



- 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.

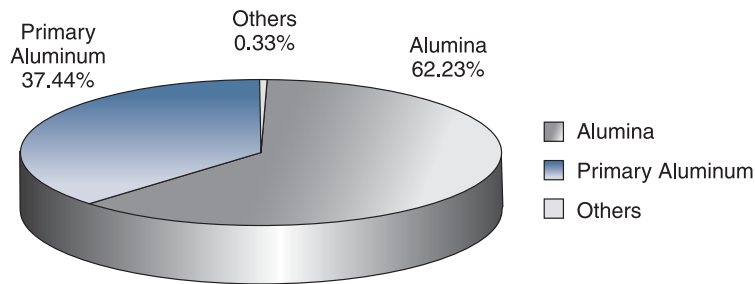
RESULTS OF OPERATION

The Group's net profit attributable to shareholders of the Company amounted to RMB3,554million for the six months ended June 30, 2005, representing an increase of RMB62million from RMB3,492million for the same period last year.

REVENUE

The Group's turnover increased by 25.65% from RMB14,205million for the first half of 2004 to RMB17,849million for the first half of 2005, representing an increase of RMB3,644million. The increase was primarily due to the growth in external sales volume of alumina and primary aluminum. However, the decline in selling price of primary aluminum had partially offset the impact of increase in sales volume. The Group's external sales volume of primary aluminum increased from 278,400 tonnes of the first half of 2004 to 425,800 tonnes for the first half of 2005, up 147,400 tonnes or 52.95%; the sales volume of alumina increased from 3,047,100 tonnes for the first half of 2004 to 3,514,800 tonnes for the first half of 2005, up 467,700 tonnes or 15.35%.

Segment turnover



For the first half of 2005, the Group's external selling price of alumina reached RMB3,221.2 per tonne (tax excluded, similarly hereinafter), basically equivalent to the selling price of RMB3,216.7 per tonne for the same period last year. For the first half of 2005, the market selling price of alumina in spot market is slightly higher than last year. However, as the Company desired to nourish, stabilize and consolidate the source of customers so as to guarantee steady selling price of alumina in long-term, the ratio of long-term contracts had been increased strategically; thus, the external selling price of alumina had been driven down generally.

For the first half of 2005, the Group's external selling price for primary aluminum product reached RMB 14,227.25 per tonnes, decreased by RMB60.29 per tonne from RMB14,287.54 per tonne for the same period last year.

COST OF GOODS SOLD

The Group's total cost of goods sold increased by RMB3,193million, up 37.2%, from RMB8,579million for the first half of 2004 to RMB11,772million for the first half of 2005. The increase was mainly attributable to an increase in sales volume of alumina and primary aluminum, which accounted for 69.1% of the increase of the total cost of goods sold. As affected by the increase in prices of raw materials and fuel, unit production costs of primary aluminum and alumina products increased. As a result, the effect accounted for 16.6% of the increase in costs of goods sold while the remaining 14.3% of the increase in cost of goods sold was contributed by other reasons (the increase in costs of imported alumina).



OTHER GAINS, NET

The Group's other net gains in the first half of 2005 amounted to RMB93.22million, representing an increase of RMB70.74million as compared with RMB22.48million in the corresponding period last year, which was mainly attributable to Chalco International Trading, a subsidiary of the Company, settled part of its primary aluminum futures contracts, resulting in the loss on futures contract of RMB33.25million for the first half of 2004 changed to a profit of RMB16.04million for the first half of 2005 and increase in interest income of RMB16.66 million.

SELLING AND DISTRIBUTION EXPENSES

The Group's selling and distribution expenses increased by RMB21million, or 7.05%, from RMB298million for the first half of 2004 to RMB319million for the first half of 2005. The increase in sales volume of primary aluminum resulted in the growth of packaging expenses and transportation and loading costs.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses increased by RMB83million or 15.84% from RMB524million for the first half of 2004 to RMB607million for the first half of 2005. This is mainly due to an increase of RMB36million in administrative expenses as a result of the increase in land rental due to the adjustment of state-owned land premium as well as the new office buildings leased by the Company; and an increase of RMB28million in taxes other than income taxes related to the expansion of business in the year. Besides, insurance and other expenses of the Company increased by approximately RMB19million.

RESEARCH AND DEVELOPMENT COSTS

The Group's research and development costs decreased by RMB5.68million or 9.78% from RMB58.09million for the first half of 2004 to RMB52.41million for the first half of 2005. The decrease was primarily due to the amount of preliminary expenses required in the new project development was less in 2005.

OPERATING PROFIT

The Group's operating profit rose by RMB424million from RMB4,768million for the first half of 2004 to RMB5,192million for the first half of 2005, up 8.9%.

For the first half year of 2004 and 2005, the Group's operating profits as a percentage of turnover were 33.6 % and 29.1% respectively.

FINANCE COSTS

The Group's finance costs for the first half of 2005 and the first half of 2004 amounted to RMB181 million and RMB192 million (as previously reported), respectively. As a result of the adoption of the new HKFRS, exchange gain (net) for the first half of 2004 of RMB14 million was reclassified under finance costs; additional interest expenses of RMB146 million were capitalized. The restated finance costs for the first half of 2004 amounted to RMB33 million.

The Group's finance costs increased by RMB148 million from RMB 33million for the first half of 2004 to RMB181 million for the first half of 2005. The increases were mainly attributable to completion of part of the capital expenditure projects and thus interests expenses capitalized decreased accordingly.

INCOME TAXES

The Group's income tax expense grew by RMB256million or 23.75% from RMB1,078 million (restated) for the first half of 2004 to RMB1,334million for the first half of 2005. Such growth was mainly due to the addition of approximately RMB169million in income taxes resulting from the rise in the Company's profit. Pursuant to "Lu Guo Shui Han [2004] No. 319" issued by the Shandong Province Tax Bureau of the PRC in the second half of 2004, a subsidiary of the Company in Shandong Province previously subject to an income tax rate of 15% is taxed at 33% since January 1, 2004. As the income tax expenses of this subsidiary was calculated at the income tax rate of 15% in the 2004 interim financial statements retrospectively, the income tax for the first half of 2005 increased by approximately RMB109 million over the same period last year.

The Group's average income tax rate was 26.6% during the first half of 2005, which was lower than the statutory tax rate of 33%. This was mainly because three branches of the Company situated in Guizhou Province, Pingguo County and Qinghai Province in the western region of the PRC were entitled to a preferential income tax rate of 15% in connection with the national policy to develop the western region.

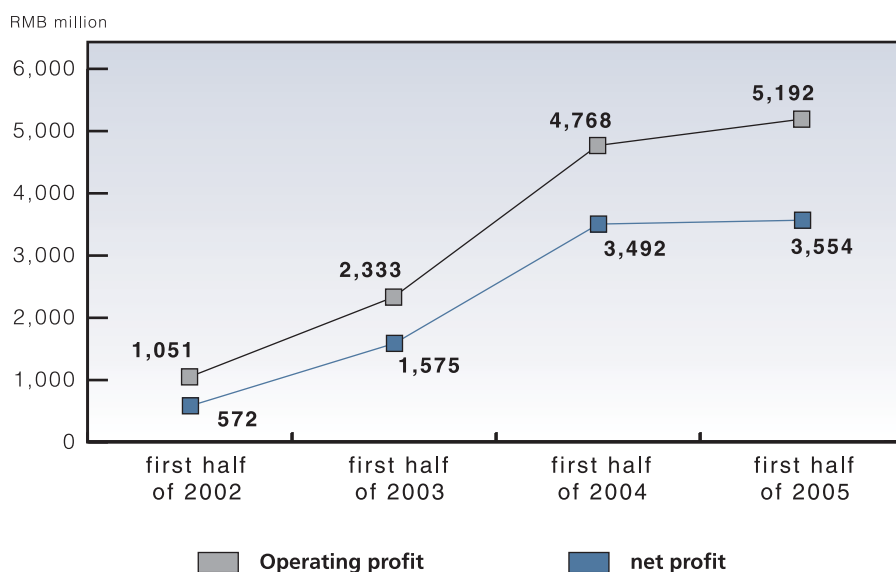
MINORITY INTERESTS

Minority interests decreased from RMB165million for the first half of 2004 to RMB129million for the first half of 2005. This was mainly attributable to the decrease of net profit for the first half of 2005 as compared with the same for the first half of 2004 resulting from the adjustment of corporate income tax rate applicable to the Company's subsidiary, Shandong Aluminum Industry Co., Ltd., which had minority interests.

PROFIT FOR THE PERIOD

As a result of the foregoing, the Group's net profit attributable to shareholders of the Company for the period increased from RMB3,492million for the first half of 2004 to RMB3,554million for the first half of 2005.

Operating profit and net profit for the first half of historical years





DISCUSSION OF SEGMENT OPERATIONS

ALUMINA SEGMENT

Sales of Goods

The Group's total sales of goods of the alumina segment increased by RMB 2,051million, or 18.06%, to RMB13,407million for the first half of 2005 from RMB11,356million for the first half of 2004. This was mainly attributable to the increase in alumina production from 3,047,100 tonnes for the first half of 2004 to 3,514,800 tonnes for the first half of 2005, up 15.35%.

Revenue of external sales of alumina for the first half of 2005 increased by RMB1,754million or 18.75% to RMB11,108million as compared with RMB9,354million for the same period in 2004. This was mainly attributable to the increase in the Group's external sales volume of alumina.

Revenue from sales of alumina to the Group's smelters increased by RMB297million to RMB2,299million in the first half of 2005 as compared with RMB2,002million for the same period last year. The increase was mainly due to the increase in productivity of the Group's smelters and the increase in supply of alumina for production to the Group's smelters from the alumina refineries.

Cost of Goods Sold

For the first half of 2005, the total cost of goods sold in the Group's alumina segment increased by RMB1,596million or 26.22 % to RMB7,683million as compared with RMB6,087million for the same period last year. The rise was mainly due to the increase in sales volume and unit cost of alumina products, with 58.5% of the increase in total selling cost of the segment due to the growth of sales volume of alumina and 35.0% of the increase in total selling cost of the segment as a result of the rise in unit production cost. The increased unit production cost of alumina products was mainly attributable to the growth in unit production cost owing to the increased prices of raw materials and fuels. The decreased materials consumption partially offset the impacts of increased prices of raw materials and fuels. The decrease in materials consumption mainly benefited from the improved technological and economic indexes as compared with 2004 along with the incremental improvements of technological renovations of the Group's plants.

To effectively control the rising prices of bauxite, the Group established a mining branch in Henan Province in March 2005, to be responsible for the Company's bauxite mining and procurement in Henan Province. The price of bauxite outsourced by the Group began to fall from April 2005 and had declined by approximately 6% by the end of June from the beginning of the year.

Operating Profit

As a result of the foregoing, total operating profit for the alumina segment increased by 7.78% from RMB4,846million for the first half of 2004 to RMB5,223million for the first half of 2005. The operating profit of the alumina segment as a percentage of sales of goods of the Company decreased from 42.67% for the first half of 2004 to 38.96% for the same period of 2005.

PRIMARY ALUMINUM SEGMENT

Sales of Goods

The Group's total sales of goods for the primary aluminum segment increased by RMB1,876million, or 39.03%, from RMB4,806million for the first half of 2004 to RMB6,682million for the first half of 2005. The Group's total sales volume of primary aluminum increased by 147,400 tonnes, or 52.95%, from 278,400 tonnes for the first half of 2004 to 425,800 tonnes for the first half of 2005. The decrease in the price of primary aluminum together with curtailment of sales of other products such as carbon offset part of the growth of sales volume. The sales amount of primary aluminum represented 83.4% and 90.7% of the sales amount of primary aluminum segment for the year of 2004 and 2005.

Cost of Goods Sold

The total cost of goods sold for the Group's primary aluminum segment increased by 42.24% from RMB4,422million for the first half of 2004 to RMB6,290million for the same period of 2005. This was mainly attributable to the increase in sales volume of primary aluminum products.

Operating Profit

Operating profit of the primary aluminum segment increased by RMB45million from RMB125million for the first half of 2004 to RMB170million for the first half of 2005, mainly due to the increased sales volume of primary aluminum products.

CORPORATE AND OTHER SERVICES SEGMENT

The Group's corporate and other services segment reflected the expenses for the Company's headquarters as well as research and development services and product sales of the Group's research institute provided to external customers.

This segment recorded an operating loss of RMB41.87million for the period ended June 30, 2005, representing an increase from the loss of RMB21.04million for the first half of 2004, which was primarily due to the Company's leasing of new office.

WORKING CAPITAL AND LIABILITIES

As of June 30, 2005, the Group's current assets amounted to RMB14,251million, basically equivalent to the amount of RMB14,357million as of December 31, 2004.

- the Group's inventories increased by RMB626million to RMB5,858million from RMB5,232million as of December 31, 2004. The increase was mainly attributable to the increased prices of raw materials and reserves.
- the Group's net accounts receivable amounted to RMB2,143million, representing an increase of RMB178million over RMB1,965million as of December 31, 2004, of which bills receivable and trade receivables increased by RMB229million and decreased by RMB51million, respectively.



As of June 30, 2005, the Group had current liabilities of RMB13,984million, representing an increase by RMB791million from RMB13,193million as of December 31, 2004. Among the current liabilities, corporate short-term bonds issued by the Group amounted to RMB1,946million, while long-term loans due within one year increased by RMB301million, representing an increase of current liabilities of RMB2,247million in total. Meanwhile, other payables and accruals decreased by RMB760million, while the payment of tax resulted in the income tax payables decreased by RMB377million, together with short-term loans decreased by RMB283million, leading to current liabilities decreased by RMB1,420million in total.

In 2005, more inter-bank financing channels became available to enterprises as a result of the implementation of the PRC's financial system reform. Honourably, the Group was listed as one of the first group of enterprises that are approved to issue short-term bonds and was granted an issue facility amounting to RMB5billion. Through this issue, the Group was qualified for inter-bank financial market and further expanded its financing channels.

In June 2005, the Group issued RMB2billion of short-term zero-coupon bonds at the issuing price of RMB97.16 each (face value of RMB100 per unit) with effective interest rate of 3.33%, from which a total of RMB1,943million was financed. Due to the lower cost of short-term bonds as compared with that of bank loans under the same term, approximately RMB36million per year of interest expenses can be saved. The remaining RMB3billion of bonds will be issued by the Company when appropriate.

Therefore, the Group had net current assets of RMB267million as of June 30, 2005, representing a decrease of RMB896million from RMB1,163million as of December 31, 2004.

As of June 30, 2005, the Group had RMB8,283million of long-term loans (net of balance repayable within one year), representing an increase of RMB891million from RMB7,392million as of December 31, 2004. primarily attributable to the additional capital expenditure which were financed by long-term loans.

As of June 30, 2005, the gearing ratio (total debts over total debts plus total equity) in the financial statement of the Group amounted to 33.61%, representing an increase of 3.43 percentage points as compared with the 30.18% at the end of 2004.

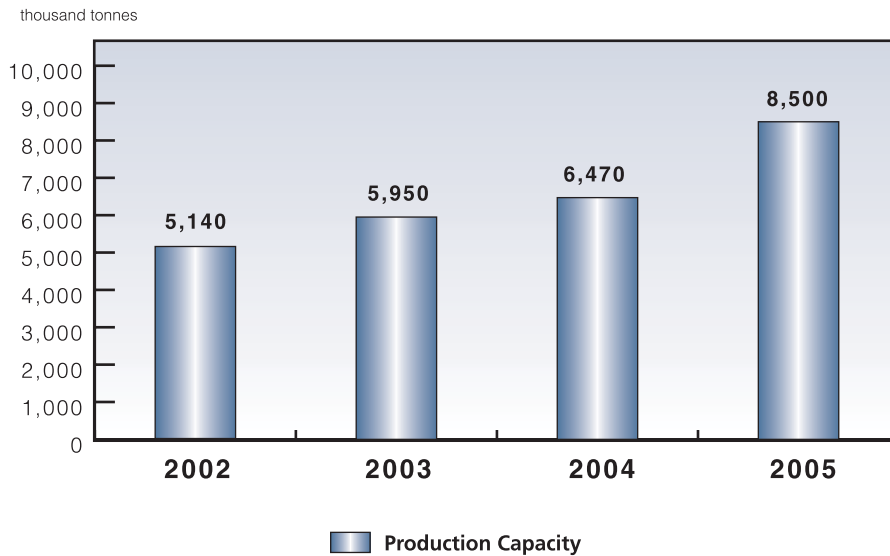
In view of the Group's creditability and the availability of funds in China, the Group does not foresee any significant difficulties in obtaining bank loans in the future. The Company plans to finance its capital expenditure projects and related expenditures principally through cash generated from operating activities, long-term and short-term borrowings and short-term bonds. The Group will also, if necessary, finance its capital expenditures through other channels. The Group has also established standby credit facilities with domestic banks for an aggregate of RMB33,728million to finance any funding shortfall related to its alumina and primary aluminum projects and for relevant working capital purposes. The Group believes that its working capital is sufficient for the present needs.

CAPITAL EXPENDITURE AND CAPITAL COMMITMENTS

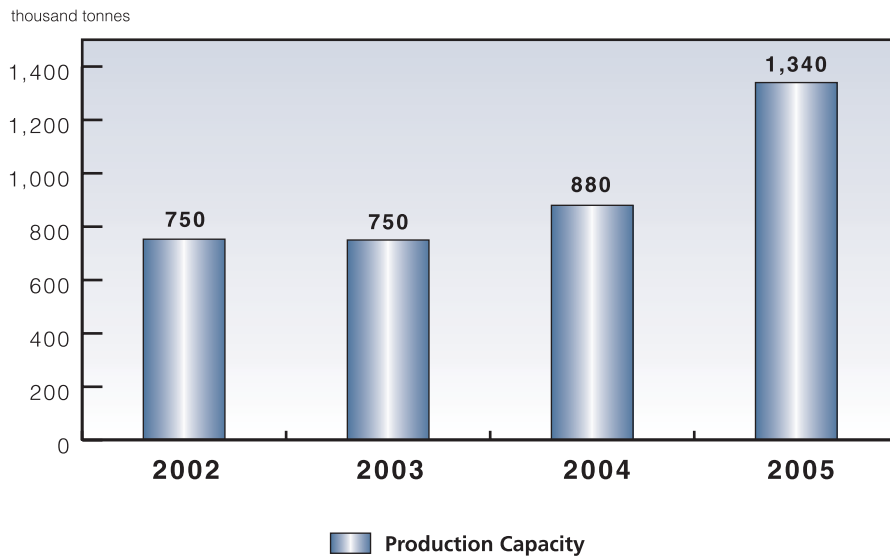
During the first half of 2005, the Group had completed investment in fixed assets of RMB4,216million in total. As of June 30, 2005, the capital commitments of the Group to the property, plant and equipment amounted to RMB 8,561 million, of which, RMB1,965 million represented commitments contracted but not provided for and RMB6,596 million represented commitments approved but not contracted for. The capital was mainly used to finance the 280,000-tonne aluminum project of an associated company Huaze Aluminum and Power Company, the 800,000-tonne alumina project Phase III in Shanxi, the 700,000-tonne alumina project in Henan, the 300,000-tonne alumina project in Zhongzhou and the Company's other technology improvement projects.

As a result of increasing investments in new projects and technology improvement, the Group's capacity and output of alumina and primary aluminum increased continuously. The production capacity of alumina increased from 6.47million tonnes in 2004 to 8.5million tonnes in 2005, while that of primary aluminum increased from 833,000million tonnes in 2004 to 1.34million tonnes in 2005.

The production capacity of alumina for the historical years



The production capacity of primary aluminum for the historical years





In March 2005, with the acquisition of 28% equity interest in Lanzhou Aluminum at a cash consideration of RMB768million, the Company became its largest shareholder. According to the Articles of Association of Lanzhou Aluminum, the board of directors of the company comprises 9 directors, of which six are non-independent directors and three are independent directors. Among the nine existing members in the board of directors of Lanzhou Aluminum, the Company currently has five non-independent directors, representing a majority of the board of directors of the company.

Lanzhou Aluminum is an A Shares company (stock code:600296) listed on Shanghai Stock Exchange in the PRC, principally engaged in the production and sales of primary aluminum products. As of June 30, 2005, according to the unaudited interim report prepared under PRC GAAP of Lanzhou Aluminum, the total asset of Lanzhou Aluminum amounted to RMB3,650million, while issued share capital and reserve amounted to RMB2,825million. Lanzhou Aluminum produced 82,500 tonnes primary aluminum. The revenue for the first half of 2005 was RMB1,339million, with operating profit amounted to RMB79million, while net profit amounted to RMB55million. Interest in Lanzhou Aluminum is accounted for using equity method by the Company.

The acquisition of Lanzhou Aluminum by the Company will further reduce the market operating risk of the Group, leading to an improvement in the Company's market share in the domestic primary aluminum market.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents of the Group as of June 30, 2005 totaled RMB5,349million, including foreign currency denominated deposits of US\$1.69million.

NET CASH FLOWS FROM OPERATING ACTIVITIES

Net cash flows from operating activities increased by RMB272million or 9.75% from RMB2,789million for the first half of 2004 to RMB3,061million for the same period of 2005. The increase was primarily due to the increase in operating profit for the period of the Company as compared with the same period last year.

NET CASH FLOWS FROM INVESTING ACTIVITIES

Net cash outflows from investing activities increased by RMB1,057million or 27.76% to RMB4,865million for the first half of 2005 from RMB3,808million for the first half of 2004. The increase was primarily due to the increase in capital expenditure of the Company.

NET CASH FLOWS FROM FINANCING ACTIVITIES

Net cash inflows from financing activities amounted to RMB929million for the first half of 2005, representing a decrease of RMB1,834million as compared with RMB2,763million for the corresponding period last year, which was mainly attributable to the proceeds of RMB3,301million from issue of shares by the Company in the corresponding period last year; the Company issued short-term bonds of RMB1,946million and new borrowings of RMB553million in the period; while the final dividend paid increased by RMB884million as compared to the same period last year.

FOREIGN EXCHANGE RATE RISK

The Group conducts its business primarily in Renminbi.

The People's Bank of China announced on July 21, 2005 that Renminbi's peg to the United States Dollar would be replaced with a more flexible exchange rate regime referenced on a basket of currencies.

As the volume of imported alumina and loans denominated in foreign currency of the Group were relatively limited, therefore, the appreciation of Renminbi will not have substantial impact on the production and operation of the Group. In respect of production costs, the appreciation of Renminbi will increase the Company's pressure in competing in the international market to a certain extent.

EXCHANGE RATE SWAP BUSINESS

In consideration of the interest rate of loans denominated in US dollars in the domestic market is approximately 1 percentage point lower than loans denominated in Renminbi in the same period, the Group borrowed loans of US\$15million and US\$85million on March 11, 2005 and May 13, 2005 respectively. To avoid the risk posed by the changes in exchange rate at the time the loans fall due, the Company entered into "Interest/exchange rate swap Agreement" totalled to US\$100million by instalments with banks as a way to fix the exchange rate of the US dollars denominated loans. The agreement is a hedge against the US dollars denominated loans.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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. At the 2004 Annual General Meeting held on June 9, 2005, Shi Chungui was appointed as a Non-executive Director in place of Chen Xiaozhou. Members of the second Board of Directors and Supervisory Committee are:

Executive Directors:	Xiao Yaqing, Xiong Weiping, Luo Jianchuan, Chen Jihua
Non-executive Directors:	Shi Chungui, Joseph C. Muscari
Independent Non-executive Directors:	Chiu Chi Cheong Clifton, Wang Dianzuo, Kang Yi
Supervisors:	Luo Tao, Yuan Li, Ou Xiaowu

EMPLOYEES, PENSION PLANS AND WELFARE FUND

The Group had approximately 68,750 employees as of June 30, 2005. The remuneration package of the employees includes wages, 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 the 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 around 20% from plant to plant, 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 by the end of June 30, 2005.