

Corporate Governance Practices

The Company is committed to sound corporate governance. The Board has reviewed its corporate governance documents and is of the view that other than Code A.2.1, such documents have incorporated the principles and code provisions in the “Code on Corporate Governance Practices” (the “CG Code”) as set out in Appendix 14 of the Hong Kong Listing Rules.

Code A.2.1 of the CG Code requires that the roles of chairman and chief executive officer should be two separate roles and should not be performed by the same individual. Currently, Mr. Xiao Yaqing serves as the Chairman of the Board as well as the Chief Executive Officer of the Company. Despite such deviation, the Directors are of the opinion that this arrangement is for the benefit of the long term development of the Company and would better coordinate the Board and the executive management.

The Directors believe that the Articles of Association, the scope of responsibilities of the Audit Committee, the scope of responsibilities of the Supervisory Committee and the codes on securities dealings by directors and certain relevant employees, which constitute the basis for the regular codes on corporate governance of the Company, have covered the principles and the code provisions of the Code on Corporate Governance Practice as set out in Appendix 14 to the Hong Kong Listing Rules. In respect of the following areas, our internal corporate governance documents are more stringent than the Code on Corporate Governance Practices:

1. In addition to the Audit Committee and Remuneration and Nomination Committee, the Company has also established a Planning and Development Committee and Disclosure Committee.



2. All members of the audit committee are Independent Non-executive Directors, of whom Mr. Poon Yiu Kin, Samuel, the Chairman of the committee, holds the relevant professional qualification or professional knowledge related to accounting or financial management.

Securities Transactions of the Directors, Supervisors & Relevant Employees

The Board has formulated written guidelines on securities transactions by the Directors, Supervisors and relevant employees of the Company which are on terms no less than the required standard set out in the Model Code under Appendix 10 of the Hong Kong Listing Rules. Following a specific enquiry by the Company, all Directors, Supervisors and relevant employees have confirmed that they have fully complied with the required standards set out in the guidelines.

The Board

The second session of the Board consists of nine Directors, with four Executive Directors, namely Mr. Xiao Yaqing, Mr. Luo Jianchuan, Mr. Chen Jihua and Mr. Zhang Chengzhong, two Non-executive Directors, namely Mr. Shi Chungui and Mr. Joseph C. Muscari, and three Independent Non-executive Directors, namely Mr. Poon Yiu Kin, Samuel, Mr. Wang Diansuo and Mr. Kang Yi. Mr. Xiao Yaqing is Chairman and Chief Executive Officer ("CEO"). Due to job re-allocation, Mr. Xiong Weiping resigned from his office as an Executive Director of the Company on August 23, 2006. Mr. Zhang Chengzhong was appointed as an Executive Director of the Company to replace Mr. Xiong Weiping at the Extraordinary General Meeting on October 13, 2006. After due enquiry, the Board considered Mr. Poon Yiu Kin, Samuel, Mr. Wang Diansuo and Mr. Kang Yi to be independent pursuant to the guidelines set out in Rule 3.13 of the Hong Kong Listing Rules. The term of office for all Directors of the second session of the Board will expire at the conclusion of the Annual General Meeting of the Company for financial year 2006.

Each Director of the Board will act in the interests of the shareholders, and uses his best endeavors to perform the duties and obligations as a director in accordance with all the applicable laws and regulations. Duties of the Board include: deciding on the Company's business plan and investment scheme, preparing the Company's profit distribution and loss recovery proposals, formulating the Company's capital operation proposals, and implementing resolutions approved at Shareholders' meetings etc.

The Chairman of the Board is responsible for ensuring that the Directors perform their duties and obligations and maintaining effective operation of the Board as well as ensuring discussion of all material matters on a timely basis. The Chairman has conducted interviews individually with each of the Non-executive Directors to understand their opinions and advice on the operation of the Company and the duties of the Board.

The Secretarial Office of the Board offers comprehensive services to the Directors and provides all the directors with sufficient information relating to the Company on a timely basis in order to enhance their understanding of the Company. It also effectively maintains communications with shareholders to ensure that the views of the shareholders will reach the Board.

The Company has appointed a sufficient number of Independent Non-executive Directors with suitable professional qualifications, such as expertise in accounting or financial management, in accordance with the requirements of the Hong Kong Listing Rules. The Company's three Independent Non-executive Directors are independent of the Company. They are professionals with extensive experience in the respective fields of finance, resources and metallurgy. They have provided the Company with professional advice with respect to the steady operation and development of the Company. They have also provided supervision in safeguarding and coordinating the interests of the Company and its shareholders.

Other than their working relationships with the Company, none of the Directors, Supervisors or the senior management has any financial, business or family relationships or any relationships in other material aspects with each other.

Other than the service contract entered into by each of them, none of the Directors or the Supervisors has any personal and substantive interest, direct or indirect, in the material contracts entered into by the Company or any of its subsidiaries during 2006.

In 2006, the Company held four regular Board meetings, with an average participation rate of 86.12%, in which, Mr. Xiong Weiping, Mr. Luo Jianchuan, Mr. Chen Jihua, Mr. Zhang Chengzhong, Mr. Shi Chungui and Mr. Poon Yiu Kin, Samuel, each had 4 participations. Mr. Xiao Yaqing, Mr. Wang Dianzuo and Mr. Kang Yi each had 3 participations, and Mr. Joseph C. Muscari had 2 participations. Details of the meetings are recorded by a designated officer, and all proposals approved in each meeting are passed as resolutions of the Board, which are recorded and stored electronically in accordance with relevant laws and regulations. The principal activities of the Board in 2006 were as follows:

- Review of the Company's annual business plan and budget;
- Review of the Company's annual and interim results;
- Review of annual profit distribution and final dividend distribution proposals;
- Review of significant investments and merger/acquisition projects;
- Review of the Company's remuneration scheme for Directors, Supervisors and senior management etc.

The schedule of the half-year and annual Board Meeting and the major agendas were confirmed in the previous year to ensure all Directors have the opportunity to propose the matters to be discussed at the meetings. Each board meeting will be notified fourteen days before convening the meeting and the resolutions will be provided to the Directors ten days prior to the meeting, which gives them sufficient time to review the resolutions.

The Board attached great importance to the changes of the external environment. In 2006, the Company seized market opportunities and completed the adjustment to its development strategies, maintaining steady earnings against the market risk of alumina price downturn.

Report of Corporate Governance (Continued)

The total remuneration, including the basic salary, performance-linked salary, incentive-linked salary and discretionary bonus of the Directors in 2006 amounted to RMB5,813,000. Independent Non-executive Directors are only entitled to receive director's fees but not other salaries or remuneration.

The remuneration of each Director for the year was as follows:

Xiao Yaqing: RMB1,395,000 (payment of a discretionary bonus of RMB622,000 is not paid during the current period);

Xiong Weiping: RMB781,000 (payment of a discretionary bonus of RMB346,000 is not paid during the current period);

Luo Jianchuan: RMB925,000 (payment of a discretionary bonus of RMB351,000 is not paid during the current period);

Chen Jihua: RMB807,000 (payment of a discretionary bonus of RMB282,000 is not paid during the current period);

Zhang Chengzhong: RMB807,700 (payment of a discretionary bonus of RMB282,000 is not paid during the current period);

Shi Chungui: RMB150,000;

Joseph C. Muscari: RMB150,000;

Wang Dianzuo: RMB266,000;

Kang Yi: RMB266,000;

Poon Yiu Kin, Samuel: RMB266,000.

As of December 31, 2006, no stock appreciation rights had been granted under the Stock Appreciation Rights Plan adopted by the Company.

Audit Committee

An Audit Committee has been established under the Board. The Audit Committee's duties are mainly to review the Company's financial reports, consider the appointment of independent auditors and approve audit and audit-related services, and supervise the Company's internal financial reporting procedures and management policies.

The Committee comprised three Independent Non-executive Directors, namely Mr. Poon Yiu Kin, Samuel, Mr. Wang Dianzuo and Mr. Kang Yi. Mr. Poon is the Chairman of the Committee.

The Audit Committee shall annually hold at least two meetings to review the accounting policies, internal control and the relevant financial issues and connected transactions of the Group, so as to ensure completeness, fairness and accuracy of the Company's financial statements and other relevant information. In 2006, the Audit Committee held four meetings with an average participation rate of 83% based on the current three members, of which, Mr. Poon Yiu Kin, Samuel attended four times, and both Mr. Wang Dianzuo and Mr. Kang Yi attended three times.

In 2006, the Audit Committee reviewed the Company's annual and interim financial reports, considered the reports concerning the Company's internal control, and submitted its audit reports and related advice to the Board. Details of the meetings are recorded by a designated officer, and all resolutions passed at each meeting are recorded and stored electronically in accordance with relevant rules.

Remuneration and Nomination Committee

A Remuneration and Nomination Committee has been established under the Board. Duties of the Remuneration and Nomination Committee include review of the Company's remuneration policy, assessment of the performance of the Directors and senior management and nomination of candidates for appointment as Executive Directors for the next session of the Board. The Committee regularly reviews the structure, number of Board members and the duties of Directors.

The Committee consisted of two Executive Directors, namely Mr. Xiao Yaqing, Mr. Xiong Weiping and three Independent Non-executive Directors, Mr. Poon Yiu Kin, Samuel, Mr. Wang Dianzuo, and Mr. Kang Yi. Due to his appointment to another enterprise, Mr. Xiong Weiping resigned as an Executive Director and as a member of the Committee with effect from August 23, 2006. Mr. Xiao Yaqing now serves as Chairman of the Committee. The Committee convened three meetings in 2006, mainly focusing on the following tasks:

- preparation of the remuneration policies for Directors and senior management;
- approval of the terms of the service contracts of Directors;
- assessment of the achievement and performance of Executive Directors and senior management;
- nomination of candidates of Executive Director for the new Board.

All the members of the Committee, namely Mr. Xiao Yaqing, Mr. Xiong Weiping, Mr. Poon Yiu Kin, Samuel, Mr. Wang Dianzuo and Mr. Kang Yi, had attended the three meetings.

Details of the meetings were recorded by a designated officer, and all proposals resolved in each meeting are filed and stored electronically in accordance with the relevant laws and regulations.

Planning and Development Committee

A Planning and Development Committee has also been established under the Board. The Committee consists of Executive Directors, Mr. Xiong Weiping and Mr. Luo Jianchuan, and Independent Non-executive Director, Mr. Wang Dianzuo. Mr. Wang Dianzuo is Chairman of the Committee and Mr. Xiong Weiping resigned as member of the Committee in August 2006. Duties of the Committee include review and evaluation of the Company's development, financial budget, investment, business operation and strategic plan of annual investment returns. The Planning and Development Committee has operated under its codes on procedures.

Supervisory Committee

The Supervisory Committee of the Company consists of three members, with one supervisor being elected from the staff as a representative of the employees. The Supervisory Committee is responsible for supervision of the Board and its members and senior management, in order to prevent them from abusing their authorities and violating the legal interests of shareholders, the Company and its staff. In 2006, the Supervisory Committee took initiatives by convening two meetings, at which the Committee reviewed the Company's financial position and legal compliance of corporate operations as well as work performance of the senior management.

Information Disclosure and Disclosure Committee

Great importance has been attached by the Company to the information disclosure on an accurate, timely, fair, just and transparent basis in compliance with the disclosure requirements of the Hong Kong Listing Rules. In 2006, the Company made some changes to the members of the Disclosure Committee, and the risk and internal controls have been enhanced. All discloseable information (including annual and interim results) shall be subject to the approval of the Company's Disclosure Committee with the CEO as its Chairman. For the purpose of disclosure of financial statements and the related information, the Chief Financial Officer shall ensure that the Company's results and financial position have been reflected on a true and fair basis under the relevant accounting principles and requirements.

Shareholders Meeting and Investor Relationships

Shareholders' meeting is the highest authority of the Company. It provides a good opportunity for direct communications and building a sound relationship between the Board and the shareholders of the Company. Therefore, the Company attaches great importance to such meetings. In 2006, the Company convened two general meetings respectively on May 10 and October 13 in the Meeting Room, 15/F, Block B, Tongtai Building, No. 33, Finance Street, Xicheng District, Beijing and the Conference Room of the Company, No.62 North Xizhimen Street, Beijing, respectively. The meetings mainly reviewed and approved the following:

- the Report of the Directors, Report of Supervisory Committee and Consolidated Financial Report for 2005;
- the profit distribution and final dividend distribution proposals for 2005;
- the remuneration proposal of 2006 for the Company's Directors and Supervisors;
- amendment of the Articles of Association of the Company;
- Interim dividend distribution proposals for 2006;
- changes to members of the Board and the supervisors; and
- issuance of short-term bonds.

On the whole, all resolutions were approved with an average rate of 99.5%.

The Chairman of the Board chaired such general meetings and explained to the shareholders the procedures for voting before the shareholders voted on each resolution. Some Directors also attended the General Meetings. Members of Audit Committee and Remuneration and Nomination Committee had been informed to attend the meetings as observers.

The Company has established a designated department for investor relations, which is responsible for matters concerning investor relations and has formulated the "Investor Relations Management Measures" to regulate the relationships with the investors. The Company's management maintains close communications with investors, analysts and the media by various means including roadshows, individual interviews, meetings and investors' visits to the Company, thereby further increasing investors' recognition of the Company. In 2006, the Company arranged designated senior management to visit investors in two global roadshows, arranged six corporate visits for investors, arranged more than sixty visits to the Company by investors, and participated in twenty investors' meetings arranged by investment banks. In addition, our investor relationships department is also responsible for answering investors' enquiries and replying mails on a timely basis.

As at December 31, 2006, the market capitalization of the Company's shares was RMB83,500 million. For details of classes of shareholders and the total shareholding, please refer to page 45.

Qualified Accountant

In accordance with the waiver granted by the Stock Exchange of Hong Kong from strict compliance with Rule 3.24 of Hong Kong Listing Rules concerning the appointment of a qualified accountant of the Company, the Company has appointed Mr. Wang Jianhui (an associate member of the Association of Chartered Certified Accountants and a certified accountant of the Chinese Institute of Certified Public Accountants) to assist Mr. Chen Jihua in the discharge of his responsibilities as the Qualified Accountant under the Hong Kong Listing Rules.

Corporate Management and Internal Control

The Company convenes periodic Working Committee Meetings, which are chaired by the CEO and attended by the senior management, and President Meetings, which are chaired by the President or a Vice President and attended by the senior management, including department heads from the Company's headquarters. The Company's operation, implementation of investment projects and financial issues are considered and determined at such meetings. The Company's management including managers from branches, subsidiaries, associated companies and department heads from the headquarters convenes a work group meeting once every six months in order to review the operational performance of the Company in the previous six months and to make decisions on the operations for the following six months. The meetings have facilitated coordination, communication and implementation of the Company's various operations.

The Board and the senior management attached much importance to the establishment and improvement of the internal control system. The Company has set up a special panel and a project management committee. In 2006, the Company continued to establish its all-round system and improve its corporate internal control system in accordance with section 404 of the U.S. Sarbanes-Oxley Act and has basically put the system into full operation.

In 2006, the Directors have finished the reviews on financial control, operation control, compliance control and risk management functions. To enhance internal control and reduce risks, the management adopted a series of measures. These include reviews on the control system at the Company level, the overall information system level and the workflow level, as well as a series of measures which are designed to establish and evaluate an effective internal control system including identification of risk points, revision and improvement of internal control system and operating system in workflows, and testing and verification of the execution effectiveness of the internal control system. On the market front, the Company has improved its procurement and sales management system to avoid market risks, while each segment of management has been strengthened. On risk management, the Company has established a set of systematic risk evaluation and management framework, allowing the identification, evaluation and management of a diverse range of internal and external risks and thus minimizing the exposure to risks. On financial control, the Company has established and implemented an overall budget management system to unify its accounting system and centralize its capital management and allocation and management reports are prepared to the Board for its review on the effectiveness of the internal control system.

The Company attaches much importance to the establishment and continual improvement of the information system in order to enhance work efficiency.

Auditor's remuneration

PricewaterhouseCoopers has been reappointed as the Company's independent auditor at the last Annual General Meeting for a term ended on the date of the next Annual General Meeting.

A remuneration of RMB30,000,000 was paid to PricewaterhouseCoopers for the provision of an integrated audit of the Company's consolidated financial statements, management's assessment of the effectiveness of the Company's internal control over financial reporting, and of the effectiveness of internal control over financial reporting. A remuneration of RMB4,253,000 and RMB781,000 was paid to PricewaterhouseCoopers for provision of audit related and non-audit related services to the Company, respectively.

Compliance and Exemption of Corporate Governance Obligations Imposed by New York Stock Exchange

Based on its Listing Rules, New York Stock Exchange ("NYSE") imposes a series of corporate governance standards for companies listed on the NYSE. However, NYSE has granted permission to listed companies of foreign private issuers to follow their respective "home country" practice and waivers for compliance with corporate governance standards. One of the conditions for such waiver is for the listed company to disclose in its annual report how the corporate governance practices in its "home country" differ from those followed by companies under NYSE listing standards.

The Company has compared the material corporate governance standards generally adopted by the companies incorporated in the PRC and the standards developed by NYSE, as follows:

A majority of Independent Directors

NYSE requires that the board of a listed company must comprise a majority of Independent Directors. There is no identical corporate governance requirement in the PRC. The Board of the Company currently comprises three Independent Directors and six directors which is in compliance with the requirement by the PRC securities regulatory authorities that the board of a listed company shall comprise at least one-third of independent directors.

Compensation Committee and Nomination Committees

NYSE requires a listed company to establish a Compensation Committee and a Nomination committee comprising only Independent Directors. Each committee shall have a written charter that addresses the committee's purposes and responsibilities. The Compensation Committee is responsible to (i) review CEO's compensation and evaluate the CEO's performance; and (ii) make recommendations to the board with respect to non-CEO officers' compensation and other incentive-compensation plans. The Nomination Committee is responsible to evaluate and select candidates of Directors for the next session of the Board and recommend them in the general meeting. Both committees shall be appraised annually to ensure their effectiveness.

The Company has established a Remuneration and Nomination Committee under the Board, which is responsible for the foregoing corporate governance functions. Please refer to the above section of Remuneration and Nomination Committee on page 25. The Company believes that the current Committee complies with the common corporate governance requirements in the PRC and can function effectively.

Corporate Governance Committee

NYSE requires a listed company to establish a Corporate Governance Committee which comprises entirely of Independent Directors. The Corporate Governance Committee shall be co-established with the Nomination Committee and have a written charter. The Corporate Governance Committee is responsible (I) for recommending to the board a set of corporate governance guidelines applicable to the corporation; and (II) supervising the operation of the Board and the management.

The Corporate Governance Committee shall also be subject to evaluation annually. Like most of the other companies incorporated in the PRC, the Company believes that corporate governance measures are of critical importance and should be implemented by the Board. The Company accordingly does not separately maintain a Corporate Governance Committee.