

BUSINESS REVIEW

The Company continues to focus on the development of its core business, while responding to the market in a positive manner by adjusting its strategies on a timely basis and enhancing its core competitiveness. Over the past few years, we have made unremitting efforts in achieving satisfactory results as evidenced by our integration of business, centralization of management, and implementation of a cost reduction programme, etc. In the first half of the year, despite the sharp rise in the market prices of alumina which allowed us to generate favorable operating results, we did not relax our internal work. We have captured the opportunities arising from the market, trying our best to maximize our operating results.

In the first half of the year, the Company's production volume of alumina products (including alumina, aluminum hydrate, alumina and chemical alumina) increased to a historical high of 2,860,000 tonnes, representing an increase of 8.7% over the same period last year. The production volume of primary aluminum products (including primary aluminum and other primary aluminum products) amounted to 376,000 tonnes, representing an increase of 2.7% over the same period last year. The Company's production and technology economic indicators have further improved by a breakthrough in the progress of refinery technology of "sandy" alumina, which also improved the quality of our alumina products. This improvement will lay down the foundation for further enhancement of the competitiveness of our products.

In the first half of the year, the Company sold 369,200 tonnes of primary aluminum products while the external sales volume of alumina products amounted to 2,135,500 tonnes, representing a production to sales ratio of 98.2% and 100.4%, respectively. By taking advantage of the rebound in the prices of alumina products, the Company is actively reviewing proposals to increase the number of long-term alumina contracts to minimize the impact of price fluctuation of alumina products to the Company's long-term profitability. To minimize the risk involved in contract performance, the Company involved the judicial authority and financial institutions in the process of sales contract negotiation as a means of enhancing contract performance.

The Company, by closely analyzing the international and domestic market trends, has flexibly adjusted its development strategies by increasing investment in alumina and accelerating the construction progress for key projects. Capital expenditure amounted to RMB2,130.8 million in the first half of this year. With respect to project construction, the Pingguo Alumina Phase II Project with an annual capacity of 400,000 tonnes was completed and put into production at the end of June, which was not only six months ahead of schedule but also has saved financial cost and generated substantial economic benefits from the early production. Progress in the construction of the 300,000-tonne "Ore-dressing" Bayer project at the Company's Zhongzhou branch was ahead of schedule and was expected to come into overall trial operation by the end of the year. Construction of the 280,000-tonne aluminum-power joint venture project in Shanxi Province has already commenced and the joint venture company has officially commenced operation. Orderly and planned arrangements and management have ensured the effective implementation of the Company's development strategies.

In line with the new market environment and more stringent listing regulations, the Company has set higher requirements for corporate governance and stringently regulated our operation to meet these new standards. With full awareness of their responsibilities, the directors and senior management strongly believe in the business concept of "good faith as our principal and return as our top priority", which we have conveyed across the Company to each member of the staff. In addition to positioning our business to capitalize on various opportunities, the Company continues to recognize the importance of corporate governance, transparency and disclosure. The Company has established an information disclosure committee headed by the CEO and has taken the initiative to disclose quarterly operational data in the first quarter of 2003 to increase its transparency. Through providing more transparent and timely disclosure of the Company's operating results, we strive to provide our shareholders with a better understanding of the Company.

To enhance the Company's overall management through timely transmission of information and to improve work efficiency and decision-making in relation to informational development, use of network and information management, the Company has accelerated the establishment of an information network as well as software development process in accordance with the principle of "unified planning and diversified implementation". In the first half of the year, initial success was made in the construction of a local area network of the Henan, Shandong, Shanxi and Zhongzhou branches and the research institute. The principal project has almost been completed and the system is in steady operation. The establishment of the Company's internal video conferencing system and the construction of a wide area network have been completed. The development of system application is progressing smoothly. The setting up of a website and the method for information dissemination have almost been completed.