

The Board submits to the Company and its subsidiaries (the "Group") the report together with the audited financial statements for the year ended December 31, 2004.

Principal Activities

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

Financial Summary

The Consolidated Profit and Loss Account of the Group for the year ended December 31, 2004 are set out on page 45 of the Financial Statements. A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 2.

The pro forma combined results of the Group for each of the years ended December 31, 2000 and the pro forma combined assets and liabilities of the Group as of December 31, 2000 are extracted from the prospectus for the initial public offering of the Company's H Shares dated November 30, 2001 (the "Prospectus").

The consolidated assets and liabilities as of December 31, 2001 and the pro forma combined results of the Group for the year then ended are extracted from the 2001 annual report. The consolidated assets and liabilities as of December 31, 2002 and the results of the Group for the year ended December 31, 2002 are extracted from the 2002 annual report. The consolidated assets and liabilities as of December 31, 2003 and the results of the Group for the year ended December 31, 2003 are extracted from the 2003 annual report.

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 Group.

Dividend

The Board proposed to declare a final dividend of RMB0.176 per share, being in total RMB1,944,778,000 based on 11,049,876,153 total issued shares of the Company as of March 28, 2005. The profit distribution plan proposed by the Board will be submitted to the shareholders for review and approval at the Annual General Meeting for 2004.

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 50 and Note 28 to the 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 16 to the 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 2004 dividends) as of December 31, 2004, calculated based on the above principle, amounted to approximately RMB6,423 million.

Use of Proceeds

As of December, 2001, the net proceeds from the Global Offering amounted to approximately RMB3,303 million. As of December 31, 2004, approximately RMB688.5 million was used to settle the current portion of the long-term liabilities and RMB2,614.8 million was used for capital expenditures. The proceeds was all used up at the end of 2004. In January 2004, the Company's net proceeds from its new H Share placement amounted to RMB3,251 million. RMB562 million was used for capital expenditures. The net amount of raising fund was approximately RMB2,689 million, which remained unused are currently deposited with banks.

Designated Deposits and Overdue Time Deposits

As of December 31, 2004, 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.

Taxation

In February 2004, a notice was issued by the State Tax Bureau clarifying the tax matters in relation to the treatment of the Company's taxation for the year ended December 31, 2001. For details please refer to Note 11 to the financial statements.

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 Company during the year amounted to approximately RMB 4,225,000.

Litigation and Contingent Liabilities

(a) Litigation

As of December 31, 2004, the Group has no significant pending litigation.

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

Details regarding the 50/50 equity joint venture to be jointly established by the Company and Alcoa are set out in Note 31(b) to the financial statements.

Directors, Supervisors and Senior Management

The Directors and Supervisors during the year were:

Executive Directors

Mr. Xiao Yaqing	appointed on June 7, 2004
Mr. Xiong Weiping	appointed on June 7, 2004
Mr. Luo Jianchuan	appointed on June 7, 2004
Mr. Chen Jihua	appointed on June 7, 2004
Mr. Guo Shengkun	appointment expired on June 7, 2004
Mr. Liang Zhongxiu	appointment expired on June 7, 2004
Mr. Yin Yufu	appointment expired on June 7, 2004

Non-executive Directors

Mr. Chen Xiaozhou	appointed on June 7, 2004, resigned on March 27, 2005
Mr. Joseph C. Muscari	appointed on June 7, 2004
Mr. Wu Weicheng	appointment expired on June 7, 2004

Independent non-executive Directors

Mr. Chiu Chi Cheong Clifton	appointed on June 7, 2004
Mr. Wang Dianzuo	appointed on June 7, 2004
Mr. Kang Yi	appointed on September 28, 2004

Supervisors

Mr. Luo Tao	appointed on June 7, 2004
Mr. Yuan Li	appointed on June 7, 2004
Mr. Ou Xiaowu	appointed on June 7, 2004

Brief biographical details of Directors, Supervisors and Senior Management are set out on pages 5 to 8.

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 is renewable upon re-election. The first Board and Supervisory Committee will resign from their offices in advance at the close of the Annual General Meeting to be held on June 7, 2004, and the second Board and Supervisory Committee had come into effect upon an approval at such Annual General Meeting.

Due to his engagements in other positions, Mr. Chen Xiaozhou, a non-executive director, resigned from his office as a director of the Company on 27 March 2005. Mr. Shi Chun Gui has been recommended as a candidate for the position of non-executive director of the Company previously assumed by Mr. Chen, Mr. Shi's appointment is subject to approval by the Annual General Meeting to be held on 9 June 2005. Biographical details of Mr. Shi are as follows:

Mr. Shi Chungui, 65, is currently a member of the Expert Consultant Committee of China Xinda Asset Management Company Limited. Mr. Shi graduated from Dongbei University of Finance and Economics in 1964, majoring in Accounting. He is a senior economist and owns extensive experience in finance and governmental and corporate management. Mr. Shi had served as a Deputy Head of Qinghuangdao Commerce Bureau, a Deputy Mayor of Qinghuangdao Municipal Government, the Manager of Hebei province branch of China Construction Bank, the Manager of Beijing city branch of China Construction Bank, a Deputy General Manager of China Construction Bank, and a Vice President of China Xinda Asset Management Company Limited.

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 7 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, 2004.

In addition to fixed remuneration, the Directors, Supervisors and senior management are entitled to discretionary bonus totaling RMB12 million. Out of the total annual discretionary bonus, approximately RMB2.2 million in total will be provided to Directors and Supervisors and RMB9.8 million in total will be provided to senior management. Payments of the discretionary bonus are subject to approval by the shareholders of the Company at the forthcoming Annual General Meeting to be held on June 9, 2005.

The Company proposed to pay an estimated RMB7,800,100 as housing subsidy to relevant Directors and senior management staffs of the Company. A total amount of RMB4,196,900 and RMB3,603,200 were paid to two Directors and two senior management staff respectively. The housing subsidy distributed to Directors will be put into effect after the approval by the shareholders of the Company at the Annual General Meeting to be held on June 9, 2005.

As of December 31, 2004, no stock appreciation rights have 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, 2004, 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 SFO) which are (a) required to be notified to the Company and the 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 Companies.

During the year ended December 31, 2004, 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, 2004, 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 68,615 employees as of December 31, 2004. 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 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, 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 welfare fund are made at rates ranging from 5% to 10% of the Company's after-tax profit. The Company had not paid retirement benefits to its employees as of December 31, 2004.

Share Capital Structure

The share capital structure of the Company as of December 31, 2004 was as follows:

Shareholders of Domestic Shares or H Shares	As of December 31, 2004	
	No. of shares (in millions)	Percentage in issued share capital (%)
<u>Shareholders of Domestic Shares</u>		
Chinalco	4,656.3	42.14
China Cinda	1,610.3	14.57
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

Share capital changes of the Company are set out in Note 28 to the financial statements.

Substantial Shareholders

So far as the Directors are aware, as of December 31, 2004, 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 Securities and Futures Ordinance (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	1,610,332,210	Beneficial owner	corporate	20.78%	14.57%
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 Inc.	H Shares	884,200,000	Interest of controlled corporation	corporate	30.55%	8.00%
Alcoa	H Shares	884,200,000	Beneficial owner	corporate	30.55%	8.00%

Repurchase, Sale or Redemption of the Company's Shares

The Company did not redeem any of its shares during 2004. Neither the Company nor any of its subsidiaries purchased or sold any of its shares during 2004.

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 4.3% and 17.7%, respectively, of the Group's total sales amount of alumina for the year ended December 31, 2004. All of these major customers during the year were domestic aluminum smelters.

The largest customer and the five largest customers of the Group's primary aluminum accounted for 6.6% and 17.5%, respectively, of the Group's sales amount of primary aluminum for the year ended December 31, 2004.

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 1.9% and 7.9%, 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 8.3% and 18.3%, 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 Listing Rules of Hong Kong Stock Exchange) 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, has any interests in the Group's five largest customers or five largest suppliers of the alumina segment or the primary aluminum segment at any time during 2004.

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 in respect of which a waiver has been granted by the Hong Kong Stock Exchange as compared to the amounts incurred by the Group in 2004. The Company had the following connected transactions based on consolidated calculation for the year ended December 31, 2004:

Transactions	Consolidated Consideration (For the year ended 31 December 2004) (in RMB millions)	Comparison with Consolidated Consideration in 2004 (percentage to turnover or Consolidated Consideration in RMB millions)	Proposed Annual limits (% to turnover or transaction 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	927	2.9%	4%
2. <i>Mutual Provision of Production Supplies and Ancillary Services</i> Provision of production supplies and ancillary services by Chinalco to the Company	509	1.6%	5%
3. <i>Purchase of Minerals</i> Supply of bauxite and limestone by Chinalco to the Company	125	0.4%	1.5%
4. <i>Engineering Design and Other Services</i> Provision of engineering design and other services by Chinalco to the Company	946	2.9%	6.7%
5. <i>Land Rental paid to Chinalco</i>	226	—	250
6. <i>Buildings Rental paid to Chinalco</i>	9	—	12
7. <i>Aluminum Ingots Sales Agency</i> Sale of aluminum ingots and alumina by Guizhou Development as agent for the Company	—	—	2
8. <i>Factory and Asset Rental</i> Shanxi Carbon Factory	4	—	11

Transactions	Consolidated Consideration (For the year ended 31 December 2004) (in RMB millions)	Comparison with Consolidated Consideration in 2004 (percentage to turnover or Consolidated Consideration in RMB millions)	Proposed Annual limits (% to turnover or transaction amount in RMB millions)
Revenue			
1. <i>Mutual Provision of Product Supplies and Ancillary Services</i> Provision of product supplies and ancillary services by the Company to Chinalco	1,055	3.3%	12.0%
2. <i>Engineering Design and Other Services</i> Annual revenue from the provision of engineering design and other services by the Group	—	—	3.5
3. <i>Buildings Rental paid by Chinalco</i>	1	—	5
4. <i>Aluminum Ingots and Alumina Supply</i> Supply of aluminum ingots and alumina to Guangxi associate	—	—	126
5. <i>Primary Aluminum Supply</i> Supply of primary aluminum to Xinan Aluminum	698	2.2%	7.8%

As application has been made by the Company, a waiver has been granted by the Hong Kong Stock Exchange to the Company from strict compliance with the general requirements of the rules of connected transaction in the Listing Rules of Hong Kong Stock Exchange in respect of the connected transactions set out above.

The Independent Non-executive Directors have reviewed the above transactions and have confirmed that:

1. the transactions were conducted in the ordinary and usual course of the Company's business;
2. 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; and
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 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 agreed with the Hong Kong Stock Exchange.

In view of the adjustment made by relevant local authorities of the PRC in the standard land price and the increases of land use tax in 2004 by the relevant local authorities, Chinalco had to pay the tax authorities an extra amount of RMB66,000,000 in respect of such adjustment. On January 11, 2005, after arm-length negotiations between the Company and Chinalco, the Company agreed to bear the annual tax increment beginning from January 1, 2004, pursuant to which, the payment of the rental for land use right by the Company increased from RMB173,000,000 to RMB239,000,000. The Company had applied and recommended to the Hong Kong Stock Exchange for the amendment of maximum amount of annual land use right payable by the Company be adjusted from RMB200,000,000 to RMB250,000,000. Such connected transaction has been disclosed in the announcement dated January 20, 2005.

On February 28, 2003, the Company together with Guangxi Investment (the connected party 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 production of alumina. The Company and other investors have decided, subject to obtaining the relevant governmental approvals, to increase the total investment of the JV Co. While waiting for the relevant approval documents, the advance made by the Company to the JV Co. as operating capital amounted to RMB49,500,000. Such connected transaction has been disclosed in the announcement dated January 27, 2005.

In October 2003, Shandong Aluminum Company 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 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 Shanghai Stock Exchange Listing Rules and the transaction was completed in March 2004.

Proposed Application to Issue A Shares in the PRC

On 28th March, 2005, the board of Directors resolved 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. Such resolution is subject to approval by the Company's shareholders at the Annual General Meeting, which will be held on 9th June, 2005.

The amount to be raised from the Proposed A Share Issue is currently expected to be not more than RMB8,000 million. The net proceeds are principally to be used as follows:

1. approximately RMB1,974 million will be used to fund an alumina brownfield project of the Company's Henan branch;
2. approximately RMB538 million will be used to fund an alumina production-line project of the Company's Zhongzhou branch;
3. approximately RMB1,724 million will be used to fund an alumina brownfield and environmental enhancement project of the Company's Guizhou branch;
4. approximately RMB450 million will be used to invest in Shanxi-Huaze Aluminum and Power Company Limited, which investment is expected to be used to fund and develop its aluminum and power generating project;
5. approximately RMB2,000 million will be used to fund the third phase of an alumina brownfield project of the Company's Guangxi branch;
6. approximately RMB98 million will be used to fund a greenfield project of pseudoboehmite production of the Company's Shandong branch;
7. approximately RMB105 million will be used to fund a greenfield project of zeolite production of the Company's Shandong branch;
8. approximately RMB150 million will be used to fund a limestone improvement project of the Company's Shanxi branch;
9. approximately RMB150 million will be used to fund an alumina improvement project of the Company's Shanxi branch.

Significant Events

1. The Company had additionally issued 549,976,000 H Shares on January 6, 2004, raising an amount of approximately RMB3,251,000,000.
2. The Board was re-elected and the second Board was successfully appointed on June 7, 2004.
3. The amendments to the Articles of Association was approved at the Annual General Meeting of the Company on June 7, 2004.
4. Mr. Kang Yi was elected as the Independent Non-executive Director of the Company in the Extraordinary General Meeting on September 28, 2004.

The Code of Best Practice

During the year ended December 31, 2004, the Company was in compliance with the Code of Best Practice as set out in appendix 14 of the 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 "Guidelines of Effective Operation for Audit Committee" published by the Hong Kong Institute of Certificated Public Accountants and Rule 10A-3 of The Securities Exchange Act of 1934. For details, please refer to page 16.

Auditors

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

By order of the Board
Xiao Yaqing
Chairman

Beijing, the PRC
March 28, 2005