



ALUMINA

The first half of 2005 saw no essential change in either international or domestic supply and demand of alumina, with alumina prices maintaining high. The alumina FOB price in the international market basically ranged between US\$430 and US\$470 per tonne. Imported alumina was sold in domestic market at stable prices ranging from RMB4,700 to RMB4,850 per tonne. The average spot retailing price of domestic-made alumina was RMB4,316 per tonne, and its current price is RMB4,330 per tonne.

In the first half of 2005, the global alumina production amounted to 30,070,000 tonnes with a consumption of 30,230,000 tonnes, representing a year-on-year increase of 5.3% and 6.1% respectively. The wide shortfall of domestic-made alumina supply amounted to as large as 48%, resulting in a shortage situation that is still to be eased effectively. In the first half of 2005, China produced 3,950,000 tonnes of alumina, representing a year-on-year increase of 15.5%; the supply of alumina amounted to 7,620,000 tonnes, representing a year-on-year increase of 17.2%. In the first half of 2005, China imported 3,670,000 tonnes of alumina.

BUSINESS REVIEW

Based on sufficient study on the State's policies and market analysis in the first half of 2005, the Company formulated effective measures in accordance with its annual targets. Despite the impact from various factors including increasing prices of raw materials and power, the Company leveraged market opportunities to speed up its development and put more efforts in management fundamentals and technological upgrades, with satisfactory results in production and operations.

- Facing by the changing market situation, the Company accelerated the construction of new alumina projects and captured the favorable opportunities of acquisition and merger in the primary aluminum industry. The Company also fully capitalized on such opportunities brought forth by the alleviation in external power supply and transportation to carefully schedule its production. As a result, production level hit another historical high. During the first half of this year, the production volume of alumina amounted to 3,490,000 tonnes, representing an increase of 12.6% over the corresponding period last year. The production of alumina chemicals namely, multi-variety alumina and alumina hydrate was 465,000 tonnes, representing an increase of 21.1% compared to the same period last year. The production (inclusive of the 42,000 tonnes produced by Lanzhou Aluminum in the second quarter) of primary aluminum products amounted to 465,000 tonnes, representing an increase of 29.9% over the corresponding period last year.
- The Company attached great importance to rationalized management and enhanced management fundamentals. With its fast development, the Company focused on implementation of the "strict, specialization, practice, innovation, sustainability and balance" management concepts. To address the surging energy price, the Company further optimized major technological and economic indexes of process operations. For the composite energy consumption of alumina, a decrease of 7% was recorded as compared with the corresponding period last year.

In response to the increasingly intensified competition in product market, the Company established Shandong Alumina Chemicals Sales Department and started the centralized sales of alumina chemicals, thus improving its product coverage and competitiveness.

The Company initiated such activities as “promoting clean production and developing recycling economy to strive for building a resource-saving enterprise”, so as to facilitate the effective running of three systems of quality, environment and safety management.

- The Company established a mining branch to strengthen resource management and exploration of new bauxite resources, leading to an additional bauxite reserve of 34,700,000 tonnes in the first half of this year. Meanwhile, the Company broadened the communication and cooperation with major bauxite fields, with progress in securing its self-owned bauxite resources through optimized resources allocation.
- Several capital operations were accomplished. With the acquisition of 28% interests in Lanzhou Aluminum in March 2005, the Company became its largest shareholder. The annual smelting capacity of Lanzhou Aluminium is approximately 160,000 tonnes.

On June 15, 2005, the Company successfully issued the first tranche of short-term bonds amounting to RMB2billion in the PRC with a maturity of 365 days. The Company was authorized to issue short-term debentures in the aggregate principal amount of up to RMB5billion and plans to complete the issue within one year following the initial issue.

At the annual general meeting of the Company held on June 9, 2005, the Company was approved to submit applications to China Securities Regulatory Commission for the issue of up to 1,500,000,000 A Shares to the PRC public, and to the Shanghai Stock Exchange for the listing of its A Shares thereon. Currently, preparation for the said applications is currently in progress.

- The Group accelerated its overseas development projects which were progressing smoothly.
 - In May 2004, the Company entered into a non-binding framework agreement with Companhia Vale do Rio Doce of Brazil (“CVRD”) for the feasibility study of establishing a new refinery, ABC Alumina Refinery, for alumina production in Brazil. In the early 2005, the Company and CVRD embarked on the joint feasibility study of ABC project and began discussions on the relevant projects. The feasibility study is estimated to be completed in the second half of 2005. Phase I of the project is expected to be completed and put into production in 2008.
 - Following the submission of a letter of registration to the Queensland government in 2004, the Chinese joint parties led by the Company started the relevant preparation for the bidding, and had extensive communications with the Queensland government for the project development. The Chinese joint parties expect to re-submit a letter of intent to the Queensland government according to its requirement on bidding procedures in the second half of 2005. The bidding document is expected to be submitted in early 2006.
 - The Dak Nong project regarding alumina in Vietnam led by the Company was in smooth progress. The preliminary feasibility study report prepared by the Company was completed in the second quarter and submitted to the Vietnam government. The feasibility study of such project is expected to kick off within this year.



- By focusing on its core business and capitalizing on market opportunities, the Group speeded up the expansion of production capacity and the construction of projects. For the first half of 2005, the Group's capital expenditure amounted to approximately RMB4.22billion:
- The second production line of the 300,000-tonne alumina ore-dressing Bayer project was put into production in Zhongzhou Branch;
 - The main body of the 280,000-tonne aluminum and power joint project in Shanxi Huaze Aluminum and Power Company Limited was basically completed;
 - The smelting process of the 85,000-tonne primary aluminum project in Qinghai Branch was fully completed;
 - The 800,000-tonne alumina phase III project in Shanxi Branch, the 700,000-tonne alumina project in Henan Branch and the 170,000-tonne series IV smelting brownfield project in Guizhou Branch were in smooth progress.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion and analysis should be read in conjunction with the Group's condensed interim financial statements together with the notes thereto as contained elsewhere in the interim report. The condensed interim financial statements have been prepared in accordance with HK GAAP, which may materially differ in certain respects from U.S. GAAP. A discussion of the material differences is set out in the Note 23 to the condensed interim financial statements.

OVERVIEW

The Group is engaged principally in alumina refining and primary aluminum smelting. The Group organizes and manages its operations according to the following business segments:

- Alumina segment, which consists of mining and purchasing bauxite and other raw materials, refining bauxite into alumina, and selling alumina, alumina chemicals and gallium.
- Primary aluminum segment, which consists of procuring alumina and other raw materials, supplemental materials and electricity, smelting alumina to produce primary aluminum, and selling primary aluminum, carbon products and small portion of aluminum fabrication products.
- Corporate and other services segment, which includes the headquarters' operations, research conducted by the Group's research institutes and provision of the Group's research and development services to third parties.