

The Directors submit their report together with the audited financial statements for the period from September 10, 2001 (date of incorporation) to December 31, 2001.

Reorganization

The Company was established in the PRC on September 10, 2001 as a joint stock company with limited liability as a result of an industry reorganization in preparation for a listing of the Company's H shares on the Main Board of The Stock Exchange of Hong Kong Limited and of its ADSs on the New York Stock Exchange, Inc. Details of the reorganization and basis of preparation of the financial statements are set out in Note 1 to the financial statements.

Principal Activities and Geographical Analysis of Operations

The principal activities of the Company are the production and distribution of alumina and primary aluminium. The activities of the Company and its subsidiaries are set out in Note 19 to the financial statements.

An analysis of the performance of the Company and its subsidiaries for the year by business is set out in Note 3 to the financial statements.

Results and Appropriations

The results of the Company and its subsidiaries for the period from September 10, 2001 (date of incorporation) to December 31, 2001 are set out in the consolidated profit and loss account on page 43.

The Directors recommend the payment of a final dividend of RMB0.017 per share, totalling approximately RMB178 million.

Reserves

Movements in the reserves of the Group and of the Company during the period from September 10, 2001 to December 31, 2001 are set out in Note 30(b) to the financial statements.

Donations

Charitable and other donations made by the Company during the period amounted to RMB444,000.

Report of the Directors

Fixed Assets

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

Share Capital

The share capital of the Company as of December 31, 2001 and upon the exercise of the Over-allotment Option on January 11, 2002, was/is as follows:

Holders of Domestic Shares or H Shares	As of December 31, 2001		Upon exercise of the Over-allotment Option on January 11, 2002	
	No. of shares (in millions)	Approximate % of issued share capital	No. of shares (in millions)	Approximate % of issued share capital
Holders of Domestic Shares				
Chinalco	4,665.7	45.1	4,656.3	44.4%
China Cinda	1,613.4	15.6	1,610.3	15.3%
China Orient	603.4	5.8	602.2	5.7%
China Development Bank	556.0	5.4	554.9	5.3%
Guangxi Development	196.8	1.8	196.8	1.8%
Guizhou Development	129.4	1.3	129.4	1.2%
Holders of H Shares				
Alcoa	828.2	8.0	840.2	8.0%
Other public investors	1,760	17.0	1,909.7	18.3%

Distributable Reserves

Pursuant to Article 147 of the Company's Articles of Association, where the financial statements prepared in accordance with the 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 at December 31, 2001, calculated based on the above and including the proposed final dividend for 2001, amounted to approximately RMB350 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

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 9.

The pro forma combined results of the Company and its subsidiaries 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 at 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.

The pro forma combined results of the Company and its subsidiaries for the year ended December 31, 2001 and the audited statement of the assets and liabilities of the Company and its subsidiaries are extracted from the pro forma combined profit and loss account and consolidated balance sheet on pages 43 and 44 of this 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 Company and its subsidiaries.

Report of the Directors

Purchase, Sale or Redemption of the Company's Shares

The Company did not redeem any of its shares during 2001. Neither the Company nor any of its subsidiaries purchased or sold any of its shares during 2001.

Directors and Supervisors

The Directors and Supervisors during the period were:

Executive Directors

Mr. Guo Shengkun	(appointed on September 10, 2001)
Mr. Liang Zhongxiu	(appointed on September 10, 2001)
Mr. Xiong Weiping	(appointed on September 10, 2001)
Mr. Ding Haiyan	(appointed on September 10, 2001)

Non-executive Director

Mr. Wu Weicheng	(appointed on September 10, 2001)
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Independent non-executive Directors

Mr. Chiu Chi Cheong, Clifton	(appointed on October 24, 2001)
Mr. Wang Dianzuo	(appointed on September 24, 2001)

Supervisors

Mr. Luo Tao	(appointed on September 10, 2001)
Mr. Yuan Li	(appointed on September 10, 2001)
Mr. Ou Xiaowu	(appointed on September 10, 2001)

In accordance with Article 95 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.

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, 2001.

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

Directors' and Supervisors' Interests in Shares of the Company

During the year ended December 31, 2001, none of the Directors 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 and 29 of the Securities (Disclosure of Interests) Ordinance or otherwise required to be notified pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

During the year ended December 31, 2001, none of the Directors, Supervisors, senior management or their spouses and 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, 2001, 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.

Report of the Directors

Biographical Details of Directors, Supervisors and Senior Management

Brief biographical details of Directors, Supervisors and Senior Management are set out on pages 6 to 8.

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 period.

Employees, Pension Plans and Welfare Fund

The remuneration package of the Company's 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 Company currently participates in pension contribution plans organized by provincial and municipal governments, under which each of the Company's plants is required to contribute 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 fund are made at rates ranging from 5% to 10% of the Company's after-tax profit. The Company had not paid discretionary retirement benefits to its employees for the year 2001.

For the year ended December 31, 2001, no stock appreciation rights were 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 Company's alumina represented 9.5% and 31.2%, respectively of the Company's total alumina revenue for the year 2001. All of these major customers in the last year were domestic smelters.

The largest customer and the five largest customers of the Company's primary aluminum accounted for 8.7% and 21.4%, respectively, of the Company's primary aluminum revenue for the year 2001.

The amount of raw materials (including bauxite) provided by the largest supplier and the five largest suppliers of the Company's alumina segment accounted for 37.5% and 13.6%, respectively, of the Company's total cost of raw materials for the alumina segment for the year 2001.

The amount of raw materials provided by the largest supplier and the five largest suppliers of the Company's primary aluminum segment accounted for 12.1% and 38.6%, respectively, of the Company'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 Board of Directors of the Company, holding more than 5% of the Company's issued share capital, has any interests in the Company's five largest customers or five largest suppliers of the alumina segment or the primary aluminum segment at any time during the year 2001.

Use of Proceeds

The net proceeds from the Global Offering amounted to approximately RMB3,098.6 million, excluding the net proceeds from the exercise of the Over-allotment Option of approximately RMB205.0 million, which was exercised after the end of the financial year 2001. As of December 31, 2001, approximately RMB274.0 million was used to settle long-term liabilities and RMB130.0 million was used as capital expenditures. The net proceeds from the Global Offering together with 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.

Report of the Directors

Connected Transactions

Upon the listing of the H Shares of the Company on the Hong Kong Stock Exchange on December 12, 2001, transactions between the Company and its connected persons or their respective associates (as the respective terms are defined by the Hong Kong Listing Rules) are governed by and have to comply with the requirements of the Hong Kong Listing Rules. During the year ended December 31, 2001, the Company had the following connected transactions based on the pro forma combined profit and loss account for the year ended December 31, 2001:

Transactions

	Pro forma combined amounts (Year ended December 31, 2001) (RMB in millions)	Comparison	
		2001 pro forma combined amounts (% to turnover or pro forma combined amounts in RMB millions)	Annual limits (% to turnover or pro forma combined 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	461.6	2.8%	4%
2. <i>Mutual Provision of Production Supplies and Ancillary Services</i> Provision of production supplies and ancillary services by Chinalco to the Company	363.8	2.3%	5%
3. <i>Purchase of Minerals</i> Supply of bauxite and limestone by Chinalco to the Company	103.5	0.6%	1.5%
4. <i>Engineering Design and Other Services</i> Provision of engineering design and other services by Chinalco to the Company	564.8	3.4%	4.7%
5. <i>Land Rental</i> paid to Chinalco	68.0	68.0	150
6. <i>Buildings Rental</i> paid to Chinalco	3.8	3.8	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	518.5	3.1%	5.0%
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	1.3	1.3	3
4. <i>Aluminum Ingots and Alumina Supply Agreement</i> Supply of aluminum ingots and alumina to Guangxi Aluminum Development and Investment Stock Co. Ltd., an associate of Guangxi Development	105.8	105.8	126
5. <i>Primary Aluminum Supply Agreement</i> Supply of primary aluminum to Xinan Aluminum (Group) Company Limited, an associate of China Cinda	325.2	2.0%	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:

1. the transactions were entered between the Company and the connected persons or their respective associates (where applicable) 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 received the approval of 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 did not exceed the relevant annual limits as agreed with the Hong Kong Stock Exchange.

Report of the Directors

Substantial Shareholders

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at December 31, 2001, 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 and Chief Executive.

Name of shareholder	Number of shares <i>(million shares)</i>	Percentage of total issued shares
Chinalco	4,665.7	45.1%
China Cinda	1,613.4	15.6%

Code of Best Practice

Throughout the period from September 10, 2001 (date of incorporation) to December 31, 2001, 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 matters coming within the scope of the Group audit. It also reviews the effectiveness of internal controls 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.

Proposed Appointments of Two Additional Non-executive Directors

The Company is very honoured that Mr. Joseph C. Muscari and Mr. Chen Xiaozhou have accepted the Board of Directors' invitation to be nominated as candidates for appointment as non-executive Directors of the Company. Their biographical details are as follows:

Joseph C. Muscari, 55, is the Group President — Asia, Latin America of Alcoa Inc., and is responsible for Alcoa's operations and growth initiatives in those regions. He also retains responsibilities for Alcoa's Environment, Health & Safety (EHS), which include policy, standards and strategy. He also is a member of Alcoa's Executive Council, the senior leadership group that provides strategic direction for Alcoa. Mr. Muscari graduated from the New Jersey Institute of Technology in 1968 with a degree in industrial engineering. He earned a MBA degree from the University of Pittsburgh in 1969. In 1994, he received an honorary Doctor of Law degree from Salem-Teikyo University.

Chen Xiaozhou, 39, is Assistant to Chief Executive Officer of China Cinda. Mr. Chen graduated from Hangzhou University in 1983 with a bachelor's degree in economics and obtained a master's degree in economics from the Financial Research Institute of the People's Bank of China. Mr. Chen had served various positions in China Construction Bank before he was transferred to the investment bank department of China Cinda in 1999.

The official appointments of Mr. Joseph C. Muscari and Mr. Chen Xiaozhou to the Board of Directors of the Company must be approved by shareholders at the annual general shareholders' meeting to be held on June 12, 2002.

Significant Subsequent Event

On January 11, 2002, the Company issued 146,958,153 new H shares of RMB1.0 each at HK\$1.38 per H share upon the exercise of the Over-allotment Option by the Joint Global Coordinators of the Global Offering on January 9, 2002. The net proceeds to the Company from the issue of the additional new H shares amounted to approximately RMB205 million.

Auditors

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

On behalf of the Board
Guo Shengkun
Chairman

Beijing, the PRC
April 14, 2002