

ALUMINUM CORP OF CHINA LTD
Form 6-K
May 30, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF
THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the fiscal year ended December 31, 2005

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 001-15264

(Exact name of Registrant as specified in its charter)

ALUMINUM CORPORATION OF CHINA LIMITED

(Translation of Registrant's name into English)

People's Republic of China

(Jurisdiction of incorporation or organization)

No. 12B Fuxing Road, Haidian District, Beijing, People's Republic of China 100814
(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each Class
**American Depositary Shares,
each representing 100 H Shares
Class H Ordinary Shares**

Name of Each Exchange on which Registered
New York Stock Exchange, Inc.

The Stock Exchange of Hong Kong Limited

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

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Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2005:

Domestic Shares, par value RMB1.00 per share	7,750,010,185
H Shares, par value RMB1.00 per share (including 425,934,600 H Shares in the form of American Depository Shares)	3,299,865,968

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark which financial statement item the registrant has elected to follow.

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FORWARD-LOOKING STATEMENTS

Certain information contained in this annual report, which does not relate to historical financial information may be deemed to constitute forward-looking statements. The words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "believe" or similar expressions are intended to identify "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, or the Exchange Act. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results and those presently anticipated or projected. We wish to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. These forward-looking statements include, without limitation, statements relating to:

- * future prices and demand for our products;
- * future PRC tariff levels for alumina and primary aluminum;
- * sales of our products;
- * the amount and nature of, and potential for, future development;

- * production, consumption and demand forecasts of bauxite, alumina and primary aluminum;
- * expansion, consolidation or other trends in the primary aluminum industry;
- * the effectiveness of our cost-saving measures;
- * future expansion plans and capital expenditures;
- * expected production capacity increases;
- * competition;
- * changes in legislation, regulations and policies;
- * estimates of proven and probable bauxite reserves;
- * our research and development plans; and
- * our dividend policy.

These statements are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in particular circumstances. However, whether actual results and developments will meet our expectations and predictions depends on a number of risks and uncertainties, which could cause actual results to differ materially from our expectations. These risks are more fully described in the section entitled "Item 3. Key Information - Risk Factors."

Consequently, all of the forward-looking statements made in this annual report are qualified by these cautionary statements. We cannot assure you that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected effect on us or our business or operations.

Unless otherwise indicated, statistical and market trend information, as well as statements related to market position and competitive data, are based on our internal statistics and/or estimates gathered from our own research and/or various publicly available sources.

CERTAIN TERMS AND CONVENTIONS

Translations of amounts in this annual report from Renminbi into U.S. dollars and vice versa have been made at the rate of RMB8.0702 to US\$1.00, which was the noon buying rate in the New York City for cable transfers in Renminbi per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2005. You should not construe these translations as representations that the Renminbi amounts actually represent U.S. dollar amounts or could be converted into U.S. dollars at that rate or at all. See "Item 3. Key Information - Exchange Rate Information" for information regarding the noon buying rates from January 1, 2001 through February 28, 2006.

We publish our financial statements in Renminbi.

Various amounts and percentages set out in this document have been rounded and, accordingly, are not the exact figures and may not total.

Unless the context otherwise requires, references in this annual report to:

"A Share"

are to the domestic ordinary shares, with a nominal value of RMB1.00 each;

"Alcoa"

are to Alcoa International (Asia) Ltd., a company incorporated under the laws of Hong Kong;

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"alumina-to-silica ratio"

are to the ratio of alumina to silica by weight found in bauxite;

"aluminum fabrication"

are to the process of taking primary aluminum and converting it into plates, strips, bars, tubes, etc. which can be further converted into consumer or other end products;

"bauxite"

are to mineral ores whose composition is principally alumina;

"Bayer process"

are to a refining process employed to extract alumina from ground bauxite with a strong solution of caustic soda at an elevated temperature;

"brownfield development"

are to development projects at existing plants or facilities;

"CCB"

are to China Construction Bank, a PRC state-owned bank established pursuant to PRC government approval;

"Chalco,"

"our company," "we," "our" and "us" are to Aluminum Corporation of China Limited and its subsidiaries and, where appropriate, to its predecessors;

"China"

and the "**PRC**" are to the People's Republic of China, excluding for purposes of this annual report, Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan;

"China Cinda"

are to China Cinda Asset Management Corporation, a PRC state-owned financial enterprise established pursuant to PRC government approval;

"China Development Bank"

are to a PRC state-owned bank established pursuant to PRC government approval;

"Chinalco"

and the "**ultimate holding company**" are to our controlling shareholder, Aluminum Corporation of China and its subsidiaries (other than Chalco and its subsidiaries) and, where appropriate, to its predecessors;

"China Orient"

are to China Orient Asset Management Corporation, a PRC state-owned financial enterprise established pursuant to PRC government approval;

"diasporite"

are to a mineral of bauxite deposits with the chemical composition of $Al(2)O(3) * H(2)O$;

"Exchange Act"

are to The Securities Exchange Act of 1934, as amended;

"fabricating ingots"

are to the primary aluminum or aluminum alloy ingots that may be used directly in the aluminum fabrication process;

"gibbsitic"

are to a mineral of bauxite deposits with the chemical composition of $Al(2)O(3) * 3H(2)O$;

"greenfield investment"

are to investment projects to construct new plants or facilities;

"Guangxi Investment"

are to Guangxi Investment (Group) Co., Ltd. formerly known as Guangxi Development and Investment Co., Ltd., a PRC state-owned enterprise established in the PRC and one of our promoters and shareholders;

"Guizhou Development"

are to Guizhou Provincial Materials Development and Investment Corporation, a PRC state-owned enterprise established in the PRC and one of our promoters and shareholders;

"HK\$"

and "**HK dollars**" are to Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the PRC;

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"H Shares"

are to overseas listed foreign shares of par value RMB1.00 each, which are listed on the Hong Kong Stock Exchange and subscribed for and traded in HK dollars;

"Hong Kong Stock Exchange"

are to The Stock Exchange of Hong Kong Limited;

"hybrid Bayer-sintering process"

are to the refining process developed in China which involves the application of the Bayer process and the sintering process in combination to extract alumina from bauxite more efficiently;

"ingots"

and "**remelt ingots**" are to the international standard primary metal products from an aluminum smelter. Remelt ingots are the aluminum ingots generally remelted before being cast into alloyed products or used for aluminum fabrication;

"kA"

are to kiloamperes, a unit for measuring the strength of an electric current, with one kiloampere equal to 1,000 amperes;

"kWh"

are to kilowatt hours, a unit of electrical power, meaning one kilowatt of power for one hour;

"Lanzhou Aluminum"

are to Lanzhou Aluminum Corporation Limited, our associated company that is a joint stock limited company established under the PRC law, whose A shares are traded on the Shanghai Stock Exchange;

"Listing Rules"

are to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (as amended from time to time);

"NYSE"

are to New York Stock Exchange;

"ore-dressing Bayer process"

are to a refining process we developed which involves the treatment of bauxite in order to increase its alumina-to-silica ratio so as to allow the Bayer process to then be applied;

"provinces"

are to provinces and to provincial-level autonomous regions and municipalities in China, excluding Hong Kong Special Administrative Region, Macao Special Administrative Region, and Taiwan, which are directly under the supervision of the central PRC government;

"refining"

are to the chemical process required to produce alumina from bauxite;

"RMB"

are to Renminbi, the lawful currency of the PRC;

"NDRC"

are to China National Development and Reform Commission;

"SASAC"

are to State-owned Assets Supervision and Administration Commission of the State Council;

"Shandong Aluminum"

are to Shandong Aluminum Industry Co., Ltd., our subsidiary that is a joint stock limited company established under PRC law, whose A shares are traded on the Shanghai Stock Exchange;

"sintering process"

are to a refining process employed to extract alumina from ground bauxite by mixing with supplemental materials and burning in a coal fired kiln;

"smelting"

are to the electrolytic process required to produce molten aluminum from alumina;

"tonne"

are to the metric ton, a unit of weight, with one metric ton equal to 1,000 kilograms or 2,204.6 pounds;

"US\$"

are to U.S. dollars, the lawful currency of the United States of America; and

"WTO"

are to World Trade Organization.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

SELECTED FINANCIAL DATA

Historical Financial Information

The following tables present our summary income statement data and cash flow data for the years ended December 31, 2001, 2002, 2003, 2004 and 2005; and the summary balance sheet data as of December 31, 2001, 2002, 2003, 2004 and 2005. The summary balance sheet data as of December 31, 2004 and 2005 and income statement and cash flow data for the years ended December 31, 2003, 2004 and 2005 have been derived from, and should be read in conjunction with, the audited financial statements included elsewhere in this report. The summary balance sheet data as of December 31, 2001, 2002 and 2003 and income statement and cash flow data for the years ended December 31, 2001 and 2002 have been derived from our financial statements as of and for such dates, which are not included in this annual report. We have changed certain of our accounting policies following the adoption of the new/revised Hong Kong Financial Reporting Standards, or "HKFRS", and Hong Kong Accounting Standards, or "HKAS", collectively referred to as "HK GAAP" or "HKFRSs", effective for accounting periods commencing on or after January 1, 2005. As a result, we have reclassified/restated certain income statement and balance sheet data for the years ended December 31, 2001, 2002, 2003 and 2004 as required in accordance with the relevant requirements. See Note 2(a) to our audited financial statements for the changes to our accounting policies and the effect of adopting HKFRSs. Unless otherwise indicated, the financial statements are prepared and presented in accordance with accounting principles generally accepted in Hong Kong, also known as "HK GAAP" or HKFRSs. For a reconciliation of our net income and equity under HK GAAP to generally accepted accounting principles in the United States, also known as "U.S. GAAP," see Note 33 to our audited financial statements. For more information, please see "Item 5 -

Operating and Financial Review and Prospects - U.S. GAAP Reconciliation".

This financial information reflects the reorganization of China's aluminum industry, following which our company was established and has been prepared as if our current structure had been in existence throughout the relevant periods. In addition, the financial information through June 30, 2001 also includes various other operations retained by Chinalco that were historically associated with Chinalco's alumina and primary aluminum operations. The results of such businesses are not reflected in our statements of income for periods ending after June 30, 2001. Similarly, such businesses and their related balance sheet data are not reflected in our balance sheet as of any date after June 30, 2001. In addition, the financial information included in this annual report may not necessarily reflect our operating performance, financial position and cash flows in the future or what they would have been had we been a separate, stand-alone entity during all of the periods presented.

	Years Ended December 31,					
	2001	2002	2003	2004	2005	2005
	RMB (restated ⁽¹⁾)	RMB (restated ⁽¹⁾)	RMB (restated ⁽¹⁾)	RMB (restated ⁽¹⁾)	RMB	USD ⁽²⁾
	(in thousands, except per share and per ADS data)					

INCOME STATEMENT

DATA:

HK GAAP

Turnover	15,987,913	16,792,766	23,245,858	32,313,076	37,110,319	4,598,439
Cost of goods sold	11,661,992	13,368,700	16,460,283	21,503,250	24,822,109	3,075,774
Gross profit	4,325,921	3,424,066	6,785,575	10,809,826	12,288,210	1,522,665
Other revenues, net	160,255	75,285	50,642	101,293	116,441	14,429

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Selling and distribution expenses	335,227	501,829	549,432	647,532	686,717	85,093
General and administrative expenses	1,074,411	733,803	1,047,461	1,220,902	1,523,317	188,758
Research and development expenses	144,048	131,941	173,359	132,635	113,381	14,049

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Operating income	2,932,490	2,131,778	5,065,965	8,910,050	10,081,236	1,249,194
Finance costs	444,548	476,100	439,897	109,948	366,908	45,465
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Operating income after finance costs	2,487,942	1,655,678	4,626,068	8,800,102	9,714,328	1,203,729
Share of (loss)/income of jointly controlled entities	(125)	(254)	1,193	(3,953)	372	46
Share of income of an associated company	-	-	-	-	26,947	3,339
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Income before income tax	2,487,817	1,655,424	4,627,261	8,796,149	9,741,647	1,207,114
Income taxes	833,500	190,921	920,159	2,161,086	2,495,213	309,189
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Income after income tax	1,654,317	1,464,503	3,707,102	6,635,063	7,246,434	897,925
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Attributable to:						
Equity holders of the Company	1,590,604	1,417,681	3,549,732	6,391,523	7,022,422	870,167
Minority interest	63,713	46,822	157,370	243,540	224,012	27,758
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	1,654,317	1,464,503	3,707,102	6,635,063	7,246,434	897,925
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Dividends	178,498	472,496	1,060,788	1,944,778	2,364,673	293,013
Basic and diluted net earnings per share	0.19	0.13	0.34	0.58	0.64	0.08
Basic and diluted net earnings per ADS	18.55	13.35	33.83	57.89	63.55	7.87
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U.S. GAAP						
Operating income	3,071,545	2,434,333	5,368,520	9,214,004	10,360,542	1,283,803
Net income	1,727,763	1,493,582	3,797,175	6,622,916	7,229,167	895,785
Basic and diluted net earnings per share	0.22	0.14	0.36	0.60	0.65	0.08

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Basic and diluted net earnings per ADS	22.00	14.00	36.16	59.99	65.42	8.11
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Segment Operating Income (Loss):

HK GAAP

Alumina	2,095,769	1,388,712	5,099,164	9,333,353	10,312,306	1,277,825
Primary aluminum	1,217,439	1,143,658	434,862	(43,875)	231,940	28,741
Corporate and other services	(25,680)	(57,933)	(78,337)	(76,906)	(48,438)	(6,002)
Unallocated	(330,649)	(311,729)	(359,443)	(281,431)	(306,604)	(37,992)
Inter-segment elimination	(24,389)	(30,930)	(30,281)	(21,091)	(107,968)	(13,378)
	<u>2,932,490</u>	<u>2,131,778</u>	<u>5,065,965</u>	<u>8,910,050</u>	<u>10,081,236</u>	<u>1,249,194</u>
Total operating income						

Years Ended December 31,

	2001	2002	2003	2004	2005	2005
	RMB	RMB	RMB	RMB	RMB	USD ⁽²⁾
	(restated ⁽¹⁾)	(restated ⁽¹⁾)	(restated ⁽¹⁾)	(restated ⁽¹⁾)		
	(in thousands)					

BALANCE SHEET DATA

HK GAAP

Bank balances and cash	4,495,922	2,342,254	2,596,440	6,223,763	7,597,727	941,455
Total current assets	12,013,524	8,557,975	8,638,566	14,356,588	16,962,670	2,101,891
Total non-current assets	21,689,959	23,691,565	26,768,304	35,201,481	42,047,209	5,210,182
	<u>33,703,483</u>	<u>32,249,540</u>	<u>35,406,870</u>	<u>49,558,069</u>	<u>59,009,879</u>	<u>7,312,073</u>
Total assets						
Total short-term loans (including current portion of long-term loans and bonds)	5,477,549	5,103,274	4,617,130	4,522,568	3,732,978	462,563

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Short-term bonds	-	-	-	-	1,970,840	244,212
Total long-term loans (excluding current portion of long-term loans)	5,391,861	4,949,298	5,412,628	7,391,663	9,690,493	1,200,775
Equity attributable to the shareholders	14,325,376	15,769,314	18,985,410	27,566,795	32,644,439	4,045,060
U.S. GAAP						
Total assets	31,113,431	29,770,888	33,244,024	47,260,826	55,525,980	6,880,372
Total long-term loans (excluding current portion of long-term loans)	5,391,861	4,949,298	5,412,628	7,391,663	9,690,493	1,200,775
Shareholders' equity	11,671,874	13,170,960	16,634,499	25,436,606	30,720,995	3,806,391
Number of shares	8,122,482	10,495,863	10,499,900	11,040,835	11,049,876	11,049,876

Years Ended December 31,

	2001	2002	2003	2004	2005	2005
	RMB	RMB	RMB	RMB	RMB	USD ⁽²⁾
	(restated ⁽¹⁾)	(restated ⁽¹⁾)	(restated ⁽¹⁾)	(restated ⁽¹⁾)		
	(in thousands)					

Other Financial Data:

HK GAAP

Net cash generated from

operating activities	1,940,969	2,671,759	6,002,506	8,265,203	8,590,208	1,064,436
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Net cash used in investing activities	(2,575,617)	(3,780,812)	(5,395,259)	(9,055,830)	(8,821,208)	(1,093,059)
Net cash generated from (used in)						
financing activities	3,108,087	(868,513)	(306,892)	4,417,950	1,604,964	198,875
Capital expenditure						
Alumina	2,610,109	3,357,576	4,013,419	5,398,997	5,369,606	665,362
Primary aluminum	793,096	865,360	1,635,826	5,257,407	2,793,892	346,199

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Corporate and other services	27,638	49,304	47,259	76,841	124,811	15,466
Unallocated	177,657	29,930	33,030	208,411	129,623	16,062
Total capital expenditure	3,608,500	4,302,170	5,729,534	10,941,656	8,417,932	1,043,089

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- (1) Restatement of the financial information for the years ended December 31, 2001, 2002, 2003, and 2004 has been made pursuant to the adoption of the new/revised standards and interpretation of HKFRSs as set forth in Note 2(a) to our audited financial statements.
- (2) Translated solely for the convenience of the reader into U.S. dollars at the noon buying rate prevailing on December 31, 2005 of US\$1.00 to RMB8.0702.

Exchange Rate Information

The following table sets forth, for the periods indicated, the noon buying rate in New York for cable transfers payable in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York in Renminbi per U.S. dollar:

Period	Noon Buying Rate			
	Period End	Average ⁽¹⁾	High	Low
	(expressed in RMB per US\$)			
2000	8.2774	8.2784	8.2799	8.2768
2001	8.2766	8.2772	8.2786	8.2676
2002	8.2800	8.2772	8.2800	8.2699
2003	8.2767	8.2771	8.2800	8.2765
2004	8.2765	8.2768	8.2773	8.2764
2005	8.0702	8.1940	8.2765	8.0702
November	8.0804	8.0840	8.0877	8.0796
December	8.2765	8.2765	8.2767	8.2765
2006				
January	8.0608	8.0654	8.0702	8.0040
February	8.0415	8.0512	8.0616	8.0415
March	8.0167	8.0349	8.0505	8.0167
April	8.0165	8.0143	8.0248	8.0040
May (through May 25)	8.0235	8.0112	8.0255	8.0020

- (1) Determined by averaging the rates on the last business day of each month during the respective period, except for monthly averages, which are determined by averaging the rates on each business day of the month.

RISK FACTORS

We are subject to various changing competitive, economic, political and social conditions in China as well as factors relating to the alumina and aluminum industry. These changing conditions and factors entail certain risks, which are described below.

- * We price our alumina and primary aluminum products by reference to international and domestic market prices, import cost of alumina, and changes in supply and demand in the domestic market. Each of these factors may fluctuate beyond our control. Historically, the international market prices for alumina and primary aluminum products have been volatile. Because most of our costs are fixed and we may not be able to respond quickly to any sudden decrease in alumina or primary aluminum prices, any significant fluctuation in international market prices could materially adversely affect our business, financial condition and operating performance.

- * Our plans to upgrade and expand our alumina and primary aluminum plants and to improve and upgrade our internal control and management system will require capital expenditures of approximately RMB14,000 million in 2006. See "Item 4. Information on the Company - Property, Plants and Equipment - Our Expansion and Profit Improvement Plan." We may also need further funding for debt servicing, working capital, investments, potential acquisitions and joint ventures and other corporate requirements. We cannot assure you that cash generated from our operations will be sufficient to fund these development plans, or that our actual capital expenditures and investments will not significantly exceed our current planned amounts. If either of these conditions arises, we may have to seek external financing to satisfy our capital needs. Our ability to obtain external financing at reasonable costs is subject to a variety of uncertainties. Failure to obtain sufficient external funds for our development plans could adversely affect our business, financial condition and operating performance.

- * Our planned expansion, cost reduction and technical improvement projects could be delayed or adversely affected by, among other things, failures to receive regulatory approvals, difficulties in obtaining sufficient financing, technical difficulties, or human or other resource constraints. Moreover, the cost of these projects may exceed those originally contemplated. Costs savings and other economic benefits expected from these projects may not materialize as a result of any such project delays, cost overruns or changes in market circumstances. Failure to obtain intended economic benefits from these projects could adversely affect our business, financial condition and operating performances.

- * Our business has grown rapidly. Our ability to manage growth effectively will require us to continue to implement and improve our operational, financial and management systems, continue to develop the management skills of our managers, and continue to train, motivate and manage our employees. Failure to manage our growth effectively could adversely affect our operating performance. In addition, we are in the process of conducting feasibility studies to establish an overseas joint venture company with Companhia Vale do Rio Doce, or CVRD, to produce alumina in Brazil. We have also participated in the bidding for bauxite mining projects in Australia and have been shortlisted as the only developer to explore overseas bauxite resources. Further, we entered into the memorandum of understanding with the Vietnam National Coal-Mineral Industries Group, or "VINACOAL" regarding the proposed establishment of joint venture companies to engage in the development of local bauxite resources. Due to the increase of energy prices in the global market and uncertainty of future market conditions, we could encounter unforeseen problems due to our unfamiliarity with local laws and regulations. We cannot assure you that our overseas expansion or investments will be successful or that we will not suffer foreign exchange losses in connection with our overseas investments.

- * We face competition from both domestic and international primary aluminum producers. Our principal competitors in the primary aluminum business are domestic smelters, some of which are expanding their production capacity. These smelters pose competitive challenges to our primary aluminum operations in production costs, product quality and price. We also face increasing competition from international primary aluminum suppliers as China continues to open up its aluminum industry to international trade.

After China's accession to the WTO on December 11, 2001, competition from international suppliers of alumina may increase as tariff and non-tariff barriers for imported alumina are significantly reduced. The standard tariff on imports of alumina into China has been reduced from 18% as of December 31, 2001 to its current level of 5.5% as of January 1, 2006. Intensified competition may result in reductions in our prices or sales volume and may have a material adverse effect on our financial condition and operating performance. If we are not successful in reducing our costs, we may not be able to maintain or increase our current share of China's primary aluminum market or continue to achieve profitability.

- * We rely heavily on coal as our energy and fuel source required during our production process. As we significantly increase our production capacities, coal required for our production substantially increases accordingly. If our coal suppliers are not able to supply the amount of coal required for our production due to general short supply of coal or any other reason, we may be forced to reduce production output or suspend operation of our production in which case our financial condition and results of operation may be materially adversely affected.

- * Prior to 2004, the export of primary aluminum enjoyed a 15% tax refund. Since January 1, 2005, the export tax refund was cancelled and exports of primary aluminum have been subject to a 5% export tax. The abolishment of export tax refund and the imposition of

export tax affected the allocation of domestic and export sales by aluminum producers in China and resulted in an increase in domestic sales. The increase in domestic sales further intensified the competition in domestic primary aluminum market, where we conduct most of our primary aluminum business. Intensified domestic competition could have a material adverse effect on the price and margins of our products and market share.

- * Bauxite is the most important raw material for alumina production. We obtain our bauxite from three major sources, including our own mines, jointly operated mines, and other suppliers, which primarily consist of small independent mines. See "Item 4. Information on the Company - Business Overview - Business Operations - Alumina - Raw Materials - Bauxite." Each of these sourcing methods could affect the security or cost of supply. The average price of bauxite supplied by small independent mines in 2005 has increased 7.3% as compared with 2004, primarily due to increasing demand. If we are unable to obtain a steady supply of key raw materials externally and internally at a competitive price, our operating performance may be adversely affected.
- * The smelting of primary aluminum employs an electrolytic reduction process that requires a large and continuous supply of electricity. Interruptions of electricity supply can result in lengthy production shutdowns, increased costs associated with restarting production and waste of production in progress. In extreme cases, interruptions of electricity supply can also cause damage to or destruction of the equipment and facilities. If this occurs, our operation may be adversely affected.
- * Electricity cost is the principal production cost component of our primary aluminum production. All of our seven smelters benefit from various policies that allow them to purchase electricity at reduced prices. However, despite such preferential treatment, our electricity prices are expected to continue to be higher than those of major international primary aluminum producers. Our electricity costs increase due to severe shortage of electric power in recent years. In 2005, the electricity shortage led to an increase of average electricity price by approximately 5.9% compared with 2004, which in turn caused our unit production cost for primary aluminum to increase by approximately 1.9%. If any other preferential treatment policies are cancelled by the PRC government or not renewed upon expiration, or if electricity prices or charges were to increase for any reason, it would increase our unit production cost for primary aluminum and have an adverse effect on our financial condition and operating performance.
- * Our alumina products are mainly delivered by rail or truck, and our primary aluminum products are transported to our customers mostly by rail. If we are unable to make on-time delivery due to transportation problems, or if the costs of transportation continue to rise, our operating performance will be significantly affected.

- * A main objective of our research and development projects is to develop new methods and processes to improve efficiency in the refining of bauxite with relatively low

alumina-to-silica ratios. A potential decline in China's supply of bauxite with high alumina-to-silica ratios, failure to achieve technological improvements or to implement such improvements in commercial applications could impede our efforts to reduce unit production costs and to compete with major international producers.

- * The bauxite reserve data on which we base our production, turnover and expenditure plans are estimates we have developed internally and may be inaccurate. There are numerous uncertainties inherent in estimating quantities of reserves, including many factors beyond our control. If these estimates are inaccurate or indicated tonnages are not recovered, it could have a material adverse effect on our business, financial condition and operating performance.
- * We rely on short-term borrowings as part of our financing needs. If we fail to achieve timely rollover, extension or refinancing of our short-term debt, we may be unable to meet our obligations in connection with debt service, accounts payable and/or other liabilities when they become due and payable. In addition, we may be exposed to changes in interest rates. If interest rates increase substantially, our results of operations could be adversely affected.
- * Our primary sources of funding are cash generated by operating activities, prepayments and deposits from customers, short-term and long-term bank borrowings, proceeds from shares offerings and proceeds from short-term bond offerings. In 2005, we required our customers to make prepayments or deposits for purchases of alumina. The total amount of prepayments and deposits was approximately RMB1,571.9 million as of December 31, 2005. We have relied on prepayments and deposits received from customers as a source of our liquidity. In the event that demand for alumina declines, we may not be able to require such prepayments and deposits from customers, in which case this source of liquidity would not be available to us.
- * Chinalco, a state-owned enterprise, as of December 31, 2005 owned 42.14% of our issued share capital and is our largest shareholder. The interests of Chinalco may conflict or even compete with our interests and the interests of our public shareholder. Chinalco may take actions that favor the interests of its subsidiaries, associates and other related entities over our interests and the interests of our public shareholders. In addition, Chinalco and some of its subsidiaries and associates provide a range of services to us, including engineering and construction services, social services, land and property leasing and supply of raw and supplemental material. Some of the services Chinalco provides to us, such as educational and medical care services for our employees, would be difficult to obtain from other sources. Our cost of operations could increase if Chinalco were unable to perform its agreement to provide such services to us.
- * Chinalco has substantial financial obligations relating to the businesses, operations and personnel that it retained in the reorganization. While Chinalco generates significant operating turnover and receives government support, it may also rely on dividends received from us as a means of funding these obligations. Subject to the relevant provisions of the PRC Company Law and our articles of association, Chinalco may seek to influence the amount of dividends we pay out in order to satisfy its cash flow requirements. Any resulting increase in our dividend payout would reduce funds available for reinvestment in our

businesses.

- * Our alumina and primary aluminum production operations are subject to environmental protection laws and regulations in China, which impose such penalties as waste discharge fees, fines or closure of non-compliant plants. Each of our alumina and primary aluminum production plants has implemented a system to control its emissions and to oversee compliance with PRC environmental regulations. The PRC government, however, has taken steps and may take additional steps, towards more rigorous enforcement of applicable laws, and/or adoption of more stringent environmental standards. If the PRC national or local authorities enact additional regulations or enforce existing or new regulations in a more rigorous manner, we may be required to make additional environmental expenditures, which could have an adverse impact on our financial condition.

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- * We may experience major accidents in the course of our operations, which may cause significant property damage and personal injuries. Significant industry-related accidents and natural disasters may cause interruptions to various parts of our operations, or could result in property or environmental damage, increase in operating expenses or loss of turnover. The occurrence of such accidents and the resulting consequences may not be covered adequately, or at all, by the insurance policies we carry. In accordance with customary practice in China, we do not carry any business interruption insurance or third party liability insurance for personal injury or environmental damage arising from accidents on our property or relating to our operations other than our automobiles. Losses or payments incurred may have a material adverse effect on our operating performance if such losses or payments are not fully insured.
- * We are also subject to a number of risks relating to the PRC, including the following:
 - The central and local PRC governments continue to exercise a substantial degree of control and influence over the aluminum industry in China and shape the structure and characteristics of the industry by means of policies in respect of major project approval, preferential treatments such as tax incentives, electricity pricing, and safety, environmental and quality control. If the PRC government changes its current policies or the interpretation of those policies that are currently beneficial to us, we may, to some extent, face pressure on profit margins and significant constraints on our ability to expand our business operations or to maximize our profitability.
 - Under current PRC regulatory requirements, the construction of new alumina refineries, the expansions of primary aluminum plants and mining projects in excess of RMB500 million require PRC government approval. If any of our important projects required for our growth or cost reduction are not approved, or not approved on a timely basis, our financial condition and operating performances could be adversely affected.

- Substantially all of our business, assets and operations are located in China. The economy of China differs from the economies of most developed countries in many respects. The economy of China has been transitioning from a planned economy to a market-oriented economy. Although in recent years the PRC government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry by imposing industrial policies. It also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Some of these measures benefit the overall economy of China, but may have a negative effect on us.

- On September 4, 2005, the China Securities Regulatory Commission, or CSRC, promulgated the Circular on Distributing the Measures for the Administration of the Share-Trading Reform of Listed Companies, or the Circular. According to the Circular, the holders of non-tradable shares in A share companies have the right to request the board of directors to convene meetings with the tradable shareholders to discuss a plan through which the non-tradable shares may become tradable. In order to make the non-tradable shares become tradable, the holders of non-tradable shares may be required to pay certain consideration under such reform in the form of, among others, complimentary shares to holders of tradable shares. We have investments in A share companies which are regulated by the Circular. We may suffer adverse consequences in terms of, among others, dilution of our shareholdings in A share companies in which we invest as a result of such reform.

- Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the People's Bank of China, or PBOC, which are set daily based on the previous day's PRC interbank foreign

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