

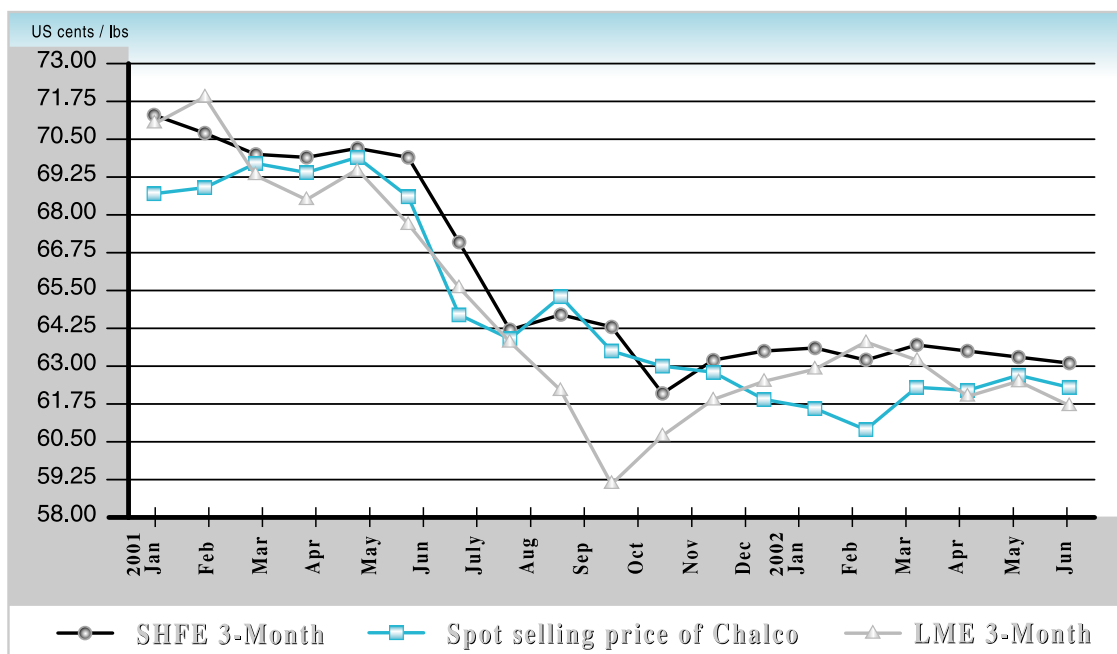
BUSINESS REVIEW

MARKET REVIEW

During the first half of 2002, the PRC achieved a high-pace growth of 7.8% in gross domestic product (GDP). The consumption volume of primary aluminum also recorded an 9.9% increase as compared with the same period last year.

For the first half of the year, the average price for three-month commodity futures of primary aluminum as quoted by the London Metals Exchange (LME) was approximately US\$1,386 per tonne, representing a decrease of approximately 9.8% as compared with the same period last year. The average price for three-month commodity futures of primary aluminum as quoted by the Shanghai Futures Exchange (SHFE) was approximately RMB13,511 per tonne (inclusive of VAT), representing a decrease of approximately 9.8% as compared with the same period last year. The average selling price of primary aluminum of the Company was RMB13,177 per tonne (inclusive of VAT), representing a decrease of approximately 10.7% as compared with the same period last year. The average selling price of alumina was RMB1,963 per tonne (inclusive of VAT), representing a decrease of approximately 18.6% as compared with the same period last year.

The following chart shows the trend of monthly average price (exclusive of VAT) for three-month commodity futures of primary aluminum in the London Metals Exchange and the Shanghai Futures Exchange and monthly average spot selling price for primary aluminum (exclusive of VAT) of Chalco:



BUSINESS REVIEW

The Company emphasizes stable and safe production, stringent management of technical operation and appropriate facilities management. For the first half of the year, the Company produced 2,630,000 tonnes of alumina products (including alumina, alumina hydrate and alumina chemicals), representing an increase of 12.9% from the same period last year; for primary aluminum products (including primary aluminum and other primary aluminum products), 366,000 tonnes were produced, representing an increase of 4.9% from the same period last year.

The Company kept abreast of market trends and adjusted its product sales structure. For alumina products, the Company implemented a “one-to-one” sales solution by marketing its products from different plants to nearby regions, thereby stabilizing its customer base. Besides, the Company integrated its domestic sales network and established three sales centers in regions with large sales volume like Guangdong, Shanghai and Chongqing. For the first half of the year, the external sales volume of alumina products was approximately 1,946,000 tonnes, representing an increase of 20.4% from the same period last year. The sales volume for primary aluminum products was 375,000 tonnes, representing an increase of 9.5% from the same period last year. During the first half of 2002, the production to sales ratio of alumina products and primary aluminum products was 100.5% and 102.6% respectively.

The Company further strengthened its cost management and achieved its target for the first half of the year. The unit cash production cost of alumina decreased by 5.4% as compared with the same period last year. The unit cash production cost of primary aluminum decreased by 2.6% with the same calculation base over same period last year. For the first half of the year, the Company put more efforts on recovery of receivables and accordingly, trade receivables were reduced by 5.9% as compared with the end of last year.

The management of the Company placed heavy emphasis on centralization of management and integration, which has achieved good progress. In respect of centralization of fund management and utilization, the Company's fund structure has been further adjusted. In May 2002, the Company has been granted a credit facility of RMB 10.5 billion by China Construction Bank which help to adjust the loan and interest rate structure of the Company and, as a result, the finance costs were reduced. Unified and centralized sales management has achieved real progress. The Company has also implemented a unified pricing system for all of the Company's primary aluminum sales and adjusted the logistic direction of alumina sales.

BUSINESS REVIEW *(continued)*

The Company has enhanced its technical and equipment standards and has strengthened the management review and evaluation system, which led significant growth in technological and economic indicators. For the first half of the year, there was a further reduction in the per unit electricity and gas consumption. Electricity consumption of primary aluminum reduced by 28.6 kWh per tonne as compared with last year, which resulted in a decrease in the cost of production by approximately RMB2.5 million.

The Company has established a company-wide financial information network. The investment management information system has been basically put into operation. The data information processing system for production has also commenced trial operation.

The Company has completed the integration of unified research and development. The sharing of internal science and technology achievements and projects for industrialization of research achievements has already commenced.

The progress of the establishment of a joint venture company to own and operate the Pingguo plant with the cooperation between the Company and Alcoa was undertaken smoothly. The feasibility study report of the joint venture is expected to be submitted shortly to the PRC State Development Planning Commission for approval. Both parties have commenced the drafting and revision of the joint venture contract and relevant articles of association in accordance with the jointly agreed working schedule.

The Company has completed capital investments of RMB1,380 million in the first half of 2002 and the expected amount of investment in the second half of the year will be RMB2,800 million, in keeping with plans noted in the listing.