable profit of approximately RMB1,482,633,000. Such dividend, when declared, will be distributed to the new and existing shareholders of the Company. Due to the same reason, both Shandong Aluminum and Lanzhou Aluminum have not declared final dividend for the year 2006 and their retained earnings and reserves are distributable to the Company after the completion of the acquisitions.

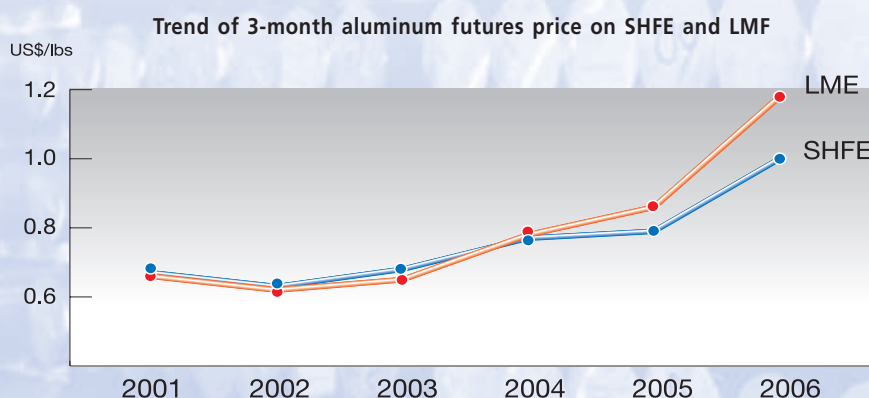
## **Product Market Reviews**

The price of aluminum, as an important raw material, is increasingly tied to the global economic changes and changes to the PRC macro-economy. The stable growth of the western developed economies and the steady economic growth of the PRC have a significant impact on the aluminum market.

## Primary Aluminum Market

Year 2006 saw a steady and rapid growth in the US, Europe, Japan and other western economies. As driven by the continual growth of funds, consumption demand and energy shortage, the international aluminum price has stayed at a high level. In year 2006, the lowest price of three-month primary aluminum futures on London Metals Exchange ("LME") was approximately US\$2,220 per tonne, the highest price was US\$3,310 per tonne and the average price was US\$2,591 per tonne, a year-on-year increase of 36.4%. In the PRC, despite the further increase of aluminum export tax to 15% on November 1, 2006, the aluminum price in the PRC market maintained at a high level due to the hiking aluminum price in the international market and the booming aluminum consumption from the robust PRC national economy. The highest, lowest and average price of three-month aluminum futures on the Shanghai Futures Exchange ("SHFE") was RMB24,520 per tonne, RMB18,130 per tonne and RMB20,136 per tonne, respectively, representing a year-on-year increase of 19.5%.

The global output of primary aluminum for 2006 was approximately 33.97 million tonnes, representing a year-on-year increase of 6.4%. The PRC's primary aluminum output continued a rapid growth to approximately 9.35 million tonnes, representing a year-on-year increase of 19.7%. The global aluminum consumption was 34.33 million tonnes, representing a year-on-year increase of 7.7%. The continual rapid growth of the PRC's economy boosted the fast growth of aluminum consumption in a wide range of industries including construction, transportation, packaging, aviation and aerospace. Accordingly, the domestic aluminum consumption for 2006 was approximately 8.67 million tonnes, representing a year-on-year increase of 22.6%.



## Alumina Market

The CIF price of alumina imported to China from overseas reached a record high of US\$650 per tonne in June 2006. Affected by the rapid expansion in the PRC's new alumina production capacity and output, the international spot price began to weaken from August and bottomed at approximately US\$200 per tonne in November, representing a significant decrease of 69% from the peak. The yearly average price was US\$445 per tonne, still representing a year-on-year increase of 20.3%. The highest and lowest spot price of domestic alumina was RMB6,500 per tonne and RMB2,300 per tonne respectively. The yearly average selling price of the Group's alumina was RMB4,107 per tonne, representing a year-on-year increase of 7.4%.



The global output of alumina for 2006 was approximately 68.58 million tonnes, representing a year-on-year increase of 12.0%. The global alumina consumption continued its fast momentum to approximately 66.40 million tonnes, representing a year-on-year increase of 6.4%. Due to the significant expansion of the PRC's new alumina production capacity, domestic supply of alumina in 2006 increased, thereby relieving procurement pressure of the international spot market. Domestic output of alumina reached approximately 13.70 million tonnes, representing a year-on-year increase of 61%, while its demand reached approximately 19 million tonnes, representing a further year-on-year increase of 14.3%. In 2006, the imported alumina amounted to approximately 6.91 million tonnes, representing a year-on-year decrease of 1.6%.

## Business Review

In 2006, the Group accurately assessed the market trends and seized strategic opportunities to make timely adjustment to its product mix. The Group consolidated its core competitiveness by scientifically improving its sustainable growth capability and has recorded a steady growth both in production volume and profit.

**Enhanced overall competitiveness.** By actively analyzing and assessing the product market trends and by focusing on strategic planning and execution, the Group has through capital operation adequately taken advantage of the strategic market opportunities, and the Group's total assets reached RMB78 billion. The principal operations of the Company have rapidly expanded and its financial indicators have further improved, advancing further the overall competitiveness of the Group.



## Chairman's Statement (Continued)

Through merger and acquisition of aluminum assets, the Group expanded its primary aluminum production capacity from 1.50 million tonnes at the end of 2005 to 2.47 million tonnes at the end of 2006, inclusive of the 160,000 tonnes total annual production capacity of Lanzhou Aluminum and the 272,000 tonnes total annual production capacity of Jiaozuo Wanfang in which the Group owns equity interest of 28% and 29%, respectively. By further improving the production chain of alumina and aluminum, the intra-group utilization ratio of alumina was increased to approximately 40% for 2006 from approximately 26% for 2005, thereby strengthening the market risks resistance of the Group. During 2006, the Group acquired and established the following primary aluminum subsidiaries and associates:

Name of subsidiaries and associates	Production capacity (tonnes)	% shareholdings held by the Company	Date of acquisition
Shanxi Huasheng	220,000	51%	March 2006
Fushun Aluminum	140,000	100%	March 2006
Shandong Huayu	100,000	55%	July 2006
Zunyi Aluminum	110,000	61.3%	July 2006
Gansu Hualu	127,000	51%	September 2006
Jiaozuo Wanfang	272,000	29%	September 2006
Total	969,000		

In May 2006, the Company, by successfully completed a placement of 600,000,000 new H shares, raised total net proceeds of approximately RMB4.39 billion, which provided further funds to enable the Group to achieve its development goals.

In May 2006, the Company successfully issued short-term bonds with a par value of RMB100 each in the PRC, bearing a coupon interest rate of 3.13% and a maturity period of 1 year, for a total principal amount of RMB3 billion in the domestic market. The total net proceeds raised by the issue were approximately RMB2,988 million. In December 2006, the Company successfully issued short-term bonds with a total principal amount of RMB 2 billion at a par value of RMB100 each in the PRC, bearing an effective interest rate of 3.44% (excluding other expenses) and a maturity period of 1 year, for net proceeds of approximately RMB1,925 million.

**Record highs for major products' output.** The Group implemented standardized quantitative management to improve its production foreseeability and controllability. The major products output of the Group maintained a steady growth, due mainly to timely adjustments of the production organization strategy according to market changes, which further improved the modes of production management and shortened the commencement time for production of a project. In 2006, the Group's production volume of alumina amounted to 8.83 million tonnes, representing a year-on-



year increase of 23%. The production volume of alumina chemicals was 1.1 million tonnes, representing a year-on-year increase of 17%. The production volume of primary aluminum products amounted to 1.93 million tonnes (inclusive of 170,000 tonnes being the total annual production volume of Lanzhou Aluminum and 70,000 tonnes being the total annual production volume of Jiaozuo Wanfang), representing a year-on-year of increase 84%.

**Expedite overseas expansions.** The Group has established its modes for overseas investment and management and the overseas projects are in smooth progress.

**Aurukun project in Australia.** On September 15, 2006, the Group, through its own efforts, was selected as the preferred developer of the Aurukun project. The Group is the first PRC enterprise ever to obtain large-scale bauxite resources in a western developed country by virtue of its own comprehensive capabilities in technologies, management and investment. Currently, the Group's working team is negotiating with the Queensland government and the aborigines and the Group expects to sign the Aurukun project development agreement with the Queensland Government to obtain the mining rights development license for Aurukun bauxite project, as well as to enter into the land use agreement with the aborigines by the end of March 2007. From then on, the feasibility study is expected to commence.

**Dak Nong project in Vietnam.** In 2006, through close cooperation with Vietnam National Coal Corporation, the Group made a number of preliminary preparations relating to the project, which included completing the plant site investigation and ore washing testings, as well as finalizing the amendments to the preliminary feasibility study, which has since been submitted. On November 16, 2006, the parties entered into a cooperation agreement regarding the Dak Nong Project, representing a significant phase of its development. The Group expects to complete the feasibility study report of the project and to obtain the approval in August 2007, and aims to complete the final negotiation of the joint venture agreement in the third quarter of 2007 and to obtain the approval of the PRC and Vietnam governments before the end of 2007.

**Guinea bauxite exploring project.** Since 2006, the Group has made various preliminary preparations for the bauxite exploring project in Guinea, including field investigation by expert team, preparing the bauxite registered area exploration, design proposal for proposing the overall planning exploration arrangement, and formally submitting the exploration plan to the Ministry of Mines of Guinea. Currently, related work has been commenced.

**Brazil project.** Since 2006, the Group has been discussing and negotiating on the contents of the feasibility study and the product market of the joint venture with Companhia Vale do Rio Doce ("CVRD").



**Strengthened control on resources.** With strengthened control on resources, the Group established and improved its resource protection system by focusing on the exploration, development, supply and management of bauxite resources. In 2006, by expanding acquisition of bauxite resource rights, the Group's bauxite resources have increased by 118 million tonnes. Through mine renovation and construction, the Group's own production of bauxite increased by 38% as compared with the same period last year. Additionally, the Group duly adjusted its bauxite source structure in order to further rationalize its mining resources supply structure. The Group also centralized the management of all mines under the Company's mining branch, thereby forming an integrated resource acquisition mechanism.

**Development of recycling economy and conservation of resources.** The Group has set up development goals and implementation policy for recycling and conservation of resources to build up itself as a resource conservation enterprise. In 2006, the Group has further improved its technical and economic indicators by realizing energy saving equivalent to 1,200,000 tonnes of normal coal over the year. The Group also increased the water recycling rate by increasing the re-utilization rate of water resources.

**Accelerated technological innovation.** By accelerating the building up of technological platforms and strengthening of R&D and technical innovation as well as their integrating effects, the Group has realized industrialization of its innovative proprietary results. In 2006, the Group accomplished the development and industrial applications of three key technologies special projects and promoted the applications of eight industrialization projects. It further strengthened the intellectual property management and protection by making a total of 204 patent applications during the year. The Group was recognized as an innovative enterprise in the first batch of national innovative enterprises and a model enterprise in the first batch of national intellectual property model enterprises.

**Breakthroughs in information technology.** The Company has strengthened the fundamental management of its information technology, set up the flow standards and systems on information technology management and is procedurally building up a completed scientific management system. In 2006, through implementation of Phase One of the ERP project and the clarification, design and standardization of each workflow, the information system of the Company is now more suitable for the Company's development. The network link of Phase One of the Company's ERP project has realized the independent operation of the SAP system, which provided a unified information technology platform for the centralized management of the Company.

**Effective improvements in management.** The Group attached importance to the improvement of overall management, especially the management of production and operation, investment, finance and risk control, to boost its comprehensive strengths.

- It put efforts to promote standardized quantitative management by focusing on standardized quantification inspections, building up an economical operation mode for anticipated equipment maintenance to improve production and operating efficiency.

- It optimized its investment structure, which advanced the Group's development and strengthened the Company's control over the construction of key projects. The Company enhanced its project investment by strengthening the evaluation process and project supervision.
- It implemented a centralized financial management system through vertical integration, realizing a comprehensive budget management and effective risk control.
- It enhanced its awareness of operational risks and responsibility by establishing risk prevention and assessment systems in accordance with Section 404 of U.S. Sarbanes-Oxley Act and standard management requirements.

**Enhanced corporate social responsibility.** The Group efficiently operated a healthy and safe environment management system and continued to improve the performance of such system in order to repay the shareholders and the society by providing a healthy and safe working environment to its employees. The Group emphasized the promotion of the Group's corporate culture by cultivating a consensus on corporate growth and corporate social responsibility among its staff. During the year, the Group made a donation of more than RMB8.98 million to distressed areas, the Poverty Relief Project and primary schools under the Hope Project. A responsible corporate image came into the spotlight when the staff offered to make their contributions to the society on the Group's fifth anniversary. The Group was selected as one of the enterprises that have most social responsibility of 2006 in the Survey of Corporate Social Responsibility of China.

## **Business Prospect**

After over five years' growth, the Group has greatly enhanced its comprehensive strengths, influence, control and leading position in the industry as well as its core competitiveness and risk control capability.

Looking into 2007, it is expected that the increasing aluminum consumption, a result of the robust global and the PRC's economies, will bring further rooms for development to the Group. However, there are also existing challenges such as the uncertain factors in product prices, the aggravated cost pressure from the rising prices of major raw materials, and intensifying market competition due to the rapidly expanding alumina production capacity.

In 2007, by focusing on production and operation, capital operation, technological innovation, cost and consumption reduction, safety and stability, the Group will seize development opportunities, promote stable operations and steady development and develop the Company into a more powerful, outstanding and more harmonious enterprise. Specifically, the major goals of the Group are as follows:

1. To enhance its global competitiveness and risk resistance, the Group will continue to consolidate, merge and acquire suitable aluminum enterprises to expand its production capacity, refine product structure and further improve and extend the production chain. Meanwhile, the Group aims at strengthening the overall competitiveness by integrating and upgrading the management mode and rules of the newly acquired enterprises, and thereby enhancing the management level.



## *Chairman's Statement (Continued)*

2. The Company will duly implement the listing of its A shares and complete the share reforms, while seeking new financing channels and platforms including issuance of corporate bonds, in order to pave the way for the Group's future development.
3. The Group will accelerate the construction of key projects, such as the three alumina expansion projects of 800,000-tonne in Guangxi, Zunyi Aluminum and Chongqing, the 400,000-tonne alumina expansion project in Guizhou and the 1,600,000-tonne alumina expansion project in Guangxi Huayin. The Group will continue to expand production capacity in Lanzhou Aluminum, Fushun Aluminum and Jiaozuo Wanfang.
4. The Group will press ahead its corporate resources strategy by focusing on acquisition and control of resources. It will strengthen cooperation, give weight to key projects and expand its share of resources. Meanwhile, it will broaden the range of resources exploration and supply and put more efforts in the investment and construction of the mines.
5. The Group will take advantage of the centralized management and integrated operation to control sourcing costs, cut down marketing and financial expenses and improve working capital efficiency. The Group will improve its cost indicator system through comprehensive analysis and control of the cost structure from all aspects of its operation including all employees and all aspects of the whole process.
6. The Group will actively promote resources recycling by strategically position resources conservation and environmental protection. It will seek new breakthroughs in the reduction of resources consumption and energy conservation in order to raise its resource recovery and utilization rates.
7. The Group will optimize the internal allocation of technological resources for effective technology sharing, and facilitate the industrialization and utilization of research achievements so as to convert its technological strengths into economic and competitive advantages.
8. The Group will value strategy on human resources and strengthen the training of its management personnel and employees with a view to improving their skills and abilities.

In 2007, the Board will do its utmost to achieve these goals as a return to our shareholders.

**Xiao Yaqing**

*Chairman and Chief Executive Officer*

Beijing, the PRC  
March 10, 2007