ALUMINUM CORP OF CHINA LTD
Form 20-F
April 30, 2009

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
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008
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. 62 North Xizhimen Street, Haidian District, Beijing, People's Republic of China (100082)
(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 25 H Shares

Class H Ordinary Shares*

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

* Not for trading, but only in connection with the registration of American Depositary Shares on the New York Stock Exchange, Inc. The Ordinary H Shares are also listed and traded on 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)

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, 2008:

Domestic Shares, par value RMB1.00 per share	9,580,521,924
H Shares, par value RMB1.00 per share	3,943,965,968

(including 406,067,500 H Shares in the form of American Depository Shares)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [X] No [ ]

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Security Exchange Act of 1934.

Yes [ ] No [X]

Note-Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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 [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]

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

Item 17 [X] Item 18 [ ]

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes [ ] No [X]

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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 general economic conditions;

* future conditions in the international and China capital markets;

* future conditions in the financial and credit markets;

* 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, primary aluminum and aluminum fabrication products;

* 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 RMB6.8225 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, 2008. 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, 2004 through April 17, 2009.

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

"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 or recycled aluminum materials and converting it into plates, strips, bars, tubes, etc. which can be further converted into consumer or other end products;

"Baotou Aluminum" are to Baotou Aluminum Co., Ltd. On December 28, 2007, it became our wholly-owned subsidiary after the completion of share exchange;

"Baotou Group" are to Baotou Aluminum (Group) Co., Ltd.;

"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;

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

"Chalco Hong Kong" are to Chalco Hong Kong Limited, a subsidiary of Chalco established under Hong Kong Law;

"Chalco Kailin" are to Shanghai Chalco Kailin Aluminum Co., Ltd.;

"Chalco Mining" are to Chalco Mining Co., Ltd, our subsidiary established under PRC law;

"Chalco Nanhai" are to Chalco Nanhai Alloy Company, our subsidiary established under PRC law;

"Chalco Qingdao" are to Chalco Qingdao Light Metal Company Limited, our subsidiary established under PRC

Law;

"Chalco Ruimin" are to Chalco Ruimin Company Limited and in late May, 2008, we acquired 75% of its equity interest;

"Chalco Southwest Aluminum" are to Chalco Southwest Aluminum Company Limited and in late May, 2008 we acquired 60% of its equity interest from Chinalco on the China Beijing Equity Exchange;

"Chalco Southwest Aluminum Cold Rolling" are to Chalco Southwest Aluminum Cold Rolling Company Limited and in May, 2008, we acquired 100% of its equity interest from Chinalco on the China Beijing Equity Exchange;

"Chalco Zunyi" are to Chalco Zunyi Alumina Co., Ltd., a subsidiary of Chalco established under PRC Law;

"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;

"China Nonferrous Metals Technology" are to China Nonferrous Metals Processing Technology Co., Ltd.;

"Chinalco", **"Chinalco Group"** 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;

"CSRC" are to China Securities Regulatory Commission.

"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;

"Fushun Aluminum" are to Fushun Aluminum Company Limited, our subsidiary established under PRC law;

"Gansu Hualu" are to Gansu Hualu Aluminum Company Limited, our subsidiary established under PRC law;

"gibbsitic" are to a mineral of bauxite deposits with the chemical composition of $Al_{(2)}O_{(3)}$ * $H_{(2)}O$;

"Guan Lv" are to Shanxi Guan Lv Company Limited;

"Guangxi Huayin" are to Guangxi Huayin Aluminum Company Limited, a PRC entity in which we hold 33% of the equity interest;

"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;

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

"Henan Aluminum" are to Chinalco Henan Aluminum Company Limited and in late May, 2008 we acquired 84.02% of its equity interest from Chinalco on the China Beijing Equity Exchange;

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

"Hong Kong Stock Exchange" are to The Stock Exchange of Hong Kong Limited;

"Huasheng Jiangquan" are to Huasheng Jiangquan Group Co., Ltd.;

"Huaxi Aluminum" are to Huaxi Aluminum Company Limited and in late May, 2008, we acquired 56.86% of its equity interest from Chinalco on the China Beijing Equity Exchange;

"Huayu Aluminum" are to Shandong Huayu Aluminum and Power Company Limited, our subsidiary established under PRC law;

"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;

"Jiaozuo Wanfang" are to Jiaozuo Wanfang Aluminum Manufacturing Co. Ltd., previously our associated company established under PRC law, in which we hold 29% of its equity interest. We have determined that we have established de facto control over Jiaozuo Wanfang and therefore, Jiaozuo Wanfang has been our subsidiary since January 1, 2008 and its results have been included in our consolidated financial statements since then;

"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 Co., Ltd., previously our associated company that was a joint stock limited company established under the PRC law, whose A Shares were traded on the Shanghai Stock Exchange. On April 24, 2007, we completed the merger of Lanzhou Aluminum by way of share exchange and Lanzhou Aluminum became our wholly-owned subsidiary. Its shares ceased to be traded on the Shanghai Stock Exchange. In

June 2007, Lanzhou Aluminum was divided into two wholly-owned branches: Lanzhou branch and Northwest Aluminum Fabrication Plant, which are mainly engaged in producing primary aluminum products and aluminum fabrication products, respectively;

"Liancheng branch" are to Lanzhou Liancheng Longxing Aluminum Company Limited and we acquired 100% of its equity interest from Chinalco on the China Beijing Equity Exchange in late May, 2008 and changed it into Liancheng branch, our wholly-owned branch;

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

"**LME**" are to the London Metal Exchange Limited;

"**Longmen Aluminum**" are to Shanxi Longmen Aluminum Co., Ltd., our subsidiary established under PRC law;

"**Nanping Aluminum**" are to Fujian Nanping Aluminum Company Limited;

"**NDRC**" are to China National Development and Reform Commission;

"**Northwest Aluminum**" are to Northwest Aluminum Fabrication Plant, our wholly-owned branch;

"**NYSE**" are to New York Stock Exchange Inc.;

"**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;

"**Pingguo Aluminum**" are to Pingguo Aluminum Company;

"**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;

"**Research Institute**" are to Zhengzhou Research Institute, our wholly-owned branch mainly providing research and development services;

"**RMB**" are to Renminbi, the lawful currency of the PRC;

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

"**Shandong Aluminum**" are to Shandong Aluminum Industry Co., Limited, previously our majority owned subsidiary established under PRC law, whose A Shares were traded on the Shanghai Stock Exchange. On April 24, 2007, we completed the merger of Shandong Aluminum by way of share exchange and Shandong Aluminum became our wholly-owned subsidiary. Its shares ceased to be traded on the Shanghai Stock Exchange. In September 2007, Shandong Aluminum was changed into Shandong branch, our wholly-owned branch;

"**Shanxi Huasheng**" are to Shanxi Huasheng Aluminum Company Limited, our subsidiary established under PRC law;

"**Shanxi Huaze**" are to Shanxi Huaze Aluminum and Power Co., Limited, our subsidiary established under PRC law;

"**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;

"**WTO**" are to World Trade Organization;

"**Xinan Aluminum**" are to Xinan Aluminum (Group) Company Limited;

"**Yichuan Power**" are to Yichuan Power Industries Group Company;

"**Zhangze Electric Power**" are to Shanxi Zhangze Electric Power Co., Ltd.; and

"**Zunyi Aluminum**" are to Zunyi Aluminum Company Limited, our subsidiary established under PRC law.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not required for filing this annual report.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not required for filing this annual report.

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, 2004, 2005, 2006, 2007 and 2008; and the summary balance sheet data as of December 31, 2004, 2005, 2006, 2007 and 2008. The summary balance sheet data as of December 31, 2006, 2007 and 2008 and income statement and cash flow data for the years ended December 31, 2006, 2007 and 2008 have been derived from, and should be read in conjunction with, the audited consolidated financial statements included elsewhere in this report. 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, 2004 and 2005 have been derived from our historical financial statements as of and for such dates, which are not included in this annual report. Unless otherwise indicated, the financial statements are prepared and presented in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

In accordance with HKFRS, as Chinalco exercised de facto and actual control over the Company, Baotou Aluminum and "seven common control entities acquired in 2008" (defined in Note 5 to consolidated financial statements in Item 17) both before and after our acquisitions, these acquisitions qualify as common control business combinations, and merger accounting is applied. Accordingly, the consolidated financial statements for all periods presented have been retroactively restated as if the current structure and operations had been in existence since inception. For information on common control business combinations in accordance with HKFRS, see Note 5 to our consolidated financial statements. In contrast, the Company is not considered to be controlled by Chinalco for the application of generally accepted accounting principles in the United States ("U.S. GAAP"). Hence, the acquisitions above are not common control transactions and are accounted for under the purchase method by including the results of these acquirees only from the respective effective dates of the acquisitions. For a reconciliation of our net income and equity under HKFRS to U.S. GAAP, see Note 35 to our audited consolidated financial statements. For more information, please see "Item 5 - Operating and Financial Review and Prospects - U.S. GAAP Reconciliation".

Years Ended December 31					
2004	2005	2006	2007	2008	2008
RMB	RMB	RMB	RMB	RMB	US$(2)
(in thousands, except per share and per ADS data)					

INCOME STATEMENT DATA:

HKFRS(1)

Revenue	74,287,003	85,198,835	76,725,941	11,246,016
Cost of sales	(52,358,293)	(64,936,133)	(70,073,660)	(10,270,965)
Gross profit	21,928,710	20,262,702	6,652,281	975,051
Selling and distribution expenses	(1,185,088)	(1,355,534)	(1,562,409)	(229,008)

General and administrative expenses	(2,825,858)	(3,042,363)	(3,462,472)	(507,508)
Research and development expenses	(126,294)	(229,803)	(177,507)	(26,018)
Other gains, net	373,061	158,913	372,771	54,638
Operating profit	18,164,531	15,793,915	1,822,664	267,155
Finance costs, net	(795,918)	(1,040,171)	(1,709,566)	(250,578)
Operating profit after finance costs	17,368,613	14,753,744	113,098	16,577

Share of (losses)/profits of				
jointly controlled entities	(11,419)	(3,381)	1,672	245
Share of profits of associates	105,177	241,945	10,045	1,472
Profit before income tax expense/benefits	17,462,371	14,992,308	124,815	18,294
Income tax (expense)/benefits	(4,465,282)	(2,869,210)	33,557	4,919
Profit for the year	12,997,089	12,123,098	158,372	23,213
Attributable to:				
Equity holders of the Company	12,093,143	10,753,042	9,228	1,353
Minority interest	903,946	1,370,056	149,144	21,860
Dividends	2,190,177	4,131,749	703,273	103,081
Interim dividends per share	0.188	0.137	0.052	0.008
Interim dividends per ADS	4.700	3.425	1.300	0.191
Special dividends per share	-	0.013	-	-
Special dividends per ADS	-	0.325	-	-
Final dividends per share	-	0.115	-	-
Final dividends per ADS	-	2.875	-	-
Proposed final dividends per share	-	0.053	-	-
Proposed final dividends per ADS	-	1.325	-	-

Basic and diluted net earnings per share	1.03	0.84	0.00068	0.0001

Basic and diluted earnings per ADS	25.81	21.02	0.01706	0.0025

U.S. GAAP

Operating income/(loss)	9,214,004	10,271,179	17,270,379	14,203,729	(5,520,122)	(809,105)
Net income/(loss)	6,622,916	7,229,167	11,726,471	9,899,628	(6,646,986)	(974,274)
Basic and diluted earnings/(loss) per share	0.60	0.65	1.03	0.79	(0.49)	(0.07)
Basic and diluted earnings/(loss) per ADS	15.00	16.36	25.63	19.78	(12.29)	(1.80)

Segment operating profit/(loss):

HKFRS

Alumina	13,858,508	7,891,229	1,582,084	231,892
Primary aluminum	5,351,873	7,810,353	484,073	70,952
Aluminum fabrication	204,846	132,280	(314,083)	(46,036)
Others	(59,443)	(20,594)	36,294	5,320
Elimination	(331,574)	429,817	266,174	39,014
Total operating income	19,024,210	16,243,085	2,054,542	301,142

As of December 31,					
2004	2005	2006	2007	2008	2008
RMB	RMB	RMB	RMB	RMB	US$(2)

(in thousands)

BALANCE SHEET DATA

HKFRS[1]

Bank balances and cash	13,897,343	9,054,565	16,295,585	2,388,506
Total current assets	30,498,598	30,274,879	42,486,987	6,227,480
Total non-current assets	61,156,252	75,573,189	93,040,532	13,637,307
Total assets	91,654,850	105,848,068	135,527,519	19,864,787

Total short-term loans (including current portion of long-term loans)	9,267,102	8,295,077	17,137,932	2,511,972
Short-term bonds	4,985,111	3,051,471	5,152,283	755,190
Total long-term loans (excluding current portion of long-term loans)	11,230,339	15,479,914	24,169,469	3,542,612
Medium-term notes and long-term bonds	-	1,979,683	11,963,083	1,753,475
Net assets (excluding minority share)	46,931,525	60,688,063	54,998,482	8,061,338

U.S. GAAP

Total assets	47,260,826	55,525,980	76,004,936	104,778,483	137,665,751	20,178,196
Total long-term loans (excluding current portion of long-term loans)	7,391,663	9,690,493	8,480,736	12,139,260	23,107,469	3,386,950
Medium-term notes and long-term bonds	-	-	-	1,979,683	11,963,083	1,753,475
Net assets (excluding minority share)	25,436,606	30,720,995	42,283,082	68,447,456	60,325,077	8,842,078
Number of shares ('000)	11,040,835	11,049,876	11,649,876	13,524,488	13,524,488	13,524,488

	Years Ended December 31,					
	2004 RMB	2005 RMB	2006 RMB	2007 RMB	2008 RMB	2008 US$[2]
	(in thousands)					
OTHER FINANCIAL DATA						
HKFRS[1]						
Net cash generated from operating activities			13,961,571	10,652,606	2,454,434	359,759
Net cash used in investing activities			(12,291,787)	(8,563,449)	(22,204,494)	(3,254,597)
Net cash generated from/(used in) financing activities			840,976	(3,954,099)	26,937,003	3,948,260
Capital expenditure						
Alumina			3,462,875	4,634,932	8,582,811	1,258,016
Primary aluminum			8,649,685	12,651,715	10,668,948	1,563,789
Aluminum fabrication			1,198,764	1,203,204	1,805,806	264,684
Others			120,286	493,746	138,921	20,362
Unallocated			682,054	497,954	1,217,362	178,433
Total capital expenditure			14,113,664	19,481,551	22,413,848	3,285,284

(1) The amounts as of December 31, 2006, 2007 and 2008 and for each of the three years ended December 31, 2008 are presented to reflect all of the common control business combinations described above under merger accounting method under HKFRS. The HKFRS financial information as of December 31, 2004 and 2005 and for each of the two years ended December 31, 2005 is omitted because such selected financial data cannot

be provided on a restated basis without unreasonable effort.

(2) Translated solely for the convenience of the reader into U.S. dollars at 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 of US$1.00 to RMB6.8225 prevailing on December 31, 2008.

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:

	Noon Buying Rate			
Period	Period End	Average(1)	High	Low
	(expressed in RMB per US$)			
2004	8.2765	8.2768	8.2773	8.2764
2005	8.0702	8.1826	8.2765	8.0702
2006	7.8041	7.9579	8.0702	7.8041
2007	7.2946	7.5806	7.8127	7.2946
2008				
October	6.8388	6.8358	6.8521	6.8171
November	6.8254	6.8281	6.8373	6.8220
December	6.8225	6.8539	6.8842	6.8225
2009				
January	6.8392	6.8360	6.8403	6.8225
February	6.8395	6.8363	6.8470	6.8241
March	6.8329	6.8360	6.8438	6.8240
April (through April 17)	6.8325	6.8336	6.8361	6.8316

(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.

On April 17, 2009, the exchange rate for Renminbi was U.S. dollar 1.00 = RMB6.8325

CAPITALIZATION AND INDEBTEDNESS

Not Applicable.

REASONS FOR THE OFFER AND USE OF PROCEEDS

Not Applicable.

RISK FACTORS

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

* As widely reported, financial and credit markets in the United States, Europe and Asia have been experiencing extreme disruption, volatility and deterioration in recent months including, among other things:

  * Severely diminished liquidity and credit availability for all classes of borrowers across all markets;

  * Increasing doubts regarding solvency of banks, insurance companies, hedge funds and other credit and capital providers;

  * Increasing doubts regarding the solvency of a broad range of corporations;

  * Sharp reduction in the valuations of a broad range of widely-held assets and investments, as well as instruments that derive their value from such assets;

  * Rating downgrades of corporate debt and related instruments across a broad range of issuers, including both financial institutions and corporate issuers;

  * Extreme volatility and continual erosion of value of public securities markets;

* Extreme volatility in currency exchange rates, and sharp erosion in commodity prices; and

* Sharp increase in public debt in the United States and other countries as a variety of programs are announced and implemented by governments seeking to address the foregoing factors.

As a result, demand for our products has decreased, which has affected our results of operations.

* There is no assurance that there will not be further deterioration in financial and credit markets, and investor and consumer confidence in the world's major economies. Such economic conditions have had a material adverse effect on the demand for our products and the results of our operations. Since 2008, especially in the fourth quarter of 2008 when the international financial crisis posed a deepening impact on enterprises' results, major aluminum consuming sectors such as the real estate and automobile sectors have seen negative growth, followed by decreased global aluminum consumption and increase in inventories. In light of the sharp decline in aluminum prices and decreased consumption, both domestic and international aluminum producers reduced production. As of the end of December 2008, approximately 13.5% of the global aluminum production capacity was idled, while in China, approximately 24.1% of the aluminum production capacity was idled. As of the end of February 2009, only 76.5% of the global primary aluminum production capacity was being used. Since October 2008, we have idled 24% of our primary aluminum production capacity. Affected by the decrease in the production of primary aluminum, the demand for alumina decreased accordingly, and the global alumina manufacturers started to reduce their production in the fourth quarter of 2008. As of December 31, 2008, approximately 9.8% of the global alumina production capacity was idled, while in China, approximately 24.4% of the alumina production capacity was idled. As of the end of February 2009, only 81.5% of the global alumina production capacity was used. Since October 2008, we have idled 39% of our alumina production capacity. Some economists are predicting that the global economy could continue to experience a prolonged recession or even a depression. The current economic conditions and uncertainty about future economic conditions make it challenging for us to forecast our results of operations, make business decisions and identify the risks that may affect our business. If we are not able to timely and appropriately adapt to changes resulting from the difficult macroeconomic environment, our business, results of operations and financial condition may be materially and adversely affected.

* 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. Since October, 2008, influenced by the global recession, the demand for our

products has decreased, and as the result, the prices for our products have declined. 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 and adversely affect our business, financial condition and results of operations.

* Our plans to upgrade and expand our production capacity will require capital expenditures of approximately RMB13.4 billion in 2009. See "Item 4. Information on the Company - Property, Plants and Equipment - Our Expansion". 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 results of operations.

* Our planned expansion, cost reduction and technology improvement projects could be delayed or adversely affected by, among other things, failure to receive required regulatory approvals including relevant PRC government approvals and foreign government approvals, difficulties in obtaining sufficient financing, technical difficulties, or human and other resources constraints. Moreover, the actual costs involved in these projects may exceed those originally contemplated. Cost savings and other economic benefits expected from these projects may not materialize as a result of any project delay, cost overrun, or change in market conditions. Failure to obtain intended economic benefits from these projects could adversely affect our business, financial condition and results of operations.

* Our business has grown rapidly. In order to manage our growth and increased scale of operations effectively, we must continue to implement and improve our operational, financial and management systems, continue to develop the managerial skills of our managers, and continue to train, motivate and manage our employees. Failure to manage our growth and expand operations effectively could adversely affect our financial condition and results of operations.

* We signed the Aurukun project development agreement with the Queensland State Government of Australia ("Queensland Government") on March 23, 2007. We also entered into a land use agreement with various indigenous peoples in respect of the Aurukun project on March 23, 2007. The Queensland Government officially issued the Aurukun bauxite exploration permit to the Company in September 2007. We are currently preparing the feasibility report. Further, to implement our international development strategy, we through our subsidiary Chalco Hong Kong,

entered into a joint venture arrangement with Malaysia Mining Company (MMC) and Saudi Arabian Binladin Group (SBG) on May 9, 2008, according to which, a joint venture will be established in Saudi Arabia and will develop and operate a primary aluminum plant with a planned annual capacity of approximately one million tonnes and a self-owned power plant with a planned capacity of 1,860MW. We expect to invest US$4.5 billion in the project and be the largest shareholder, holding 40% of the total equity interest. We are currently preparing the feasibility report. As we are new to these overseas markets, we cannot assure you that our overseas expansion or investment will be successful or that we will not suffer foreign exchange losses in connection with our overseas investment.

* Our operations consume substantial amounts of energy. Although we generally expect to meet the energy requirements for our alumina refineries and primary aluminum smelters from internal sources and external contracts, our results of operations may be materially adversely affected by the following factors:

  * significant increases in electricity costs; and

  * unavailability or shortages of electrical power or other energy sources, interruption of energy supply, or curtailment of the operation of one or more refineries or smelters due to our inability to extend energy contracts upon their expirations.

* Electricity cost is the principal production cost component of our primary aluminum production. During 2008, our average per kilowatt-hour, or kWh, electricity price increased by 9.7% from the prior year. Moreover, with the rapid development of the PRC economy, demand for energy including electricity has generally continued to increase. If energy costs increase but are not passed on to our customers, our operating margin, financial condition and results of operations could be materially 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. There have been shortages and disruptions in electricity supply in various regions across China, especially in peak seasons, such as summer or when there are severe weather conditions. Our operations in Guizhou Province were disrupted due to power blackouts resulting from severe winter weather conditions in early 2008. In extreme cases, interruptions of electricity supply can also cause damage to or

destruction of the equipment and facilities. If this occurs, our operations may be adversely affected.

* We rely heavily on coal as our energy and fuel source in our production process of alumina. As we significantly increase our production capacities, our consumption of coal will increase significantly accordingly. If our coal suppliers are not able to supply the amount of coal needed for our production due to general short supply of coal or lack of available railcars for transportation or any other reason, we may be forced to reduce our production output or suspend our production, which could materially adversely affect our financial condition and results of operations. In addition, due to the rapid development of the PRC economy, demand for coal has generally continued to increase. During 2008, our average per ton price of coal increased by 65%. If cost of coal increases but is not passed on to our customers, our operating margin, financial condition and results of operations could be materially adversely affected.

* 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 capacities. 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 its aluminum industry to international trade. As a result of China's accession to the WTO on December 11, 2001, competition from international suppliers of alumina and primary aluminum may increase as tariff and non-tariff barriers for imported alumina and primary aluminum have been significantly reduced and may continue to be reduced. The standard tariff on imports of primary aluminum and alumina into China was reduced to nil on August 1, 2007 and January 1, 2008 respecitvely. Intensified competition may result in reductions in our selling prices or sales volume and may have a material adverse effect on our financial condition and results of operations. If we are not successful in reducing our costs, or if we are unable to maintain or increase our current share of China's primary aluminum market, our financial condition, results of operations and profitability could be materially and adversely affected.

* 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. 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 our supply of bauxite. The price for bauxite has been volatile. Before the fourth quarter of 2008, the price of bauxite increased substantially due to the rapid expansion of alumina output in China which significantly increased the demand for bauxite. In 2008, our average cost of imported bauxite increased by 35.6% from RMB382 per tonne in 2007 to RMB518 per tonne. However, since the fourth quarter of 2008, the price of bauxite started to decline and in early 2009 it started to increase again. If we

cannot obtain a steady supply of key raw materials at a competitive price, our financial condition and results of operations could be materially adversely affected.

* Our alumina products are mainly delivered by rail or truck, and our primary aluminum products are transported to our customers mostly by rail. In 2008, our deliveries were affected by the snow storm early in the year and severe earthquakes in Sichuan Province in May. If we are unable to make on-time delivery due to logistics and transportation problems, our results of operations may be adversely affected.

* A main objective of our research and development projects is to develop new methods and new processes to improve the efficiency of extracting alumina from bauxite that has relatively low alumina-to-silica ratios. If China's supply of bauxite with high alumina-to-silica ratios declines, our 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, revenue and expenditure plans are estimates that 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 the indicated tonnages are not recovered, our business, financial condition, and results of operations may be materially and adversely affected.

* We rely on short-term borrowings to meet part of our financing needs. The financial and credit markets in the United States, Europe and Asia have been experiencing extreme disruption, volatility and deterioration in recent months, including severely diminished liquidity and credit availability for all classes of borrowers across all markets. As such, we may experience difficulty in obtaining financing in a timely manner. If we fail to achieve timely rollover, extension or refinancing of our short-term debts, we may be unable to meet our obligations in connection with debt servicing, 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, short-term and long-term bank borrowings, proceeds from share offerings, and proceeds from short-term bond, medium-term note and long-term bond

offerings. In 2008, we required our customers to make prepayments or deposits for purchases of alumina. The total amount of prepayments and deposits was approximately RMB3,957 million as of December 31, 2008. We have relied on prepayments and deposits received from customers as a source of liquidity. In the event that demand for our alumina declines significantly, we may not be able to require such prepayments and deposits from customers, in which case this source of liquidity may not be available to us.

* Servicing our medium-term notes and long-term bonds may require a significant portion of our cash flow and therefore, may adversely affect our ability to expand or to continue our operations. In 2008, we issued medium-term notes totaling RMB10 billion maturing in 2011 and 2013, respectively. In addition, in 2007, we issued RMB2 billion of long-term bonds maturing in 2017. Our ability to make scheduled payments under the medium-term notes and long-term bonds depends on, among other things, our future operating results, and will require a portion of our cash flow to service our obligations under the medium-term notes and long-term bonds, which could impair our ability to expand our business. Our failure to generate sufficient cash flow from our operations in the future to service our obligations under the medium-term notes and long-term bonds could affect our ability to continue our operations.

* Any new products we may manufacture in the future may expose us to new risks associated with such new products. In 2008 we acquired five aluminum fabrication plants from Chinalco and China Nonferrous Metals Technology on the China Beijing Equity Exchange, which increased our annual aluminum fabrication production capacity from 100,000 tonnes to 982,000 tonnes as of December 31, 2008. Aluminum fabrication products' profit margin is generally lower than that of alumina and primary aluminum. Though expansion of our aluminum fabrication production capacity may enhance our ability to manage risks in the aluminum markets through vertical integration and our ability to compete with integrated international producers, it may also decrease our average profit margin and therefore, may adversely affect our results of operation.

* We may not be able to adequately manage our expansion. We have significantly grown our business and expanded our production capacity both organically and through acquisition of subsidiaries and establishing joint ventures. In 2008, we acquired six subsidiaries and the aluminum alloy business of Pingguo Aluminum at a total initial consideration of RMB4.28 billion. We may explore further acquisition and joint venture opportunities in the future to rapidly grow our business and better compete in the market. However, any such acquisition or joint venture transaction may lead to various risks, including the change of laws and policies or their interpretation that affect the operations of the acquired businesses, the inability to generate sufficient revenue to offset the costs and expenses of acquisitions, general business risk, management risk, technology risk, market acceptance risk and potential loss of, or harm to, relationships with

employees, customers and business partners as a result of integrating new businesses. Any such transactions may require the utilization of debt, equity or other capital resources, and such use may represent a diversion of financial resources from our other businesses. Additionally, the integration of the acquired businesses diverts a great deal of management attention and dedicated staff efforts from other areas of our business. Because of the aforementioned risks and diversions of financial and human resources, these transactions may not create value for us or our shareholders.

* The internal control over financial reporting of our newly acquired subsidiaries may have material weakness or deficiencies, which may require our management to devote significant attention and resources to remedy any such weakness or deficiencies. Failure to timely achieve and maintain the adequacy of our internal controls of our newly acquired subsidiaries could affect our consolidated financial reporting, resulting in a loss of investor confidence in the reliability of our reporting processes, which could negatively impact the market price of our ADSs.

* We are exposed to risks associated with product liability claims in the event that the use of our products results in property damage or personal injury. The successful assertion of product liability claims against us could result in potential significant monetary damages and require us to make significant payments. If that occurs, our business and results of operation could be adversely affected.

* Chinalco, a state-owned enterprise and our largest shareholder, as of December 31, 2008 directly owned 38.56% of our issued share capital, and indirectly owned 41.82% of our issued share capital through its controlled entities. The interest of Chinalco may conflict or even compete with our interest and that of our public shareholders. Chinalco may take actions that favor the interest of its subsidiaries, associates and other related entities over ours and that 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 materials. 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 may increase if Chinalco becomes unable to provide such services to us.

* Chinalco has substantial financial obligations relating to the businesses, operations and personnel that it retained in the reorganization. In addition, in February 2009, Chinalco announced that it would invest US$19.5 billion in Rio Tinto Plc and Rio Tinto Limited to create a pioneering strategic alliance. While Chinalco generates significant operating revenue 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 our decision as to the amount of dividends we pay in order to

satisfy its cash flow requirements. Any increase in our dividend payout could reduce funds available for reinvestment in our businesses and thus may materially reduce our future financial strength and adversely affect our future results of operations.

* Our alumina, primary aluminum production and aluminum fabrication 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 production plants has implemented a system to control its emissions and to oversee its compliance with PRC environmental regulations. However, the PRC government 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 a materially adverse impact on our financial condition and results of operations.

* 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 revenue. 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 by us as a result of major accidents or natural disasters may have a material adverse effect on our operating performance if such losses or payments are not fully insured.

* We use complex equipment and facilities in our business operations, including heavy machinery. As a result, our business may be adversely affected due to the occurrence of typhoons, earthquakes, floods, fire, acts of terror or other natural disasters or similar events at our production plants. Our operations were affected by the snow storm in early 2008 and the severe earthquakes in Sichuan Province in May 2008. There are certain types of losses, such as losses from war, acts of terrorism and earthquakes, for which we cannot obtain insurance at a reasonable cost or at all. Should an accident, natural disaster or terrorist act occur, or should an uninsured loss or a loss in excess of insured limits occur, we could suffer from financial losses, as well

as damage to our reputation or lose all or a portion of future revenues anticipated to be derived from the relevant facilities. Any material loss not covered by our insurance could materially and adversely affect our business, financial condition and results of operations.

* The licenses to mine bauxite in some of our bauxite mines have expired and lapsed. While we are seeking to renew those expired licenses, we may be subject to administrative fines for operating mines without a valid license, or we may be ordered to cease our mining operations at such mines until we obtain the renewed licenses. The failure to renew those expired mining licenses may adversely affect our financial condition and results of operations.

* Our H Shares became a Hang Seng Index constituent stock on June 10, 2008, which may attract buying interest of so-called "Hang Seng Index funds" aiming to maintain investment portfolios consistent with the Hang Seng Index. We have no control of the selection of the Hang Seng Index constituent stocks and may not be able to continue to maintain our H Shares as a Hang Seng Index constituent stock. If our H shares are deselected from the Hang Seng Index, such Funds may cease investing in our H shares, and our share price may materially decline.

* As of May 6, 2008, 2,500,684,890 A Shares that had previously been subject to a trading moratorium became available for trading on the Shanghai Stock Exchange. If all or a significant portion of these tradable shares are offered for sale on the Shanghai Stock Exchange, the A Share price may materially decrease due to the over-supply of the A Shares on the market.

* The interests of minority shareholders of Jiaozuo Wanfang whose A shares are listed on the Shanghai Stock Exchange may, in certain circumstances, be inconsistent with our interests and its other shareholders. Jiaozuo Wanfang must comply with a number of PRC regulations concerning the protection of the interests of its minority shareholders. For example, according to the relevant PRC laws, when shareholders of Jiaozuo Wanfang vote by poll on connected transactions, all connected parties must abstain from voting. If we are unable to obtain approval from the minority shareholders of Jiaozuo Wanfang, such transactions cannot be implemented, which may affect our overall operational efficiency. Furthermore, although our behavior towards Jiaozuo Wanfang as its controlling shareholder may be regarded as proper under the Hong Kong regulatory requirements, the minority shareholders of Jiaozuo Wanfang may take the view that they have been unfairly treated by us under their interpretation of the relevant PRC regulatory requirements. As a consequence, we may be subject to legal proceedings initiated by the minority shareholders of Jiaozuo Wanfang in the future, for reasons that are beyond our control. Such legal proceedings could result in significant damage awards payable by us and disruption to our businesses, which in turn could have an adverse effect on our business, financial condition and results of operations.

* 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 approvals, preferential treatments such as tax incentives 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 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 expansion of primary aluminum plants and mining projects require the government approval. If any of our important projects necessary for our growth or cost reduction are not approved, or not approved in a timely manner, our financial condition and results of operations may be materially and adversely affected.

  * A significant portion 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 are 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 materially adverse impact on us.

  * Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, had been based on rates set by the People's Bank of China, or PBOC, which had been set daily based on the previous day's PRC interbank foreign exchange market rate and current exchange rates on the world financial markets. On July 21, 2005, PBOC announced a reform of its exchange rate system and revalued the Renminbi. Under the reform, Renminbi is allowed to trade against a basket of foreign currencies. Since this announcement, the value of Renminbi has been fluctuating and it appreciated against the U.S. dollar by 5.7% as of

December 31, 2006, approximately 11.9% as of December 31, 2007 and approximately 17.6% as of December 31, 2008. However, influenced by the international financial crisis, the exchange rate between U.S. dollar and Renminbi has become more unpredictable. Any appreciation of Renminbi in the future will increase the prices of our export sales denominated in foreign currencies and reduce the Renminbi equivalent value of our account receivables denominated in foreign currencies, which may materially and adversely affect our financial condition and results of operations. On the other hand, any devaluation of Renminbi may adversely affect the value of, and dividends payable on, our H Shares and ADSs in foreign currencies since we receive our revenue and denominate our profits in Renminbi. Our financial condition and operating performance may also be affected by changes in the value of certain currencies other than Renminbi in which our earnings and obligations are denominated. In particular, a devaluation of the Renminbi could increase the portion of our cash flow required to satisfy our foreign currency-denominated obligations.

* Since 1979, many new laws and regulations covering general economic matters have been promulgated in China. Despite this activity to develop the legal system, China's system of laws is not yet complete. Even where adequate law exists in China, enforcement of existing laws or contracts based on existing law may be uncertain and sporadic, and it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment by a court of foreign jurisdiction. The relative inexperience of China's judiciary in many cases creates additional uncertainty as to the outcome of any litigation. In addition, interpretation of statutes and regulations may be subject to government policies reflecting domestic political changes. These uncertainties may create situations that are not favorable to us, which may materially adversely affect our financial conditions and results of operations.

See also "Item 4. Information on the Company - Business Overview", "Item 5. Operating and Financial Review and Prospects", "Item 7. Major Shareholders and Related Party Transactions - Related Party Transactions", "Item 8. Financial Information" and "Item 11. Quantitative and Qualitative Disclosures about Market Risks".

ITEM 4. INFORMATION ON THE COMPANY

HISTORY AND DEVELOPMENT OF THE COMPANY

Overview

We were incorporated as a joint stock limited company under PRC laws on September 10, 2001 under the corporate name of Aluminum Corporation of China Limited. Our scope of business includes bauxite mining, production of alumina, primary aluminum, aluminum fabrication products and ancillary products, and provision of engineering services. Pursuant to a reorganization agreement effective as of July 1, 2001 among Chinalco, Guangxi Investment, Guizhou Development and our predecessor, as well as a mining rights agreement between Chinalco and us, substantially all of Chinalco's alumina and primary aluminum production operations, operations of a research institute, as well as mining operations and mining rights of bauxite mines and other related assets and liabilities were transferred to us upon our formation.

We are currently the largest producer of alumina, primary aluminum and aluminum fabrication products in terms of production and sales volumes in China, one of the fastest growing major aluminum markets in the world. We were the third largest producer of alumina and the fourth largest producer of primary aluminum in the world in terms of production volumes for the year ended December 31, 2008. We are engaged principally in alumina refining, primary aluminum smelting and aluminum fabrication. Alumina is refined from bauxite through a chemical process and is the key raw material for producing primary aluminum, which in turn is a widely used metal and the key raw material for aluminum fabrication. Aluminum fabrication products are widely used in construction, transportation, power generation, automobile, packaging, machinery and durable goods sectors. In addition to alumina, primary aluminum and aluminum fabrication products, we also produce and sell a comparatively small amount of alumina chemical products, including alumina hydrate and alumina-based industrial chemical products, carbon products, including principally carbon anodes and cathodes, and gallium.

In 2008, we produced approximately 9.02 million tonnes of alumina, representing a year-on-year decrease of 5.7%, and approximately 1.04 million tonnes of alumina chemical products, representing a year-on-year increase of 1.5%. Our total alumina products represent approximately 42.8% of all alumina products manufactured in China during the year, making us the third largest producer of alumina in the world. The intra-company utilization ratio of alumina was increased to approximately 64.0% for 2008 from approximately 49.7% for 2007.

Our alumina production capacity has increased rapidly in the past few years. From 2002 to 2008, our annual alumina production capacity increased from approximately 5,410,000 tonnes to approximately 11,077,000 tonnes.

We produced approximately 3,250,000 tonnes of primary aluminum in 2008, representing a year-on-year increase of 16.1%, and our primary alumina production accounted for approximately 24.7% of China's domestic primary aluminum production for 2008. From 2002 to 2008, our annual primary aluminum production capacity increased from 750,000 tonnes to 3,991,200 tonnes.

In terms of our operations, we produced approximately 353,000 tonnes of aluminum fabrication products in 2008, representing a year-on-year increase of 341.3%. The increase was primarily due to our acquisition of five aluminum fabrication plants in May 2008. However, as these five aluminum fabrication plants and the Company were under the common control of Chinalco before and after the acquisitions, the acquisitions of the five aluminum fabrication plants were accounted for as common control business combinations, and merger accounting is applied. Accordingly, the consolidated financial statements of the Group in Item 17 have been retroactively restated to include the results of the five aluminum fabrication plants for the periods presented, including the periods before the acquisitions. For information on common control business combinations in accordance with HKFRS, see Note 5 to our consolidated financial statements.

Our key operating assets include one subsidiary mainly engaged in mining bauxite products, four integrated alumina and primary aluminum production plants, three stand-alone alumina refineries, including our joint venture Guangxi

Huayin and one research institute, 13 stand-alone primary aluminum smelters, six aluminum fabrication plants and one carbon production plant. Our Research Institute also provides products for commercial sales. In addition, we are constructing one additional bauxite mining facility, two additional alumina refineries, two additional aluminum fabrication plants and one fluoride salt production facility. Most of our alumina refineries are located in reasonable proximity to abundant bauxite reserves and, as of December 31, 2008, had annual production capacities ranging from 1,200,000 tonnes to 2,217,000 tonnes. As of December 31, 2008, our primary aluminum smelters had annual production capacities ranging from 56,000 tonnes to 457,000 tonnes and our aluminum fabrication plants had annual production capacities ranging from 22,000 to 350,000 tonnes. Since December 31, 2004, all of our production facilities have been operated under the ISO 14001 standards.

In 2008, in order to further improve our product lines, reduce connected transactions as well as competition with Chinalco, and achieve greater vertical integration, we acquired five aluminum fabrication plants and a primary aluminum smelter from Chinalco and China Nonferrous Metals Technology. These acquisitions significantly increased our aluminum fabrication production capacity in 2008. In addition, we also acquired the aluminum alloy business of Pingguo Aluminum in 2008.

The following sets forth those of our plants acquired or newly established in 2008 that are either currently in operation or under construction:

Plants in operation	Principal products	Percentage of equity interest acquired by us
Huaxi Aluminum	aluminum fabrication products	56.86%
Chalco Ruimin	aluminum fabrication products	75%
Chalco Southwest Aluminum	aluminum fabrication products	60%
Henan Aluminum	aluminum fabrication products	84.02%
Liancheng branch	primary aluminum	100%
Plant under construction		
Chalco Southwest Aluminum Cold Rolling	aluminum fabrication products	100%

Our principal executive office is currently located at No. 62 North Xizhimen Street, Haidian District, Beijing, 100082, People's Republic of China. Our contact telephone number is (86)10 8229 8103. Our website is www.chalco.com.cn. Information on our website does not constitute part of this annual report.

BUSINESS OVERVIEW

Our Principal Products

We organize and manage our operations according to our three principal business segments: alumina segment, primary aluminum segment and aluminum fabrication segment. Our alumina segment includes the production and sale of our alumina and alumina-related products, namely, alumina chemical products, including alumina hydrate, alumina-based industrial chemical products and gallium. Our primary aluminum segment includes the production and sale of our primary aluminum (including both ingots and other primary aluminum products) and aluminum-related products, namely, carbon products. Our aluminum fabrication segment includes the production and sale of aluminum fabrication products. External sales of our alumina segment, primary aluminum segments and aluminum fabrication segment accounted for approximately 18.9%, 63.1% and 14.2%, respectively, of our total revenue in 2008. Alumina is refined from bauxite through a chemical process and is the key raw material for producing primary aluminum, which in turn is a key raw material for aluminum fabrication.

Our alumina segment products consist primarily of alumina, which accounted for approximately 92.5% of our total alumina segment output based on total production volume in 2008. Other alumina segment products consist primarily of alumina chemical products, which are used in the production of chemical, pharmaceutical, ceramic and construction materials. In the process of refining bauxite into alumina, we also produce a small amount of gallium, which is a by-product and a high-value rare metal with special usage in the electronics and telecommunications industries.

Our principal primary aluminum product is ingots, which accounted for approximately 79.3% of our total primary aluminum output in 2008. Our standard ingots are 20-kilogram remelt ingots used for general aluminum fabrication primarily for the construction, power generation, automobile, packaging, machinery and durable goods sectors.

The carbon we produce supplies substantially all of the carbon products required for our smelters. We also sell some of our carbon products to external smelters.

Our principal aluminum fabrication products include casts, planks, screens, extrusions, forges, powder and die castings which are widely used in construction, power generation, automobile, packaging, machinery and durable goods sectors. In addition, in 2008, we constructed a production line in Chalco Qingdao to produce aluminum fabrication products with recycled aluminum materials.

Our Production Capacity

The following table sets forth the production capacity of alumina, primary aluminum and aluminum fabrication products for each of our principal plants as of December 31, 2008:

Production Capacity

Plant	Alumina (1)	Primary Aluminum (2)	Aluminum Fabrication Products
	as of December 31, 2008		
	(in thousand tonnes) (3)		
Guangxi branch	1,730.0	139.5	-
Zhongzhou branch	1,830.0	-	-
Qinghai branch	-	367.0	-
Shanxi branch	2,217.0	-	-
Guizhou branch	1,200.0	403.7	-
Henan branch	2,050.0	56.0	-
Shandong branch	1,500.0	75.0	-
Shanxi Huaze	-	350.0	-
Lanzhou branch	-	428.0	-
Shanxi Huasheng	-	220.0	-
Fushun Aluminum	-	240.0	-
Jiaozuo Wanfang(4)	-	412.0	-
Zunyi Aluminum	-	235.0	-
Shandong Huayu	-	200.0	-
Gansu Hualu	-	160.0	-
Baotou Aluminum	-	457.0	-
Guangxi Huayin(5)	530.0	-	-
Research Institute	20.0	18.0	-
Liancheng branch	-	230.0	-
Northwest Aluminum	-	-	100.0
Chalco Qingdao	-	-	120.0
Chalco Southwest Aluminum	-	-	350.0
Chalco Ruimin	-	-	120.0
Henan Aluminum	-	-	270.0
Huaxi Aluminum	-	-	22.0
Total	11,077.0	3,991.2	982.0

(1) Not including (i) Longmen Aluminum in which we hold 55% of the equity interest and (ii) aluminum alloy business of Pingguo Aluminum which we acquired in September 2008.

(2) Not including Chalco Qingdao which completed the construction of its production line to use recycled aluminum materials to produce aluminum fabrication products with an annual capacity of 120,000 tonnes in 2008. In 2008, Chalco Qingdao commenced trial production and produced 3,100 tonnes of aluminum fabrication products.

(3) Our production capacity takes into account designed capacity and subsequent modifications. Designed capacity is based on various assumptions including down time for ordinary maintenance and repairs and assumptions as to ore grade of bauxite used.

(4) We hold 29% of the equity interest in Jiaozuo Wanfang. However, as we have obtained de facto control over Jiaozuo Wanfang, its results of operations were consolidated into our consolidated statements commencing on January 1, 2008. Production capacity presented above represents 100% of Jiaozuo Wanfang's smelting capacity. See Note 2(b)(i)(b) to our consolidated financial statements.

(5) As of December 31, 2008, Guangxi Huayin was a jointly controlled entity in which we held 33% of the equity interest and we were the second largest equity holder of Guangxi Huayin. Therefore, the results of Guangxi Huayin were not consolidated into our audited financial statements in 2008. Production capacity above represents 33% of Guangxi Huayin's production capacity.

The following table sets forth, for the periods indicated, information relating to our production volumes of the alumina segment, primary aluminum segment and aluminum fabrication segment products:

	Years Ended December 31		
Production Volume by Product	2006	2007	2008
	(in thousand tonnes, except Gallium)		
Alumina segment			
Alumina	8,830.0	9,573.0	9,020.4
Alumina chemical products	1,100.0	1,023.0	1,038.1
Gallium (in tonnes)	25.5	33.2	39.6
Primary aluminum segment			
Primary aluminum (1) (2)	1,930.0	2,804.1	3,253.3
Carbon	1,060.0	1,291.7	1,601.3

Aluminum fabrication			
Aluminum fabrication products[(2)]	-	80.0	353.1

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(1) Including ingots and other primary aluminum products.

(2) Production volumes for 2006 and 2007 do not include the production volumes of Huaxi Aluminum, Chalco Ruimin, Chalco Southwest Aluminum, Henan Aluminum and Liancheng branch which we acquired on May 30, 2008. The Group's production volume in 2008 includes the production volumes of these four aluminum fabrication plants and one primary aluminum plant in 2008 after the acquisitions. However, as these four aluminum fabrication plants and one primary aluminum plant and the Company were under the common control of Chinalco before and after the acquisitions, the acquisitions of the five plants were accounted for as common control business combinations, and merger accounting is applied. Accordingly, the consolidated financial statements of the Group in Item 17 have been retroactively restated to include the results of the five plants together with other common control business combinations during the period for the periods presented, including the periods before the acquisitions. For information on common control business combinations in accordance with HKFRS, see Note 5 to our consolidated financial statements.

Production Process

Alumina

Alumina is produced from bauxite, an aluminum-bearing ore, through a chemical refining process. The production process to be used for producing alumina is determined by the mineral composition of the bauxite used. The production process generally includes the sintering process, the Bayer process, the hybrid Bayer-sintering process or the ore-dressing Bayer process. Most of the bauxite found in China is diasporite bauxite with high alumina content and relatively high silica content, resulting in low alumina-to-silica ratios. The Bayer process cannot efficiently refine such bauxite unless the alumina-to-silica ratio of the bauxite is sufficiently increased prior to refining. Refining low alumina-to-silica ratio bauxite generally requires the use of either the sintering process or the hybrid Bayer-sintering process, and we have developed and improved the process, which enables us to process diasporite bauxite that is generally found in China efficiently.

Primary Aluminum

Primary aluminum is made from alumina through a smelting process using electrolytic reduction. The electrolytic process takes place in a reduction cell, or "pot", a steel shell lined with carbon cathodes and refractory materials.

Powerful electric currents are passed through the pot to produce molten aluminum. The molten aluminum is transferred to holding furnaces and then poured directly into molds to produce foundry ingots, or further refined to form fabricating ingots. Most of the primary aluminum we produce is in the form of ingots.

The two methods commonly used to produce primary aluminum are the "pre-bake" reduction process and the "Soderberg" reduction process. Most modern aluminum production facilities adopt the pre-bake reduction. As of December 31, 2008, all of our primary aluminum capacity used pre-bake anode reduction pot-lines. In the pre-bake reduction process, the anodes are pre-formed in a separate facility where the pollutants can be contained. The cells themselves are enclosed with removable panels, so that the waste gases produced can be extracted using large exhaust fans. These gases are then treated and purified to reduce emissions of dust and fluoride to acceptable levels regulated by State environmental protection agencies.

Aluminum Fabrication Products

Aluminum fabrication is made from primary aluminum. We process primary aluminum into seven major categories of aluminum fabrication products, namely, casts, planks, screens, extrusions, forges, powder and die castings. In addition, Chalco Qingdao uses recycled aluminum materials to produce aluminum fabrication products.

Production Facilities

Alumina

We operate seven principal alumina production facilities. Four of these seven refinery plants are integrated with primary aluminum smelting operations. Our total designed annual production capacity for alumina products was approximately 11.08 million tonnes as of December 31, 2008. In the fourth quarter of 2008, affected by the international financial crisis, the demand for alumina decreased significantly, and global alumina producers including us have significantly reduced their production scales and output by idling a portion of their alumina production capacity. As of December 31, 2008, 4.34 million tonnes of our alumina production capacity was not used, which accounted for 39.2% of our total alumina production capacity. In 2008, our actual production of alumina products was approximately 9.02 million tonnes of alumina and approximately 1.04 million tonnes of alumina chemical products. In 2008, we supplied approximately 5.89 million tonnes of alumina to our own smelters, and sold the remaining products to other domestic smelters. All of our alumina chemical products in the alumina segment we produced in 2008 were sold externally, either domestically or overseas for use in chemical, pharmaceutical and other industries. In addition, Our Chongqing branch and Chalco Zunyi have undertaken facility construction projects, each with designed annual capacity 800,000 tonnes. Both projects are expected to be completed in 2010.

As of December 31, 2008, Guangxi Huayin was a jointly controlled entity in which we held a 33% equity interest and we were the second largest equity holder of Guangxi Huayin. Therefore, the results of operations of Guangxi Huayin were not consolidated into our audited financial statements in 2008. See Note 9 to our audited consolidated financial statements. In addition, Guangxi Huayin's production volumes were not included in our production volumes for 2008.

The following table sets forth the designed annual production capacity, alumina production output, alumina chemical products production output and the utilization rate of each of our principal alumina refineries and our Research Institute as of December 31, 2008.

	As of December 31, 2008				
	Designed Annual Production Capacity [1]	Alumina Production Output	Alumina Chemical Products Production Output	Utilization Rate [2] (%)	Production Process
	(in thousand tonnes, except percentages)				
Shanxi branch[3]	2,217.0	1,955.7	31.6	89.3	Hybrid Bayer-sintering
Henan branch[3]	2,050.0	1,865.4	21.9	91.7	Hybrid Bayer-sintering
Shandong branch[3]	1,500.0	929.4	657.9	86.5	Sintering and Bayer
Guizhou branch	1,200.0	1,145.8	6.8	95.9	Hybrid Bayer-sintering
Zhongzhou branch[3]	1,830.0	1,806.1	235.8	107.0	Sintering and Bayer
Guangxi branch[3]	1,730.0	1,318.0	40.4	84.2	Bayer
Guangxi Huayin[4]	530.0	-	-	-	Bayer
Research Institute[3][5]	20.0	-	43.7	122.0	Bayer
Total	11,077.0	9,020.4	1,038.1	88.0	

(1) Our production capacity takes into account designed capacity and subsequent modifications. Capacity is based on various assumptions, including down time for ordinary maintenance and repairs and assumptions as to the ore grade of bauxite used.

(2) The capacity utilization rate is derived from the summation of (i) the production output of alumina chemical products multiplied by a quotient based on alumina content in these alumina chemical products and (ii) the production output of alumina divided by production capacity of a particular plant. Rates greater than 100% reflect the higher productivity obtained through the use of higher-grade bauxite than originally contemplated in capacity calculations.

(3) Due to the technology upgrading of each refinery, our production capacity now exceeds our originally designed production capacity.

(4) We hold 33% of the equity interest in Guangxi Huayin, and the designed annual production capacity represents the capacity calculated in proportion

to our equity interest in this jointly controlled entity. Guangxi Huayin's production volume was not included in our production volume for 2008.

(5) The alumina chemical products production facilities of our Research Institute are test facilities for research and development purposes. These products are sold commercially, and such sales are included in our total revenue.

Overseas investment

To secure future bauxite and alumina supply, we have entered into agreements relating to the Aurukun bauxite and alumina project, with projected alumina production capacity of 2,100,000 tonnes per annum.

On March 23, 2007, we signed the Aurukun Project development agreement with the Queensland Government and entered into land use agreements with various indigenous peoples. The Queensland Government officially issued the Aurukun bauxite exploration permit to the Company in September 2007. We are currently preparing the feasibility report.

Primary Aluminum

We operate 17 principal primary aluminum production facilities located in nine provinces in China. Four of these 17 smelter plants are integrated with alumina refining operations and are self-sufficient with respect to alumina supply. In addition, our Research Institute also operates a test plant that produces primary aluminum in connection with its research and development.

The total annual production capacity for primary aluminum products of all 17 of our major primary aluminum production facilities, including four integrated alumina and primary aluminum production plants and our Research Institute as of December 31, 2008 was 3,991,200 tonnes. In the fourth quarter of 2008, affected by the international financial crisis, the demand for primary aluminum decreased significantly, primary aluminum producers including us have significantly reduced their scale of production and output by shutting down a portion of their primary aluminum production capacity. As of December 31, 2008, approximately 960,000 tonnes of our primary aluminum production capacity was not used, which accounted for 24% of our total primary aluminum production capacity. In 2008, we produced approximately 3,250,000 tonnes of primary aluminum.

The following table sets forth the designed annual production capacity, output of primary aluminum products, the utilization rate and the smelting equipment used in each of our principal aluminum smelters and our Research Institute as of December 31, 2008:

	As of December 31, 2008			
Plant	Production Capacity(1)(3)	Aluminum Output(3)	Utilization Rate(2) (%)	Smelting Equipment(3)
	(in thousand tonnes, except percentages)			
Baotou Aluminum	457.0	299.6	65.6	135kA, 200kA & 240kA pre-bake
Fushun Aluminum	240.0	107.0	44.6	200 kA pre-bake
Gansu Hualu	160.0	143.9	89.9	160 kA & 210kA pre-bake
Guangxi branch	139.5	155.0	111.1	160kA &320kA pre-bake
Guizhou branch	403.7	322.7	79.9	160 kA,186kA & 230kA pre-bake
Henan branch	56.0	54.2	96.8	85kA pre-bake
Jiaozuo Wanfang	412.0	411.2	99.8	280 kA pre-bake
Lanzhou branch	428.0	404.2	94.4	75kA, 200kA & 350 kA pre-bake
Qinghai branch	367.0	390.6	106.4	160kA & 200kA pre-bake
Research Institute(4)	18.0	16.5	91.7	150 kA & 300kA pre-bake
Shandong Huayu	200.0	106.2	53.1	240 kA pre-bake
Shandong branch	75.0	123.0	164.0	80kA & 200kA pre-bake
Shanxi Huasheng	220.0	216.2	98.3	300 kA pre-bake
Shanxi Huaze	350.0	258.7	73.9	300kA pre-bake
Zunyi Aluminum	235.0	87.7	37.3	200 kA & 350kA pre-bake

Liancheng branch	230.0	140.6	61.1	90kA & 200kA pre-bake
Others	-	16.0	-	-
Total	3,991.2	3,253.3	81.5	

(1) Production capacity takes into account designed capacity, subsequent modifications and down time for ordinary maintenance and repairs. Our production capacity includes new projects completed in 2008.

(2) The capacity utilization rate is determined by dividing the production output of a particular plant by that plant's production capacity.

(3) Not including the aluminum alloy business of Pingguo Aluminum.

(4) The primary aluminum production facilities of our Research Institute are experimental facilities for research and development purposes. Primary aluminum produced at this smelter is sold commercially, and such sales are included in our total revenue.

Overseas Development

To implement our international development strategy, we initiated a research program on overseas development projects in 2004. On October 3, 2007, we entered into a memorandum of understanding ("MOU") to jointly construct a primary aluminum plant in Saudi Arabia with an annual capacity of 1,000,000 tonnes with the MMC and SBG. On November 24, 2007, the parties to the MOU officially entered into a cooperation framework agreement and received the project permit issued by the Saudi Arabia General Investment Authority. The cooperation framework agreement provides that the project will utilize our technologies and major equipment manufactured in China. On May 9, 2008, we entered into a joint venture arrangement with MMC and SBG, according to which the joint venture will be established in Saudi Arabia and will develop and operate a primary aluminum plant with a planned annual capacity of approximately 1,000,000 tonnes as well as a self-owned power plant with a planned capacity of 1,860 MW. We propose to hold 40% equity interest in the joint venture, and as a result, will become the largest shareholder. The project is located in an area with abundant low-cost energy supplies including heavy crude oil for generating electricity, where primary aluminum can be produced at a competitive cost. The project is expected to be completed in three stages. We are currently preparing the feasibility report.

Aluminum Fabrication Products

We currently operate six major aluminum fabrication facilities in China, among which, five facilities were acquired from Chinalco and China Nonferrous Metals Technology on the China Beijing Equity Exchange in late May 2008. The total annual production capacity of our aluminum fabrication facilities including the five aluminum fabrication plants we acquired in May 2008 and Chalco Qingdao was 982,000 tonnes as of December 31, 2008. In 2008, we produced approximately 353,000 tonnes of aluminum fabrication products. In addition, our subsidiary Chalco Southwest Aluminum Cold Rolling has undertaken a facility construction project which is expected to be completed in 2010 and the new facility will have an annual production capacity of 250,000 tonnes of aluminum fabrication products. Our subsidiary Chalco Nanhai has undertaken a facility construction project which is expected to be completed in 2010 and the new facility is expected to have an annual production capacity of 110,000 tonnes.

The following table sets forth the designed annual production capacity, output of aluminum fabrication products, the utilization rate in each of our major aluminum fabrication plants as of December 31, 2008:

	As of December 31, 2008			
	Annual Production Capacity	Aluminum Fabrication Product Output	Principal Products	Utilization Rate
	(in thousand tonnes, except percentages)			
Northwest Aluminum	100.0	60.1	planks, screens, wires, tubes and profiles	60.1%
Chalco Ruimin(1)	120.0	56.6	planks and screens	80.9%
Huaxi Aluminum(1)	22.0	9.5	strips and screens	74.0%
Chalco Southwest Aluminum(1)	350.0	97.2	belts	47.6%
Henan Aluminum(1)	270.0	120.5	planks, strips and screens	76.5%
Chalco Qingdao(2)	120.0	3.1	-	-
Others	-	6.1	-	-
Total	982.0	353.1		61.6%

(1) Only includes its output after May 30, 2008 when it was acquired by us.

(2) Chalco Qingdao commenced its trial production in 2008 and its output in 2008 was 3,100 tonnes.

Raw Materials

Alumina

Bauxite is the principal raw material for the production of alumina. Most of the bauxite in China is $AL_2O_3.H_2O$ mineral, which is an uncommon kind of mineral in other parts of the world, where $AL_2O_3.H_2O$ is prevailing. Aluminum deposits run through a broad area in central China and are especially abundant in the southern and northern parts of central China. The largest aluminum deposit lies in Shanxi Province.

Our aluminum deposits, except those of Guangxi Pingguo Mine which is an accumulation deposit due to original erosion, usually have similar stratigraphical sequences. Primary bauxite deposit, as a type of sedimentary $AL_2O_3.H_2O$ of Carboniferous or Permian age, is contained in clay rock, limestone or coal seams. A zonary red shale is usually located at the bottom of the bauxite and the red seam distributes over the irregular "karst-type" erosion face on the top of Ordovician limestone. Aluminum deposits in northern China are usually covered with a very thick Quaternary weathering.

The thickness and quality of deposits vary with locations. Quality is usually consistent in smooth sections but changes sharply in karst "billabong" terrain. The level of hardness of minerals also varies. A sequence that includes a seam of hard bauxite of fine quality in the middle and soft bauxite of inferior quality on the bottom and top seams is common in deposits.

Generally, deposits are horizontal or with an obliquity of 0-8º, but there are also steep deposits at an angle of 75º, such as the Guizhou No. 2 Mine. Most of the original mineralization is not influenced by folds and faults, and some fractures of a low obliquity and folds emerge in certain deposits, which is evident in the Guizhou No. 2 Mine area where the underground mining method must be used due to the obliquity of its bauxite body reaching 70º with the influence of folds and several meters of dislocation arising from partial faults.

The systematic and accurate method of test boring, inspection pit, trial trench, density, tonnage analysis and calculation applied to the geological work of bauxite in China is an appropriate method to analyze these types of deposits.

On average, our refineries consume approximately 2.0 tonnes of bauxite to produce one tonne of alumina. We used approximately 18,760,000 tonnes, 20,242,900 tonnes and 18,414,167 tones of bauxite in our alumina production in 2006, 2007 and 2008, respectively. In 2008, bauxite cost represented approximately 25.1%, as compared with 25.5% in 2007 of our per unit alumina production costs.

Supply. The predominant use of bauxite is for alumina production. Except for our Shandong branch, all of our refineries are located in the four provinces where over 90% of China's potentially mineable bauxite has been found. We generally source our bauxite from mines close to our refineries to save transportation costs. We procure our bauxite supply principally from three sources:

* our own bauxite mining operations;

* jointly operated mines; and

* purchases from other suppliers, which principally include small independent mines and, to a lesser extent, imports.

We purchase bauxite from a number of suppliers. We are not dependent on any single supplier or a small group of suppliers for our bauxite requirements. We endeavor to explore new bauxite reserves and streamline our bauxite procurement system to support the growth of our alumina production. In 2008, we acquired three new mines. In addition, we established two new jointly-operated mines and became the sole owner of one formerly jointly owned mine, which subsequently became part of Jiaozuo mine, one of our own mines.

The combined production of our own mines and jointly operated mines was 8,288,500 tonnes in 2008, representing a decrease of 2.7% compared with the production volume in 2007. However, the production of our own mines reached 6,885,000 tonnes in 2008, representing an increase of 14.4% compared with the production volume in 2007.

	Years Ended December 31,					
	2006		2007		2008	
	Total Bauxite Supply	Percentage of our Total Bauxite Supply (%)	Total Bauxite Supply	Percentage of our Total Bauxite Supply (%)	Total Bauxite Supply	Percentage of our Total Bauxite Supply (%)
	(in thousand tonnes)		(in thousand tonnes)		(in thousand tonnes)	
Our owned mines	4,115.3	21.4	4,770.2	20.3	6,885.0	30.9
Jointly operated mines	4,710.3	24.6	3,751.6	15.9	1,403.5	6.3
Other suppliers	10,343.4	54.0	15,015.8	63.8	13,992.4	62.8
Total	19,169.0	100%	23,537.6	100%	22,280.9	100%

The total designed annual production capacity of our own mines was 7.5 million tonnes as of December 31, 2008, and the total bauxite production in 2008 was approximately 6.9 million tonnes. All of our mines are accessible via railroads or highways.

Own Mines.

We currently own 13 mines. As of December 31, 2008, these mines had approximately 225.5 million tonnes of aggregate proven and probable bauxite reserves as such terms are defined by the SEC. Assuming an annual mining output of 5,000,000 tonnes, the amount of bauxite reserves is sufficient to sustain our mining operations in excess of 30 years. As none of our mines produce bauxite for external sales, we are assured of full access to the bauxite produced by our own mines. In 2008, we sourced approximately 30.9% of our bauxite from mines that we own and operate. In order to obtain or retain the title to mines, we are required to comply with mining qualifications approved by the relevant Chinese authorities and pay an annual fee in amount of RMB1,000 per km2.

For the three years from 2006 to 2008, our own mines produced bauxite of 4,115,300 tonnes, 4,770,200 tonnes and 6,885,000 tonnes of bauxite, representing 21.5%, 20.3% and 30.9% of the demand from our alumina production, respectively. The following table sets forth information regarding our own mines as of December 31, 2008:

Mine	Location (Province)	Annual Production Capacity [(1)]	Bauxite Production
		(in thousand tonnes)	(in thousand tonnes)
Pingguo Mine	Guangxi Zhuang Autonomous Zone	4,080.0	2,981.5
Guizhou No.1 Mine	Guizhou Province	400.0	387.6
Guizhou No.2 Mine	Guizhou Province	520.0	499.7
Zunyi Mine	Guizhou Province	-	-
Xiaoyi Mine	Shanxi Province	1,450.0	730.3
Mianchi Mine	Henan Province	930.0	814.6
Luoyang Mine	Henan Province	1,000.0	752.0
Xiaoguan Mine	Henan Province	690.0	120.8
Sanmenxia	Henan Province	100.0	97.3
Yuzhong	Henan Province	750.0	476.9
Jiaozuo	Henan Province	80.0	24.3
Yangquan Mine	Shanxi Province	-	-
Nanchuan Mine	Chongqing City	-	-
		10,000.0	6,885.0

(1)

includes the production capacities of some of jointly operated mines and the annual production capacity of our own mines was 7.5 million tonnes as of December 31, 2008.

The respective terms of the mining rights permit are the shorter of the estimated working life of the mine and 30 years beginning 2001. We are required to obtain mining rights permits to operate mining services. According to PRC laws and regulations, a mine owner must first prepare exploration reports of the mine and then submit those reports as part of an application to the local government for approval in order to obtain mining rights permits. If an applicant for the mining rights permit is not the owner of a mine, the applicant must first enter into an agreement with the mine owner, and then follow the foregoing procedures. The development license is subject to renewal on a regular basis. Furthermore, we are required to obtain land use rights on the land in order to operate these mines. We lease the land use rights relating to aforesaid mines from Chinalco pursuant to a land use right leasing agreement that we entered into upon our formation. Chinalco's land use rights relating to over 90% of our mining properties are for 50-year terms beginning on July 1, 2001. The remaining land use rights relating to the mines we own and operate are for shorter terms, some as short as one year. All of our land use right leasing agreements end on the expiry date of the mining rights or the end of the actual mine life, whichever is earlier. Both the land use rights and land use right leasing agreements are renewable.

Jointly Operated Mines.

We currently jointly operate 17 bauxite mines. In 2008, we acquired 100% ownership of Jiyuan mine which subsequently became part of Jiaozuo mine, one of our own mines. Jointly operated mines are generally operated pursuant to long-term contractual arrangements in which we typically contribute resources such as funding, equipment, labor and management, and the other parties contribute land and/or mining rights and certain personnel resources. The other parties are also typically responsible for obtaining all relevant certificates or approvals in respect of the lands. Generally, we are able to control the mining operations of our jointly operated mines, including determination of production schedules as well as the amounts and grades of bauxite produced. As of December 31, 2008, we had obtained mining rights certificates for all of our 17 jointly operated mines. To better utilize our resources and reduce costs, we currently manage our jointly-operated mines using one of the following three methods: (i) establishing joint ventures with other companies to invest in and share resources; (ii) providing mining technology or other resources to companies with local mines in return for exclusive purchase rights to the bauxite ores; or (iii) contracting with local companies for their mining services to operate mines owned by us.

In the years ended December 31, 2006, 2007 and 2008, our jointly-operated mines produced bauxite of 4,710,300 tonnes, 3,751,600 tonnes and 1,403,500 tonnes, representing 24.6%, 15.9% and 6.3% of the demand from our alumina production, respectively.

Jointly operated mines are typically smaller than our own mines but larger than the small independent mines in terms of reserves and production scales. Our 17 jointly operated mines had approximately 14.2 million tonnes in the aggregate of proven and probable bauxite reserves as such terms are defined by the SEC. Security of supply from jointly operated mines is contingent upon the extension or renewal of the joint operation arrangements and mining rights upon their expiration. Accordingly, we view our jointly operated mines, as a group, as a stable and long-term source of our bauxite supply, although the particular mines comprising this group may change. Jointly operated mines supplied 6.3% of our bauxite needs in 2008.

Other Suppliers.

In addition to our own mines and our jointly operated mines, we also source bauxite from other suppliers. A majority of other suppliers are small independent mines. In addition, we also secure a small portion of bauxite from overseas. Bauxite secured from other suppliers accounted for 62.8% of our total bauxite supply in 2008.

Small Independent Mines.

We purchase bauxite directly from small independent mines or through local distributors that procure bauxite from these mines. Small independent mines are not affiliated with us and generally have annual bauxite production capacities not exceeding 200,000 tonnes. These mines have historically been our important source of bauxite.

Bauxite Procurement.

A mineral resource department in our headquarters is responsible for the control and coordination of the supply of our bauxite. To determine how our bauxite requirement will be allocated among our principal sources each year, we first estimate our total bauxite needs for the year. Based on market conditions, production costs and other factors, we decide on the amount of bauxite that we wish to source from our own mines, and allocate the remaining requirements among the jointly operated mines and other suppliers. Our management or operational control of our own mines and jointly operated mines generally allows us to adjust the procurement levels from these sources during the course of the year to accommodate market conditions.

Alumina-to-Silica Ratio.

The production method for alumina refining is determined by the mineral composition of the bauxite, as measured by reference to its alumina-to-silica ratio. Most of the bauxite reserves in China are diasporic with low alumina-to-silica ratios. Based on our current technology, an efficient application of the Bayer process requires bauxite with an alumina-to-silica ratio of 10:1 or higher, while the sintering process refine bauxite with an alumina-to-silica ratio as low as 4:1. The average alumina-to-silica ratio of the proven and probable reserves of our mines is from 6.5:1 to 7:1.

Prices.

There is neither governmental regulation on bauxite prices nor an official trading market for bauxite in China. We negotiate and agree on bauxite prices with our suppliers, based on ore quality, mining costs, market conditions, transportation costs and various governmental taxes or levies, including a resource tax imposed by local governments. As we procure bauxite from three different sources, our total bauxite cost is influenced by the following factors:

* the cost of our own mining operations;

* the terms of our operational arrangements with respect to our jointly operated mines; and

* the market conditions relating to purchases from small independent mines.

We purchase a significant amount of bauxite from sources other than our own mines as a means to protect the resources that we have already acquired. Additionally, in order to fully utilize our own resources, we refine all bauxite that meets the minimum technical requirements for our production of alumina. We also purchase ore of higher grades from other suppliers and blend the ore of various grades to meet the exact technical requirements for our alumina production. This practice allows for flexibility and the inclusion of isolated, poorer grade bauxite, to better utilize the available bauxite deposit.

Primary Aluminum

An average of approximately 1.95 tonnes of alumina and 14,500 KWH of electricity are required to produce one tonne of primary aluminum. Alumina and electricity, the two principal components of costs in the smelting process, accounted for approximately 39.6% and 36.4%, respectively, of our unit primary aluminum production costs in 2008. Apart from alumina and electricity, we also require carbon anodes, carbon cathodes and sodium fluoride in the smelting process.

Alumina is the main raw material in the production of primary aluminum. Our Shandong, Henan, Guizhou and Guangxi branches have historically sourced all or substantially all of the alumina required for their primary aluminum production from their respective integrated refineries. All our plants which do not have integrated alumina refining operations on site have obtained alumina internally from our own alumina refineries located elsewhere.

We own 17 primary aluminum smelters in PRC, four of which are among the ten largest smelters in China. We have enhanced our competitiveness along with the development of the primary aluminum industry. In 2008, the total amount of alumina consumed by our smelters was approximately 5,770,000 tonnes, out of which we produced approximately 3,250,000 tonnes of primary aluminum. Our primary aluminum output accounted for 8.1% of the global output and 24.7% of the output in China in 2008.

Aluminum Fabrication Products

The main raw material for our aluminum fabrication operations is primary aluminum. We also use other metal raw materials in aluminum fabrication depending on the type of products. We meet the primary aluminum demand of our aluminum fabrication segment with primary aluminum supplied by our own aluminum smelters. In addition, Chalco Qingdao uses recycled aluminum materials to produce aluminum fabrication products. On May 30, 2008, we acquired five aluminum fabrication plants from Chinalco and China Nonferrous Metals Technology, which increased our annual aluminum fabrication capacity to 982,000 tonnes as of December 31, 2008.

Supplemental Materials, Electricity and Fuel

The main fuel used by our mining and manufacturing equipment is diesel. We are able to purchase diesel supplies from the public markets.

We source our water mainly from local rivers, lakes or underground.

Alumina

Electricity, coal, alkali (caustic soda or soda ash) and heavy oil are the principal items required for our alumina production. We established a supplies department in our headquarters to control and coordinate the budgeting and procurement for all major items required for our production. In addition, to raise the efficiency of materials flow, a distribution center has been set up at each production facility. However, our efforts to reduce unit costs by improving the efficiency of material supplies by the procurement system were to a certain extent offset by the significantly increased prices for coal and fuel in the market in 2008.

Electricity.

Electricity is one of the principal forms of energy used in our refining process. Electricity represented approximately 7.8% of our unit alumina production cost in 2008.

To the extent that power produced by the joint operation facility is insufficient to meet a refinery's total power requirements, we purchase the shortfall from regional power grids at government-mandated rates pursuant to power supply plans. Power prices in China can vary, sometimes substantially, from one region to another, based on power production costs in the region as well as the consuming community's ability to pay. Accordingly, power costs for our various plants differ. Most of our electricity supply plans are one to three year renewable plans with regional power grids.

Coal.

Large quantities of coal are used as a reducing agent and as fuel to produce steam and gas in the alumina refining process. The coal we consumed directly in the alumina refining process in 2008 represented 6.6% of our unit alumina production costs.

The construction of Zhaogu mine, a joint venture with Jiaozuo Coal (Group) Co., Ltd. ("Jiaozuo Coal") has been preliminarily completed. We hold 30% of the equity interest in Zhaogu mine while Jiaozuo Coal holds the remaining 70% of the equity interest. According to the joint venture agreement, we are entitled to all of the slack coal produced by the joint venture company.

Alkali.

Alkali is used as a supplemental material in alumina refining. The sintering process and the hybrid Bayer-sintering process require soda ash while caustic soda is used in the Bayer process. We purchase all of our alkali from third party suppliers. Alkali accounted for 8.5% of our unit alumina production cost in 2008.

Fuel.

Fuel is used in the calcinations of aluminum hydroxide to make alumina. Most of our refineries use heavy oil and it represented approximately 4.1% of our unit alumina production cost in 2008.

There is no governmental regulation on the prices of fuel, alkali or coal. The prices are set at market rates or through negotiations. We have not experienced difficulty in obtaining these materials in sufficient quantity and at acceptable prices.

Deliveries of raw materials and supplemental materials including fuel, are generally made on a monthly basis. Our suppliers arrange for railway transportation of these raw materials by submitting to local bureaus of the Ministry of Railways their annual and monthly transportation plans. These local bureaus then arrange for appropriate rail transportation of such raw materials or fuel to our refineries.

Primary Aluminum

Electricity. Smelting primary aluminum requires a substantial and continuous supply of electricity. In 2008, we consumed 49.6 billion kWh of electricity for our primary aluminum production and the cost of electricity represented 36.4% of the unit cost of primary aluminum. Therefore, the availability and price of electricity are key considerations in our primary aluminum production. Costs of electricity have increased periodically in recent years due to severe shortages of electricity in China. In October 2007, the Chinese government issued "Notice on Further Solutions to the Difference in Electricity Rates", according to which the preferential electricity prices originally enjoyed by Chinese primary aluminum enterprises are being gradually abolished. The implementation of this Notice has increased the costs for primary aluminum enterprises in China. Accordingly, our average electricity price increased by 9.7% in 2008 from 2007. In addition, several Chinese provinces experienced power shortages in the first quarter of 2008 mainly due to damage to power lines caused by severe weather conditions. However, since October 2008, the price for electricity has been affected by the international financial crisis. The industrial demand for electricity has declined, and consequently, the electricity prices in Inner Mongolia Autonomous Region, Ningxia Hui Autonomous Region and Yunnan Province have declined, which reduced the per unit cost of primary aluminum. In addition, in 2009, in order to improve the electricity efficiency of primary aluminum producers, the State government initiated a direct electricity purchase program for 15 selected primary aluminum smelters, including Fushun Aluminum, our Liancheng branch, our Shandong branch, our Guizhou branch, our Guangxi branch, our Qinghai branch, Shanxi Huasheng, Gansu Hualu and Baotou Aluminum, which allows the selected primary aluminum smelters to purchase electricity directly from power generation enterprises. We are negotiating with relevant power generation enterprises on the terms of electricity supply under this program and if successful, we believe the electricity prices for those smelters will decrease in 2009.

We have expedited the implementation of integrated energy-saving technology, mainly by streamlining production workflow and improving our product structure. In 2008, aggregate energy consumption of primary aluminum production decreased by 3.1%, compared with 2007.

We purchase electricity from the regional power grids for our smelter operations. Prices for electricity supplied by the power grids under power supply plans are set by the government based on the power generation cost in the region and the consumers' ability to pay. Industrial users within each region are generally subject to a common electricity tariff schedule, but prices vary, sometimes substantially, across regions. Each regional power grid serves a region comprising several provinces. The regional power grids generally rely on multiple power sources to generate electricity, with coal and hydro power being the two most common sources. We believe that the different types of power sources do not imply different degrees of reliability of supply, and that our power supply from the grids is generally not reliant upon any particular generation facility supplying the grid. In addition, nine of our smelters are now allowed to purchase electricity directly from power generation enterprises.

Electricity purchased from different power grids is subject to different tariff levels in 2008. Our smelters' average electricity cost was RMB0.394/kWh in 2008.

Carbon Products.

Carbon anodes and cathodes are key elements of the smelting process. As of December 31, 2008, carbon anodes represented 14.4% of our unit primary aluminum production costs. Each of our smelters produces carbon products other than carbon cathodes, such as carbon anodes. Only our Guizhou plant has a carbon cathode production facility, which supplies all of our smelters with the carbon cathodes required and sells any excess domestically to third-party smelters.

Suppliers

We purchase some raw materials including bauxite, coal, fuel and alkali from outside suppliers. The amount of raw materials provided by our five largest suppliers for alumina products and primary aluminum products accounted for 10.7% and 15.6% respectively, of our total cost of raw materials for 2008. The cost of raw materials supplied by our largest supplier accounted for 5.1% and 4.7% of our total cost of raw materials for alumina and primary aluminum production, respectively, in 2008. All payments to our suppliers are in Renminbi.

Sales and Marketing

We coordinate our major sales and marketing activities at our corporate headquarters. We set uniform prices for our alumina products and set minimum prices for primary aluminum products in each region where our primary aluminum products are sold. We have consolidated the networks of our branch offices to eliminate overlapping of administrative support and to reduce sales costs. In response to increasingly intensified competition, we established Shandong Alumina Chemicals Sales Department to centralize the sales of our alumina chemical products nationwide. Our subsidiaries have also played an important role in improving our after-sales services and enhancing our influence in the marketplace.

In 2003, as part of our centralized management program, we required all sales of alumina and primary aluminum to be settled upon delivery. However, as a result of tight operating cash flows, most of notes receivables were endorsed or discounted upon receipt. Our net trade receivables decreased from RMB3,718.8 million as of December 31, 2007 to RMB2,035.3 million as of December 31, 2008. Since 2004, we have required our customers to make prepayments and deposits for purchases of alumina. The total amount of deposits and prepayments received was RMB3,957 million as of December 31, 2008. We expect to continue this policy.

Alumina

We sell a majority of our alumina output to third-party customers and the remaining portion to our own aluminum smelters. In 2008, we used approximately 5.8 million tonnes of alumina produced by ourselves, which represented approximately 59.2% of our total alumina production. All of our output of alumina chemical products are sold to third-party customers.

Sales

We coordinate sales of alumina at our corporate headquarters. In the fourth quarter of each year, we organize a national alumina sales conference with our domestic primary aluminum smelter customers in order to match our supply with their requirements for the following year. At such annual conferences, based on our production capacity for the following year, we first reserve the amount of alumina needed for primary aluminum production by our smelters before we determine the amount available for sale to third party primary aluminum smelters. After that, we allocate our alumina to smelters with whom we have long-standing relationships and that have good credit and a good payment history. We consider other smelters only if we have additional alumina to allocate. Approximately 95.0% of our sales of alumina are made through these annual conferences.

Based on the sales allocations we make at the annual conference, we and our customers typically enter into one-year sales agreements that set forth their total allocation and delivery schedules. At the time of entering into these one-year sales agreements, prices are left open and determined at or near the time of delivery at the then prevailing market price. We apply uniform prices to alumina sales regardless of where the alumina is produced. If a customer does not accept our price near the time of delivery, it may refuse to take delivery despite the one-year agreement. We began selling a portion of our alumina pursuant to long-term sales contracts which have terms longer than one year in 2001. Since January 1, 2004, we have gradually entered into three to five-year sales contracts for alumina. The volume of sales to third party customers under these long-term sales contracts accounts for approximately 83.4% of the total external sales volume in 2008. Under such a long-term sales contract, the sales volume is fixed, and the price is linked to an index of three-month futures price of primary aluminum quoted at the Shanghai Futures Exchange.

Customers

We sell our alumina to smelters throughout China. Sales to our five largest third party customers accounted for 13.0%, 10.1% and 12.8% of our total alumina revenue from third party customers for 2006, 2007 and 2008, respectively. Sales to our largest customer accounted for 4.0%, 3.4% and 3.4%, respectively, of our total external alumina revenue for the same periods. All of our major third party customers in the last three years have been domestic smelters.

Pricing

We sell our alumina products by way of spot sales and under long-term contracts. Pricing for our alumina products is determined by the nature of the sale as described below.

Spot sales.

We set, and adjust as necessary, uniform sales prices for alumina produced by any of our refineries. In 2008, The highest and lowest spot price of domestic alumina was RMB4,500 per tonne and RMB1,850 per tonne, respectively. The annual average selling price of our alumina was RMB3,171 per tonne in 2008, representing a year-on-year decrease of 7.1%. We set uniform prices for all our sales of alumina to third party customers by reference to alumina prices at reference markets, the market supply and demand conditions, as well as our short-term and mid-term projections. Our pricing generally takes into account:

* alumina exports into China, CIF Chinese ports;

* international transportation costs;

* the applicable standard PRC import tariff;

* value-added tax at 17%;

* import related fees; and

* domestic supply and demand conditions.

Long-term contracts sales.

Internationally, the customary practice for alumina pricing under long-term contracts is by reference to the LME prices for primary aluminum. Since January 2004, we have entered into a number of domestic long-term alumina sales contracts with three to five-year terms, under which the sales price is set as a percentage of the three-month primary aluminum prices on the Shanghai Futures Exchange. As a result, fluctuations of primary aluminum prices on the Shanghai Futures Exchange can affect our alumina prices under these long-term contracts, and the significance of such effects may increase as we increase the proportion of alumina sales under long-term contracts.

Primary Aluminum

We sell a majority of our primary aluminum output to third-party customers and the remaining portion to our own aluminum fabrication plants. In 2008, we sold approximately 3,060,000 tonnes of primary aluminum, with the average price of RMB17,231 per tonne, representing a year-on-year decrease of 12.5% from the average price of RMB19,689 per tonne in 2007.

Sales

We sell our primary aluminum through two channels:

* Contract sales. Most of our primary aluminum sales are made pursuant to contracts entered into directly with our established customers. These may be long-term or short-term contracts.

* Sales on the Shanghai Futures Exchange. As part of our effort to manage market risk, we sell a portion of our primary aluminum products on the Shanghai Futures Exchange through futures contracts of one to six month terms to hedge against the potential decline in primary aluminum prices.

We hold an annual regional primary aluminum sales conference in the fourth quarter of each year to coordinate the production and sales for the following year. We centrally control our product futures sales on the Shanghai Futures Exchange.

To improve the efficiency of our distribution, we divide our China market into several regions as follows:

* southern China (including Guangdong and Fujian Provinces);

* eastern China (including Jiangsu and Zhejiang Provinces and Shanghai Municipality);

* southwestern China (including Sichuan Province and Chongqing Municipality);

* the Beijing-Tianjin-Tanggu area; and

* northeastern China (including Heilongjiang Province).

Customers

We sell a majority of our primary aluminum to domestic customers with a small amount to overseas markets. The Chinese market is our core market for primary aluminum, and we expect it to remain so for the foreseeable future. Domestic customers of our primary aluminum products principally consist of:

* domestic aluminum fabricators that use our primary aluminum as raw material for further processing; and

* aluminum distributors that resell our primary aluminum products to domestic aluminum fabricators or other purchasers.

Our five largest customers combined together accounted for approximately 9.0%, 12.1% and 8.9% of our total primary aluminum revenue for 2006, 2007 and 2008, respectively. Our largest customer accounted for approximately 3.0%, 3.2% and 3.0% of our total primary aluminum revenue during the same periods.

Our export operations consist of ordinary sales of our products to international customers. All export sales of our primary aluminum are sold at negotiated prices. Since August 1, 2007 exports of certain primary aluminum products have been subject to a provisional 15% export tax, and an export tax refund is available for some of our exports. Due to the small quantity of our exportation, the export tax or export tax refund does not have a substantial effect on us.

Pricing

We establish pricing guidelines for domestic sales of our own primary aluminum products, taking into account three main factors:

* the primary aluminum spot prices on the Shanghai Futures Exchange;

* our production costs and expected profit margins; and

* market supply and demand conditions.

As part of our sales integration and centralization efforts, we set minimum prices with respect to each region in China where our primary aluminum is sold. These minimum prices are expressed by reference to the Shanghai Futures Exchange spot price for primary aluminum, excluding transportation. The minimum prices may differ from region to region, but all of our primary aluminum sold into a region, regardless of the plant or warehouse from which it originates or is shipped, is sold at or generally above the minimum price applicable to that region. Those of our smelters filling particular orders are principally involved in discussions with the customer as to the pricing and delivery arrangements for specific transactions. They are required to comply with the minimum pricing guidelines unless prior approval from our corporate headquarters is obtained. In general, we supply each region with products from our nearest smelters to minimize transportation costs.

Aluminum Fabrication Products

We produce aluminum fabrication products based on market demand and sell all of our aluminum fabrication products to third party customers. In 2008, we sold approximately 328,000 tonnes of aluminum fabrication products. We sell most of our aluminum fabrication products domestically, with a small portion to the overseas markets. Our aluminum fabrication products enjoyed an average of 11% export tax refund which varies depending on the particular type of aluminum fabrication product. Most of our sales are based on payment within a short period after delivery. The prices for our aluminum fabrication products are set by agreement with our customers.

Alumina Chemical Products and Gallium

Alumina chemical products and gallium are intermediate products of, or otherwise related to, our alumina production. Our production levels for these products are based on market demand for them. We sell all of our alumina chemical products and gallium to third party customers, mostly domestically but some internationally. Prices for our alumina chemical products and gallium are set according to market demand or by agreement with our customers.

Delivery

Alumina

Delivery of alumina is made from our refineries by rail or truck. Our sales price is normally exclusive of transportation costs. For long-distance delivery, we have spur lines connecting our plants to the national railway routes. We are responsible for the maintenance of these spur lines. The price of shipping on the national railway system is fixed by the government.

Primary Aluminum

Our primary aluminum products are transported to our customers mostly by rail. In view of the substantial distances that separate our smelter plants from southern and eastern China where most of the aluminum fabrication plants are concentrated, we have subsidiaries (often with warehousing capacity leased from third parties) in major cities in eastern and southern China to facilitate deliveries and coordination.

Aluminum Fabrication Products

Our customers are responsible for the shipment for most sales of aluminum fabrication products.

Principal Facilities

Our core facilities include 17 principal production plants and our Research Institute. Set forth below is a plant-by-plant description of our principal operating facilities. Our production operations are organized and managed according to our three business segments, alumina, primary aluminum and aluminum fabrication products.

Guangxi Branch

The Guangxi branch commenced operations in 1994 and is located in the Guangxi Zhuang Autonomous Region in southwestern China, an area rich in bauxite resources. The Guangxi branch receives bauxite for production via highway from the Pingguo mine located in Guangxi Pingguo.

Our Guangxi branch is situated within 17 kilometers of our own mines that contain large, easily exploitable high alumina-to-silica ratio bauxite reserves. The Guangxi branch is our only principal refinery that uses the Bayer method exclusively. With imported European technology and production equipment, our Guangxi refinery features a high level of automation and energy efficiency. Since its inception, we have increased Guangxi branch's original designed production capacity by removing production bottlenecks and expanding its capacity. As of December 31, 2008, its production capacity reached 1,730,000 tonnes of alumina per annum after the completion of the Phase III construction project in July 2008, which increased the annual alumina production capacity of Guangxi branch by 880,000 tonnes. In 2008, our Guangxi branch produced 1,318,000 tonnes of alumina and 40,400 tonnes of alumina chemical products. Most of its alumina output is used in the primary aluminum smelter at our Guangxi branch and the remainder is sold to third party smelters.

Our Guangxi branch also uses advanced 160 kA and 320 kA pre-bake reduction pot-lines developed by ourselves for its primary aluminum production. As of December 31, 2008, the branch's primary aluminum production capacity reached 139,500 tonnes of primary aluminum per annum. In 2008, our Guangxi branch produced 155,000 tones of primary aluminum.

Guizhou Branch

Our primary aluminum production facilities in Guizhou Province, which possesses integrated alumina and primary aluminum production facilities, commenced operations in 1966.

Our Guizhou alumina refinery commenced operations in 1978 and has one of the most advanced facilities of its kind in China, as many of its key technologies and equipment are imported. It uses the hybrid Bayer-sintering process for its alumina production and relies on our own mines as well as third party suppliers for bauxite supply. Bauxite from our own nearby mines is delivered to the refinery by cable cars and train. Its alumina output is mostly used in the primary aluminum production at the same plant and the remainder is sold to third party smelters. As of December 31, 2008, the production capacity of our Guizhou branch reached 1,200,000 tonnes of alumina per annum. Our Guizhou branch uses 160 kA, 186kA and 230 kA pre-bake reduction pot-lines in its primary aluminum production. As a result of technological innovations and overhauls since its inception, our Guizhou smelter plant is among the most technologically advanced smelters in China. As of December 31, 2008, the annual production capacity of primary aluminum of our Guizhou branch was 403,700 tonnes. In 2008, our Guizhou branch produced 1,145,800 tonnes of alumina, 6,800 tonnes of alumina chemical products and 322,700 tonnes of primary aluminum.

Our Guizhou branch also contains a modern carbon production facility which produces carbon anodes as well as carbon cathodes. It is our only facility that produces carbon cathodes and supplies all of the carbon cathodes required by seven of our facilities and our Research Institute. Its carbon cathodes are also sold to third party customers throughout China.

Henan Branch

Our Henan branch is located in Zhengzhou, Henan Province, a province rich in bauxite resources. Bauxite is delivered to our Henan Branch for production via railway and highway from the following mines: Xiaoguan mine located in Zhengzhou, Luoyang mine in Luoyang, Mianchi mine in Mianchi, Yuzhong mine in Zhengzhou, Sanmenxia mine in Sanmenxia and Jiaozuo mine in Jiaozuo. Its alumina and primary aluminum production commenced in 1966 and 1967, respectively. Our Henan branch was the first refinery in China to develop the hybrid Bayer-sintering process. We commenced the operation of a new alumina production line in February 2004 using the ore-dressing Bayer process that we have developed in recent years to refine low alumina-to-silica ratio bauxite. Since its inception, the Henan branch's production facilities have undergone substantial technological upgrades, based on equipment imported from Germany and Denmark. The refinery has also benefited from its access to high alumina-to-silica ratio bauxite from our own mines and through local market purchases. Its alumina output is first used to satisfy its primary aluminum production, and the remainder is sold to our other smelters and third party customers. The designed annual production capacity of alumina of our Henan branch was 2,050,000 tonnes as of December 31, 2008. In 2008, our Henan branch produced 1,865,400 tonnes of alumina and 21,900 tonnes of alumina chemical products.

We upgraded a portion of the primary aluminum facilities at this branch, which now utilizes 85 kA pre-bake reduction pot-lines. Its carbon plant produces high quality carbon products for sales to third party customers in China as well as for export, after meeting the needs of our various smelting operations. As of December 31, 2008, Henan branch's annual primary aluminum production capacity reached 56,000 tonnes. In 2008, our Henan branch produced 54,200 tonnes of primary aluminum.

Shandong Branch

The Shandong branch commenced operations in 1954 and has the capacity to produce both alumina and primary aluminum. Bauxite is delivered to our Shandong branch for production via railway and highway from the Yangquan mine in Shanxi Yangquan. Its refinery was China's first production facility for alumina. Both the refinery and smelter are owned and operated by Shandong Aluminum, which became our wholly-owned subsidiary after our A Shares issuance and exchange on April 30, 2007. It produces the majority of its alumina through the sintering process, but has a small production line to produce alumina through the Bayer process using imported bauxite. During 2002, the Bayer production line was converted into an ore-dressing sintering operation. The Shandong branch purchases the majority of the bauxite required for its production from small third party mines in Henan and Shanxi Provinces. Its alumina output is first used to satisfy its primary aluminum production, and the remainder is sold to our other smelters as well as third party customers. As of December 31, 2008, the annual capacity of alumina of our Shandong branch reached 1,500,000 tonnes and it produced 929,375 tonnes of alumina in 2008.

In addition, our Shandong branch also produces substantial amounts of alumina chemical products. It is the largest and most technologically advanced alumina chemical products production facility, and produces the most varieties of these products in China. Alumina chemical products produced by our Shandong branch are used in the jewelry, ceramics and other industries. Its alumina chemicals products are sold both domestically and internationally. In 2008, our Shandong branch produced 657,900 tonnes of alumina chemical products.

Our Shandong branch's primary aluminum operations have undergone technological and equipment upgrades, with the majority of its original equipment having been replaced by more advanced equipment. As of December 31, 2008, our Shandong branch's primary aluminum production capacity reached 75,000 tonnes of primary aluminum per annum and it produced 123,000 tonnes of primary aluminum in 2008.

Qinghai Branch

Located in Qinghai Province, our Qinghai branch is a stand-alone primary aluminum production facility and is also China's second largest smelter in terms of production capacity. This branch commenced operations in 1987 and is one of the most technologically advanced primary aluminum smelters in China. It operates 160 kA automated pre-bake anode reduction pot-lines that were developed domestically. It benefits from relatively low electricity costs in Qinghai Province resulting from substantial hydroelectric power stations in the region. Historically, the branch has relied on our Shanxi, Shandong, Henan and Zhongzhou branches for its alumina supply. Because of its relatively remote location, it incurs higher average transportation costs for both raw materials and its primary aluminum products than our other branches. The Qinghai branch's designed annual production capacity of primary aluminum was 367,000 tonnes in as of December 31, 2008. In 2008, our Qinghai branch produced 390,600 tonnes of primary aluminum.

Shanxi Branch

Our Shanxi branch commenced operations in 1987 and is located in Shanxi Province, a province with rich bauxite deposits in China. Bauxite is transported to our Shanxi branch for production via railway and highway from the Xiaoyi mine in Shanxi Province. Our Shanxi branch is a stand-alone alumina plant and is currently China's largest alumina plant in terms of production capacity.

Our Shanxi branch's production facilities are primarily imported and are more technologically advanced than our other domestic alumina refineries. Shanxi branch relies on bauxite from our own mines as well as third party suppliers. Due to its close proximity to large coal mines and substantial water resources, it currently has the largest power generation capacity amongst our alumina manufacturing facilities. The total alumina production capacity of our Shanxi branch reached 2,217,000 tonnes as of December 31, 2008. Our Shanxi branch produced 1,955,700 tonnes of alumina and 31,600 tonnes of alumina chemical products in 2008.

Zhongzhou Branch

Situated in Henan Province, our Zhongzhou branch is a stand-alone alumina plant, located near bauxite, coal and water supplies. It commenced operations in 1993 and is equipped with imported and self-developed technology and has undergone various improvements and upgrades, including improved sintering technology. We purchase bauxite supplies from Henan and Shanxi Provinces.

Its production capacity reached 1,830,000 tonnes of alumina per annum as of December 31, 2008. Our Zhongzhou branch produced 1,806,100 tonnes of alumina and 235,800 tonnes of alumina chemical products in 2008.

Lanzhou Branch

Our Lanzhou branch is situated in Lanzhou city in Gansu Province and is a stand-alone primary aluminum plant. It was part of Lanzhou Aluminum before July 2007 which we acquired through share exchange in April 2007. In July 2007, Lanzhou Aluminum was divided into two wholly-owned entities: Lanzhou branch and Northwest Aluminum.

Our Lanzhou branch owns a primary aluminum smelting plant with a designed annual production capacity of approximately 428,000 tonnes as of December 31, 2008. It produced 404,200 tonnes of primary aluminum in 2008.

Jiaozuo Wanfang

Jiaozuo Wanfang is situated in Jiaozuo city in Henan Province and is a stand-alone primary aluminum plant. Jiaozuo Wanfang was established in 1993, whose shares were listed on the Shenzhen Stock Exchange in 1996. In May 2006, we entered into a Sale and Purchase Agreement with Jiaozuo Wanfang Group to acquire 29% of the issued share capital, or 139,251,064 State-owned legal person shares held by Jiaozuo Wanfang Group in the issued share capital of Jiaozuo Wanfang and thus became its largest shareholder. In 2008, we obtained de facto control over Jiaozuo Wanfang and accordingly, it became our subsidiary.

Jiaozuo Wanfang had an annual production capacity of 412,000 tonnes of primary aluminum as of December 31, 2008 and produced 411,200 tonnes of primary aluminum in 2008.

Shanxi Huaze

Shanxi Huaze is situated in Shanxi Province. On March 30, 2003, we established the joint venture company, Shanxi Huaze, with Zhangze Electric Power to commence the construction of a primary aluminum production facility. Following the completion of its capacity expansion in June 2008, Shanxi Huaze's designed annual production capacity of primary aluminum reached 350,000 tonnes as of December 31, 2008 and it produced 258,700 tonnes of primary aluminum in 2008.

Shanxi Huasheng

Shanxi Huasheng Aluminum is situated in Shanxi Province. On December 6, 2005, we entered into a joint venture agreement with Guan Lv, to establish a joint venture company, Shanxi Huasheng. The joint venture company commenced operations in March 2006. Its designed annual production capacity of primary aluminum reached approximately 220,000 tonnes as of December 31, 2008. In 2008, Shanxi Huasheng produced 216,200 tonnes of primary aluminum. The joint venture company has a total investment of RMB2,379.4 million and a registered capital of RMB1,000 million, of which we committed RMB510 million. We currently hold a 51% equity interest in Shanxi Huasheng.

Zunyi Aluminum

Zunyi Aluminum is situated in Guizhou Province. In June 2006, we entered into a share purchase agreement with Guizhou Wujiang Hydropower Development Co., Ltd. and eight other companies, which are the shareholders of Zunyi Aluminum, to purchase part of the equity interest from Guizhou Wujiang Hydropower Development Co., Ltd. and all the equity interest held by the other eight companies. We have completed our purchase and currently hold 61.29% of the equity interest in Zunyi Aluminum. Following the completion of a new primary aluminum project with production capacity of 125,000 tonnes in August 2008, Zunyi Aluminum's primary aluminum annual production capacity reached 235,000 tonnes as of December 31, 2008 and it produced 87,657 tonnes of primary aluminum in 2008.

Fushun Aluminum

Fushun Aluminum is situated in Liaoning Province, and is a stand-alone primary aluminum plant. In March 2006, we entered into a share transfer agreement with Liaoning Fushun Aluminum Plant to acquire 100% of the equity interests in Fushun Aluminum for a consideration of RMB500 million. Fushun Aluminum's primary business is the production of primary aluminum and carbon products. With the partial completion of a new primary aluminum project at the end of 2008 which increased the primary aluminum production capacity of Fushun Aluminum by 100,000 tonnes, Fushun Aluminum's annual primary aluminum production capacity reached 240,000 tonnes as of December 31, 2008. Fushun Aluminum produced 107,000 tonnes of primary aluminum in 2008.

Shandong Huayu

Shandong Huayu is situated in Shandong Province and is a stand-alone primary aluminum plant. In July 2006, we entered into a share transfer agreement with Shandong Huasheng Jiangquan Group to acquire 55% of the equity interest of Shandong Huayu, a subsidiary of Shandong Huasheng Jiangquan Group. After the completion of its expansion plan in 2008, Shandong Huayu's annual primary aluminum production capacity reached 200,000 tonnes as of December 31, 2008. It also has supporting facilities and two 135MW coal-fired generators. In 2008, Shandong Huayu produced 106,200 tonnes of primary aluminum.

Gansu Hualu

Gansu Hualu is situated in Gansu Province, and is a stand-alone primary aluminum plant. In August 2006, we entered into a share transfer agreement with Baiyin Nonferrous Metal (Group) Co., Ltd. ("Baiyin Nonferrous") and Baiyin Ibis Aluminum Co., Ltd. ("Baiyin Ibis"). Baiyin Nonferrous contributed 127,000 tonnes of primary aluminum smelting and supporting facilities owned by Baiyin Ibis as capital contribution and holds a 49% equity interest in Gansu Hualu, a subsidiary of Baiyin Ibis, and we hold 51% of the equity interest in Gansu Hualu. The joint venture had a designed annual production capacity of 160,000 tonnes of primary aluminum as of December 31, 2008 and produced 143,900 tonnes of primary aluminum in 2008.

Baotou Aluminum

Baotou Aluminum is located in Inner Mongolia Autonomous Region, and is a stand-alone primary aluminum plant. On December 28, 2007, through A Shares issuance and exchange for Baotou Aluminum shares, we acquired 100% of the equity interest of Baotou Aluminum. Baotou Aluminum had a designed annual production capacity of 457,000 tonnes as of December 31, 2008 with the completion of its expansion projection at the end of 2008 which increased the annual primary aluminum production capacity by 150,000 tonnes. In 2008, it produced 299,600 tonnes of primary aluminum.

Liancheng branch

Liancheng branch is located in Gansu Province. In late May, 2008, we acquired 100% of the equity interest of Liancheng Longxing Aluminum Company Limited from Chinalco on the China Beijing Equity Exchange and subsequently turned it into our Liancheng branch which specializes in producing primary aluminum. As of December 31, 2008 Liancheng branch had an annual primary aluminum production capacity of 230,000 tonnes and produced 140,618 tonnes of primary aluminum in 2008.

Chalco Qingdao

Located in Qingdao, Shandong Province, Chalco Qingdao specializes in using recycled aluminum materials to produce aluminum fabrication products with recycled aluminum. In 2008 it commenced trial production following the completion of the construction of its production line to use recycled aluminum to produce aluminum fabrication products. As of December 31, 2008, Chalco Qingdao had an annual production capacity of 120,000 tonnes and produced 3,100 tonnes of aluminum fabrication products in its trial production.

Northwest Aluminum

Northwest Aluminum is situated in Lanzhou city in Gansu Province and is an aluminum fabrication plant. It was part of Lanzhou Aluminum before July 2007 which we acquired through share exchange in April 2007, whose A Shares were listed on Shanghai Stock Exchange until April 24, 2007, when we acquired Lanzhou Aluminum through share exchange. In July 2007, Lanzhou Aluminum was divided into two wholly-owned entities: Lanzhou branch and Northwest Aluminum. Northwest Aluminum has an annual production capacity for aluminum fabrication products of approximately 100,000 tonnes as of December 31, 2008 and produced 60,146 tonnes of aluminum fabrication products in 2008.

Chalco Ruimin

Located in Fujian, Chalco Ruimin commenced production in 1996 and specializes in aluminum fabrication. In late May 2008, we purchased 75% of the equity interest of Chalco Ruimin from Chinalco on the China Beijing Equity Exchange. As of December 31, 2008, Chalco Ruimin had an annual aluminum fabrication capacity of 120,000 tonnes and it produced 56,600 tonnes of aluminum fabrication products in 2008. Chalco Ruimin has undertaken an expansion plan which is expected to be completed in 2009 and we expect the completion of this project to increase Chalco Ruimin's aluminum fabrication capacity by 250,000 tonnes.

Huaxi Aluminum

Located in Chengdu, Sichuan Province, Huaxi Aluminum commenced production in 1997 and specializes in aluminum fabrication. In late May 2008, we purchased 56.86% of the equity interest of Huaxi Aluminum from Chinalco on the China Beijing Equity Exchange. As of December 31, Huaxi Aluminum had an annual aluminum fabrication production capacity of 22,000 tonnes and it produced 9,500 tonnes of aluminum fabrication products in 2008.

Chalco Southwest Aluminum

Established in September 2004 and located in Chongqing, Chalco Southwest Aluminum specializes in aluminum fabrication. On May 30, 2008, we purchased 60% of the equity interest of Chalco Southwest Aluminum from Chinalco on the China Beijing Equity Exchange. As of December 31, Chalco Southwest Aluminum had an annual aluminum fabrication production capacity of 350,000 tonnes and produced 97,200 tonnes of aluminum fabrication products in 2008.

Henan Aluminum

Established in August 2005 and located in Luoyang, Henan Province, Henan Aluminum specializes in aluminum fabrication. In late May 2008, we acquired 84.02% of the equity interest of Henan Aluminum from Chinalco and China Nonferrous Metals Technology on the China Beijing Equity Exchange. As of December 31, 2008, Henan Aluminum had an annual aluminum fabrication production capacity of 270,000 tonnes and produced 120,500 tonnes of aluminum fabrication products in 2008.

Research Institute

Established in August 1965 and located in Zhengzhou, Henan Province, the Research Institute specializes in aluminum smelting-related research and development. It is the only research institute in China dedicated to light metals research, and has played a key role in bringing about technological innovations in China's aluminum industry.

The Research Institute is central to our research and development efforts. The Research Institute operates test facilities, which produce alumina chemical products and primary aluminum. It also provides research and development services to third parties on a contractual basis. Approved by the Ministry of Science and Technology of the PRC in December 2003, Research Institute established National Research Center of Aluminum Refinery Technologies and Engineering. As of December 31, 2008 our Research Institute has an annual alumina production capacity of 20,000 tonnes and annual primary aluminum production capacity of 18,000 tonnes. In 2008, our research Institute produced 16,500 tonnes of primary aluminum.

Competition

Alumina

As the largest producer of alumina in China, we believe that we will not face significant competition from domestic alumina producers in the immediate future for the following reasons:

* a new producer would need access to a substantial and stable supply of bauxite as well as approval from relevant department under the State Council of China;

* we are experienced in alumina production and our production technologies are specifically adapted to the particular chemical composition of bauxite found in China;

* we have strong capacity in technology research and hold certain proprietary technologies and patents;

* we have a large number of professionals who have extensive experience in production and management in this area;

* we are supported by the state policy.

In 2008, global alumina output reached approximately 79.18 million tonnes, representing an increase of 6.2% over 2007 and global consumption of alumina reached approximately 78.07 million tonnes, representing an increase of 4.5% over 2007. Since the fourth quarter of 2008, affected by the decrease in demand from primary aluminum producers as a result of the international financial crisis, global alumina producers have reduced their production. As of the end of 2008, approximately 9.8% of the global alumina production capacity was idled, while in China, 24.4% of the production capacity was idled. Due to the decrease in demand, the annual average price of imported alumina in 2008 was US$357 per tonne, representing a year-on-year decrease of 9.2% compared with 2007. The annual average selling price of our alumina in 2008 was RMB3,171 per tonne, representing a year-on-year decrease of 7.1% compared with 2007. In 2008, our alumina production represented approximately 36.5% of the total domestic consumption and approximately 42.8% of the total domestic output of alumina.

In order to improve the efficiency and competitiveness of the Chinese alumina industry as well as to protect the environment, the National Development and Reform Commission of China ("NDRC") published "Entrance Conditions for Aluminum Industry" (the "Entrance Conditions") in November 2007. According to the Entrance Conditions, new bauxite projects must be approved by the provincial authority or the relevant department of the State Council of China depending on the amount of total investment, and any new alumina project must be approved by the relevant department of the State Council of China. The Entrance Conditions also provide detailed requirements for capital size, service period and resource utilization rate for a new bauxite or alumina project to be approved. The Entrance Conditions has established a high entry barrier for new alumina producers in China.

We believe that we have competitive advantages over our foreign competitors in the China alumina market. As a local supplier situated in close proximity to our customers, we do not incur international transportation and import-related costs and enjoy stable long-term relationships with our customers in a vast and growing market. Our competitive advantages may be reduced if international suppliers of alumina can offer alumina in China at prices below ours. As a result of 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 was reduced to nil on January 1, 2008. In addition, the value-added tax on imports of bauxite into China was increased from 13% to 17% on January 1, 2009.

Primary Aluminum

Domestic Competition

Over 90% of our primary aluminum revenue is derived from sales in China. Our competitors include other domestic smelters and international producers that sell primary aluminum into China. In 2008, our primary aluminum production represented approximately 26.0% of total domestic consumption.

There are approximately 83 primary aluminum smelting companies operating in China, which sell substantially all of their products in China. We are the largest integrated alumina and primary aluminum producer in China, and Baotou Aluminum, our Guizhou branch, Jiaozuo Wanfang and our Lanzhou branch operate four of the ten largest smelters in China. Our smelters altogether accounted for 24.7% of the domestic primary aluminum production for 2008. Currently, only 19 primary aluminum producers in China (including Chalco) have annual production capacities of 300,000 tonnes or more which have approximately 55% of the total primary aluminum production capacity in China and only 10 primary aluminum producers in China (including Chalco) have annual production capacity of 500,000 tonnes or more. Most smelters have smaller production capacities. It is the PRC government's industrial policy to consolidate the Chinese primary aluminum industry into an industry that consists of larger, less polluting and more efficient producers. Accordingly, the larger smelters are being granted favorable treatment, including priority in the allocation of raw materials and electricity supplies. These preferential treatments give large domestic smelters a stronger competitive advantage over small domestic smelters. Moreover, according to the Entrance Condition, effective from November 2007, any new aluminum projects must be approved by the relevant department of the State Council of China and must have a secured alumina supply. In addition, for the moment, the relevant department of the State Council is not expected to approve any new aluminum projects except those environmental protection upgrade projects and expired equipment exchange projects specially planned by the PRC government.

Although we face competition from other large domestic smelters, we have several advantages over such competitors, including:

* Scale of production. With 17 primary aluminum facilities, we can achieve significant economies of scale. In addition, our scale of production enables us to achieve high production volumes in order to fill large customer orders and maintain a large customer base. Through our national distribution network, we are able to make timely deliveries to customers from our local warehouses.

* Technology. We believe we have more sophisticated and efficient technology than most of our domestic competitors. Our Guangxi, Guizhou and Qinghai branches are among the most technologically advanced primary aluminum smelting facilities in China. In addition, our technological support and research and development capabilities are superior to other domestic smelters.

* Vertical integration. As the largest integrated alumina and primary aluminum producer in China, we are able to supply alumina internally to our 17 primary aluminum plants. As a result, we save on transportation, warehousing and related costs. In addition, because we operate our own alumina refineries, we are able to assure a stable supply of alumina for our primary aluminum smelting operations. Since 2006, we have captured the market opportunity and expanded our primary aluminum business by mergers and acquisitions. We acquired seven primary aluminum plants in 2006 and 2007, which significantly improved our own utilization rate of the alumina we produced. In 2008, we acquired Liancheng Longxing Aluminum Company Limited, which increased our total annual primary aluminum production capacity by 230,000 tonnes.

* Quality. The quality of our primary aluminum is generally higher than that of the primary aluminum produced by most of our domestic competitors. The primary aluminum produced by most of our smelters has satisfied the quality standards of the London Metal Exchange, or LME, and we are registered for trading on the LME.

Aluminum Fabrication Products

Domestic Competition

Over 90% of our aluminum fabrication products revenue is derived from sales in China. Our competitors include other domestic aluminum fabrication products producers and international producers that sell aluminum fabrication products into China.

There are approximately 1,030 aluminum fabrication producers in China with an aggregate annual capacity of 17.5 million tonnes as of the end of 2008. In 2008, the aluminum fabrication producers in China produced approximately 14 million tonnes of aluminum fabrication products.

International Competition

The tariff rate for alumina and primary aluminum imports was reduced to nil on January 1, 2008 and August 1, 2007, respectively. In 2008, China imported approximately 4,580,000 tonnes of alumina, representing a 12.4% decrease from 2007. China had net import of approximately 10,300 tonnes of primary aluminum in 2008, representing a 79.1% decrease from 2007. Competition from international suppliers of alumina and primary aluminum is expected to increase. Such competitors are likely to be large, efficient international companies. Some competitors may also consider establishing joint venture companies with local producers in China to gain access to the resources in China and to lower transportation costs. However, certain PRC governmental policies directed at promoting the growth of larger domestic smelters are likely to be retained, and the PRC government encourages large domestic smelters to explore overseas markets.

Research and Development

Our research and development efforts over the years have facilitated the expansion of our production capacity and reduced our unit production costs. We have successfully commercialized our previous research and development results in various technologies. In 2008, we spent RMB178 million on research and development. We made significant progress in research and development of new methods and technologies in 2008. We completed 125 technological projects, including 65 technology development projects, 26 industrialization and promotion and application of advanced technologies projects and 34 basic application projects. We were recognized as one of the "innovative enterprises" by the Ministry of Science and Technology, the State Council's Asset Supervision and Administration Commission and the All China Federation of Trade Unions. Our modernized hot rolling technologies and craftsmanship for aluminum and aluminum alloy project received the National Technology Advancement Award in 2008. Moreover, the Group's self-developed techniques including the new bauxite processing techniques and equipment, the new techniques for highly effective and energy-saving alumina production and the latest technique of structural port for aluminum smelting will be promoted and applied so as to alleviate the pressure of resource shortages and tight energy supply. The "3-dimensional refinements" which is currently being promoted in aluminum smelters of the Group, can effectively boost the strength of the electrical current. We filed a total of 308 patent applications in 2008.

As of December 31, 2008, we owned 635 patents. The major registered patents relate primarily to technologies and know-how, equipment and new products. Once registered, a patent in China for a new invention is valid for 20 years and for a new function or a new design is valid for 10 years from the date of the patent application.

As of December 31, 2008, we owned 26 trademarks, which are used to identify our businesses and products. The trademarks have a term of 10 years. We have entered into a Trademarks License Agreement with Chinalco for the non-exclusive use by Chinalco of two of our trademarks relating to aluminum fabrication.

Although the PRC has been steadily amending its patent, trademark, and license laws to comply with various international agreements, its laws are still evolving. In its current form, Chinese intellectual property law differs from United States intellectual property law in many significant ways. For instance, the State Intellectual Property Office of the PRC may grant a compulsory license on a patent if it is unable to obtain a license from the patent owner for reasonable terms and within a reasonable time frame. Chinese patent law also provides immunity from damages for an entity that uses or sells a patented product without knowing that it was made or sold without the patentee's permission so long as it proves that the infringing product was obtained from a legitimate source. United States patent law does not offer such provisions. Chinese law also awards patents on a first-to-file system as opposed to the United States' first-to-invent system. Chinese trademark law is similarly based on a first-to-register system as opposed to the

United States' first-to-use system.

Moreover, the PRC government and its courts have limited experience in enforcing its intellectual property laws. The current PRC patent and trademark laws have only been in effect for approximately 20 years. Courts in China do not have the same level of experience in enforcing and interpreting intellectual property laws as the courts in the United States. However, the PRC government has created administrative bureaus to resolve administrative and judicial matters relating to patent and trademark infringement disputes. These administrative bureaus also have the power to order an infringing party to cease and desist from such use.

We do not regard any single patent, license, or trademark to be material to our sales and operations as a whole. We have no material patents, licenses, or trademarks the duration of which cannot, in the judgment of our management, be extended as necessary. We are neither involved in any material intellectual property disputes against us nor are we pursuing any legislation relating to intellectual property rights against any party.

Environmental Protection

We are subject to PRC national environmental laws and regulations as well as environmental regulations promulgated by the local governments where we operate. These include regulations on waste discharge, land repair, emissions disposal and mining control. For example, national regulations promulgated by the PRC government set discharge standards for emissions into the air and water. National environmental protection enforcement authorities also promulgate discharge fees for various waste substances. These schedules usually provide for discharge fee increases for each incremental increase of the amount of discharge up to a specified level set by the PRC government or the local government. For any discharge exceeding the specified level, the relevant PRC government agencies may order any of our facilities to rectify certain behavior causing environmental damage, and subject to PRC government approval, the local government has the authority to order any of our facilities to close for failure to comply with existing regulations.

Our bauxite mining operations are subject to relevant environmental laws and regulations promulgated by national and local governments, including regulations on waste discharge, land repair, emission management and mining control.

The pollutants discharged from our alumina refining process include red mud, waste water and waste emission of gases and dust. Our primary aluminum production process generates fluorides, pitch fume and dust. It is illegal for such waste to be released into the atmosphere without first being processed. Once processed, the amount of pollutants that can be released is subject to national or local discharge limits.

Each of our alumina refineries and primary aluminum smelters has its own waste treatment facilities on site or has developed other methods to dispose of the industrial waste. In 2008, our Shandong, Henan, Shanxi, Guizhou, Zhongzhou, Guangxi, Qinghai and Lanzhou branches were awarded by local governments for outstanding performance in environmental protection.

We have improved our energy-efficiency by applying new production techniques and new technologies and optimizing our production process. In 2008, our comprehensive energy consumption of alumina production decreased by 5.41%, our comprehensive alternating current consumption of primary aluminum production decreased by 0.26%, which equals an average decrease of 37.2 kWh per tonne and energy consumption of aluminum ingots decreased by 3.14 kg standard coal/per tonne compared with 2007. We have saved 3,600,000 tonnes of standard coal through our energy saving efforts since we were established eight years ago. We have replaced outdated technology and processes with clean technology and processes and been promoting the concept of "zero emission plant" and the technology of zero emission of waste water. We have invested a total of RMB490 million on 13 waste water treatment projects, and have basically achieved zero waste water emission.

Our total expenditures for environmental protection was RMB105.5 million, RMB533.0 million and RMB629.0 million for the years ended December 31, 2006, 2007 and 2008, respectively. We were granted ISO 14001accreditations issued by The International Certification Network on December 31, 2004. We believe that our operations are substantially in compliance with currently applicable national and provincial environmental regulations.

Insurance

We currently maintain insurance coverage on our property, plant and equipment, our transportation vehicles and various assets that we consider to be subject to significant operating risks. However, there are certain types of losses, such as losses from war, acts of terrorism and natural disasters such as earthquakes, for which we cannot obtain insurance at a reasonable cost or at all. Natural disaster such as typhoons, tornados, floods, landslides and lighting strikes are within our insurance coverage and can be reasonably compensated by insurance companies if our losses are more than RMB10,000.

We paid a total of RMB61.5 million, RMB62.4 million and RMB68.6 million in insurance premiums in 2006, 2007 and 2008, respectively.

We are covered under the injury and accidental death insurance provided by the local government labor departments and do not purchase separate insurance policies from commercial insurers with respect to such risks.

Consistent with what we believe to be the customary practice in China, we generally do not carry any third party liability insurance to cover claims in respect of personal injury, environmental damage arising from accidents on our property or relating to our operations (other than our automobiles) or business interruption insurance. More extensive insurance is either unavailable in China or would impose a cost on our operations that would reduce our competitiveness with other producers.

Seasonality

Our business is not seasonal.

Regulatory Overview

Producers of alumina and primary aluminum are subject to national industrial policies and relevant laws and regulations in areas of environmental protection, import and export, land use, foreign investment regulation and taxation. We are also subject to regulations relating to activities such as mining.

We are principally subject to governmental supervision and regulation by two agencies of the PRC government:

* the NDRC, which sets and implements the major policies concerning China's economic and social development, approves investments exceeding certain amounts, coordinates and improves the reform of the economic system, and formulates industrial policies and investment guidelines for all industries including the aluminum industry; and

* the Ministry of Land and Resources of the People's Republic of China, which has the authority to grant land use licenses and mining right permits.

The following is a brief summary of the principal laws, regulations, policies and administrative directives to which we are subject.

Requirements for Capital Investments

Any capital markets financing activities by an enterprise or company incorporated in PRC, for example, those to finance capital projects, are subject to approval by securities regulatory authorities and other relevant authorities in China, regardless of whether the funds are raised in China or on the international capital markets. An issuer incorporated in the PRC must obtain prior approval from the CSRC for issuance of equity securities or equity-linked securities. Offerings of bonds in PRC by a listed company incorporated in the PRC are subject to approval from the CSRC, while offering of bonds in PRC by other enterprises are subject to approval from the People's Bank of China, as well as the NDRC, or their competent local authorities. Offering of bonds outside the PRC are subject to approval from the NDRC and/or the State Administration of Foreign Exchange. For all international financing activities through issuance of bonds, the issuer must register with the administrative authorities of foreign exchange.

Foreign investment in the exploring and mining of alumina and primary aluminum is permitted by the PRC government.

Entrance Conditions for Aluminum Industry

"Entrance Conditions for Alumina Industry" provides that, (i) all new bauxite projects must be approved by relevant authorities at the provincial governments, with an exception for those projects with a total investment over RMB500 million, for which the approval from the competent authority under the State Council is required. In addition, all new bauxite projects should have an annual production capacity of not less than 300,000 tonnes with a service period of over 15 years; (ii) all new alumina projects must obtain approval from the State Council. Alumina projects which consume domestic bauxite mines must have an annual production capacity of over 800,000 tonnes and service duration of bauxite mines must exceed 30 years. Alumina projects which consume imported bauxite mines must have an annual production capacity of over 600,000 tones and have reliable bauxite supply. Raw materials supplied under long-term purchase agreements with terms of over five years must exceed 60% of the total raw material demand; (iii) all new aluminum projects must be approved by the State Council. In near future, approval will only be granted to environmental protection upgrade projects and those projects under state plan to replace out-of-date equipments. All update or replacement project must have reliable alumina supply, power supply and transportation access.

Pricing

The PRC government does not impose any limitations with respect to the pricing of alumina, primary aluminum and related products. Thus, alumina and primary aluminum producers are free to set prices for their products. All the raw materials, supplemental materials and other supplies that we purchase are based on market prices. Freight transportation on the national railway system is subject to government mandated pricing.

Electricity Supply and Price

The State Electricity Regulatory Commission of the People's Republic of China is responsible for the supervision and administration of the power industry in China. The NDRC and local governments regulate electricity pricing. Electricity suppliers may not change their electricity prices without governmental authorization.

The Electric Power Law of the People's Republic of China and related rules and regulations govern electricity supply and distribution. Currently, China's state-owned power companies, through their respective local subsidiaries, operate all the regional power grids in China from which we obtain most of our electricity requirements. In October 2007, Chinese government issued "Notice on Further Solutions of the Difference in Electricity Rates", according to which the preferential electricity prices originally enjoyed by Chinese primary aluminum enterprises are being gradually abolished.

Regulations Concerning Imports and Exports of Alumina and Primary Aluminum

The import taxes on alumina and primary aluminum were reduced to nil on January 1, 2008 and August 1, 2007, respectively. The export tax rate for certain primary aluminum products was increased to 15% August 1, 2007. In addition, under the PRC government directive, effective from August 22, 2005 we no longer import alumina for processing trade.

Environmental Protection Laws and Regulations

The Ministry of Environmental Protection of the People's Republic of China is responsible for uniform supervision and control of environmental protection in China. It formulates national environmental quality and discharge standards and monitors China's environmental system. Environmental protection bureaus at the county level or above are responsible for environmental protection within their respective jurisdictions.

Environmental regulations require companies to file an environmental impact report with the relevant environmental bureau for approval before undertaking the construction of a new production facility or any major expansion or renovation of an existing production facility. New facilities built pursuant to this approval are not permitted to operate until the relevant environmental bureau has performed an inspection and is satisfied that the facilities are in compliance with environmental standards.

The Environmental Protection Law requires any facility that produces pollutants or other hazards to incorporate environmental protection measures in its operations and establish an environmental protection responsibility system. Such system includes adoption of effective measures to control and properly dispose of waste gases, waste water, waste residue, dust or other waste materials. Any entity that discharges pollution must register with the relevant environmental protection authority.

Penalties for breaches of the Environmental Protection Law include a warning, payment of damages and imposition of a fine. Any entity undertaking a construction project that fails to install pollution prevention and control facilities in compliance with environmental standards for a construction project may be ordered to suspend production or operations and may be fined. Criminal liability may be imposed for a material violation of environmental laws and regulations that causes loss of property or personal injuries or death.

Mineral Resources Laws and Regulations

All mineral resources in China are owned by the State under the current Mineral Resources Law. Exploration, exploitation and mining operations must comply with the relevant provisions of the Mineral Resources Law and are under the supervision of the Ministry of Land and Resources. Exploration and exploitation of mineral resources are also subject to examination and approval by the Ministry of Land and Resources and relevant local authorities. Upon approval, a mining permit or exploitation permit is issued by the relevant administrative authorities, which are responsible for supervision and inspection of mining exploitation in their jurisdiction. Annual reports are required to be filed by the holders of mining rights with the relevant administrative authorities.

The PRC government permits mine operators of collectively owned mines to exploit mineral resources in designated areas and individuals to mine scattered mineral resources. Such mine operators and individuals are subject to government regulation. Mining activities by individuals are restricted. Individuals are not permitted to exploit mineral reserves allocated for exploitation by a mining enterprise or company, or specified minerals prescribed by the State for protective mining. Indiscriminate mining that damages mineral resources is prohibited.

If mining activities result in damage to arable land, grassland or afforested area, the mining operator must take measures to return the land to an arable state within the prescribed time frame. Any entity or individual which fails to fulfill its remediation obligations may be fined and denied application for land use rights for new land by the relevant land and natural resources authorities.

It is unlawful for an entity or individual to conduct mining operations in areas designated for other legal mining operators. A mining operator whose exploitation causes harm to others in terms of production or in terms of living standards is liable for compensation and is required to take necessary remedial measures. When a mine is closed, a mine closure report and information concerning the mining facilities, hidden dangers, remediation and environmental protection must be submitted for examination and approval in accordance with the relevant PRC law and regulations.

The mineral products illegally extracted and the income derived from such activities may be confiscated and may result in fines, revocation of the mining permit and, in serious circumstances, criminal liability.

Tax Laws and Regulation

In March 2007, the PRC government promulgated the Enterprise Income Tax Law which became effective from January 1, 2008. The Enterprise Income Tax Law imposes a single income tax rate of 25% on both domestic and foreign invested enterprises. The Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises (the "FIE and FE tax laws") and Provisional Regulations of the PRC on Enterprise Income Tax were abolished simultaneously. The Enterprise Income Tax Law provides for a 5-year transitional period for those entities that applied FIE and FE tax laws in previous years. On December 6, 2007, PRC government promulgated the Enterprise Income Tax Law Implementation Rules which also became effective on January 1, 2008.

ORGANIZATIONAL STRUCTURE

We are organized as a joint stock limited company under PRC law. As of December 31, 2008, Chinalco, Baotou Group, Lanzhou Aluminum Factory, Guiyang Aluminum Magnesium Design and Research Institute and public shareholders owned 38.56%, 2.60%, 0.58%, 0.03% and 58.23%, respectively, of our issued share capital.

In late May, 2008, we acquired 56.86% of the equity interest in Huaxi Aluminum, 75% of the equity interest in Chalco Ruimin, 100% of the equity interest in Chalco Southwest Aluminum Cold Rolling and Liancheng Longxing Aluminum Company Limited, 60% of the equity interest in Chalco Southwest Aluminum, 71.01% of the equity interest in Henan Aluminum from Chinalco and 13.01% of the equity interest in Henan Aluminum from China Nonferrous Metals Technology on the China Beijing Equity Exchange. In addition, we also acquired the aluminum alloy business of Pingguo Aluminum in 2008.

PROPERTY, PLANT AND EQUIPMENT

Land

Chinalco leases to us 459 pieces or parcels of land, located in eight provinces, covering an aggregate area of approximately 61.9 million square meters for the purposes of all aspects of our operations and businesses. The leased land mainly consists of:

* 449 pieces of allocated land with an area of approximately 61.0 million square meters, on which Chinalco has obtained authorization from the relevant administrative authorities to manage and lease the land use rights; and

* 6 pieces of land with an area of approximately 202,435 square meters for which Chinalco has paid the land premiums and has been granted land use rights certificates.

The land is leased for the following terms:

* allocated land: 50 years commencing from July 1, 2001 (except for land use rights of mines operated by us, whose leased terms shall end on the expiration date of the mining rights or at the end of the actual mine life, whichever is earlier); and

* granted land: until expiration of the relevant land use right permits.

Buildings

Our principal executive offices, which we lease from Chinalco, are located at No. 62 North Xizhimen Street, Hai Dian District, Beijing, People's Republic of China, 100082.

Pursuant to the reorganization, Chinalco transferred to us, among other operating assets, ownership of the buildings and properties for the operation of our core businesses, with Chinalco retaining the remaining buildings and properties for Chinalco's remaining operations. The buildings transferred to us comprise 4,631 buildings with an aggregate gross area of approximately 4.2 million square meters.

The buildings transferred to us pursuant to the reorganization, which are located on land leased from Chinalco, may be sold or transferred only with the consent of Chinalco and in accordance with applicable land transfer procedures. Chinalco has undertaken to provide its consent and the necessary assistance to affect land grant procedures to ensure that our buildings can be legally transferred or sold.

We and Chinalco also lease to each other a number of other buildings and properties for ancillary uses, which comprise mainly buildings for offices, dormitory, canteen and storage purposes. We lease 59 buildings to Chinalco, with an aggregate gross area of approximately 62,819 square meters. Chinalco leases 100 buildings to us, with an aggregate gross area of approximately 273,637 square meters. The lease terms of all these buildings are 20 years commencing from July 1, 2001. Chinalco had obtained proper land and building title certificates for all of the buildings it leases to us by the end of 2004. On March 28, 2005, we entered into a tenancy agreement with China Aluminum Development Company Limited, a wholly-owned subsidiary of Chinalco, in respect of the office premisses at 12th to 16th floors and 18th to 31st floors of No. 62 North Xizhimen Street, Hai Dian District, Beijing, PRC with an aggregate gross floor area of 30,160.81 square meters for a term of three years. On October 15, 2008, our tenancy agreement with China Aluminum Development Company Limited expired, and we renewed the tenancy agreement to extend it for another three years commencing on October 16, 2008, pursuant to which, the agreegated gross floor area we lease under such tenancy agreement has been increased to 30,187.9 square meters.

For environmental issues in relation to the utilization of our assets, please refer to "Item 4. Environmental Protection".

Our Expansion

Our capital expansion plan for 2009 requires a total of RMB13.4 billion in capital expenditures for technology upgrading and expansion projects to increase our annual production capacity. In 2009, our annual production capacities of alumina and aluminum fabrication are expected to increase by 200,000 tonnes and 345,000 tonnes, respectively. For more information, see "Item 5. Operating and Financial Review and Prospects - Capital Expenditure Plan".

The following table shows the expected aggregate effects of our expansion and improvement plans for our alumina and primary aluminum production facilities for 2009:

	Planned Capital Investment for 2009	Production Capacity as of December 31, 2008	Expected Production Capacity as of December 31, 2009
	(RMB in billions)	(in thousand tonnes)	
Alumina(1)	5.8	11,077.0	11,277.0(1)
Primary aluminum(2)	1.8	3,991.2	3,922.2(2)
Aluminum fabrication(3)	2.2	982.0	1,327.0(3)
Others(4)	3.6(4)	-	-

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(1) includes 200,000 tonnes of expected production capacity as of December 31, 2009 from Zhongzhou branch.

(2) the production capacity of primary aluminium is expected to decrease by 69,000 tonnes from 2008 because we have suspended the operation of high energy consumption facilities.

(3) includes 110,000 tonnes of expected production capacity as of December 31, 2009 from Chalco Nanhai, 80,000 tonnes from Henan Aluminum following the completion of its cold rolling production line with an annual capacity of 100,000 tonnes and production capacity increase of 150,000 tonnes of Chalco Ruimin.

(4) expected to be used for research and development, exploration, construction of information technology system and preliminary phase of overseas projects.

Capital expenditures are expected to further expand our alumina and primary aluminum production capacities to further enhance synergies arising from economies of scale, vertical integration and reduction of our unit production cost.

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In 2009, we will continue the expansion and restructuring of our primary aluminum, alumina and aluminum alloy projects, the majority of which are included as follows:

* Chalco Southwest Aluminum Cold Rolling aluminum fabrication project.

  This project is expected to be completed in 2010 and we expect the completion of this project to increase our annual aluminum fabrication products production capacity by 250,000 tonnes. We expect to invest RMB1.64 billion in this project and by the end of 2008, we had invested RMB1.05 billion.

* Chalco Ruimin aluminum fabrication project.

  This project is expected to be completed in 2010 and we expect the completion of this project to increase our annual aluminum fabrication products production capacity by 250,000 tonnes. We expect to invest RMB2.87 billion in this project and by the end of 2008, we had invested RMB700 million.

* Chalco Zunyi alumina project.

  This project is expected to be completed in 2010 and we expect the completion of this project to increase our annual alumina production capacity by 800,000 tonnes. The total investment for this project is RMB4.41 billion and we had invested RMB2.23 billion by the end of 2008.

* Zhongzhou branch alumina renovation project.

  This project is expected to be completed in 2009, and we expect the completion of this project to increase our annual alumina production capacity by 200,000 tonnes.

* Chalco Nanhai aluminum alloy project.

  This project is expected to be completed in 2009, and we expect the completion of this project to increase our annual aluminum alloy production capacity by 110,000 tonnes.

* Henan Aluminum cold rolling project.

  This project is expected to be completed in 2009, and we expect the completion of this project to increase our annual aluminum fabrication products production capacity by 85,000 tonnes.

* Chongqing branch alumina project.

  This project is expected to be completed in 2010, and we expect the completion of this project to increase our annual alumina production capacity by 800,000 tonnes. We expect to invest RMB4.97 billion in this project and by the end of 2008, we had invested RMB2.47 billion.

* Zunyi Aluminum project.

  This project is expected to be completed in 2010, and we expect the completion of this project to increase our annual alumina production capacity by 800,000 tonnes.

We intend to fund these capital expenditures through a combination of internal funds derived from our own operations and the proceeds from medium-term and long-term debt financing.

The preceding paragraphs provide a summary of our current capital expenditure plans for our major projects. These plans have been developed based on facts currently known to us, assumptions we believe to be reasonable and our estimates of market and other conditions. They may change as circumstances change, and may be modified as our business plans evolve. Other than as required by law, we do not undertake any obligation to publish updates of our plans or their implementation status.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis should be read in conjunction with our audited financial statements, and selected historical financial data, in each case together with the accompanying notes, included elsewhere in this annual report. This section contains certain expressions such as "expect", "anticipate" "believe", "seek", "estimate", "intend"", "should", "may" or other terms or phrases which are forward-looking statements involving risks and uncertainties. See "Item 3 Key Information - Risk Factors". Forward-looking statements are not guarantees of our future performance or results and our actual results could materially differ from those disclosed in the forward-looking statements.

The HKFRS financial information discussed in this section have been restated after taking into account the effects of common control business combinations that took place in 2007 and 2008, which were accounted for using merger accounting. See Note 5 to the Consolidated Financial Statements.

Critical Accounting Policies

We prepare our consolidated financial statements in accordance with HKFRS, which requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4 to our consolidated financial statements. We have established procedures and processes to facilitate the making of such judgments in the preparation of our consolidated financial statements. Management has used the best information available but actual performance may differ from our management's estimates and future changes in key variables could change future reported amounts in our financial statements.

Property, Plant and Equipment

The carrying amounts of long-lived assets are reviewed whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. An impairment exists when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is measured at the higher of net selling price and value in use, calculated based on discounted future pre-tax cash flows related to the asset or the cash generating unit to which the assets belong. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or group of assets. Estimates of future cash flows include the cash inflows from continuing use of the asset and cash outflows to prepare the asset for use that can be directly attributed, or allocated on a reasonable and consistent basis, to the asset. If applicable, estimates also include net cash flows to be received (or paid) for the disposal of the asset at the end of its useful life. Management made a number of significant assumptions and estimates in the application of the discounted future cash flow model to forecast operating cash flows, including business prospects, market conditions, selling prices and sales volume of products and costs of production. If there is an indication of impairment, the carrying amount of such assets is written down to its recoverable amount. In addition, we determine the estimated useful lives of our property, plants and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previous estimates, and will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Results in actual transactions could differ from those estimates used to evaluate the useful lives and impairment of such long-lived assets.

Goodwill

Goodwill represents the excess of purchase consideration over the fair values ascribed to the identifiable net assets of entities acquired. Until December 31, 2004, under HKFRS, goodwill resulting from acquisitions under purchase accounting was recognized as an intangible asset and amortized on a straight-line basis over its estimated useful economic life of not more than 20 years. In accordance with the provisions of HKFRS 3 effective from January 1, 2005, the Group has ceased amortization of goodwill. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combinations in which the goodwill arose. Impairment losses on goodwill are not reversed. Under U.S. GAAP, annual amortization of this amount ceased effective from January 1, 2002. Goodwill is subject to annual impairment testing and is written down if carrying value exceeds implied fair value. Management made a number of significant assumptions and estimates in the application of the discounted future cash flow model to forecast operating cash flows, including business prospects, market conditions, selling prices and sales volumes of products and costs of production. Management considers both past data and all currently available information at the time the valuations of its businesses are performed. Results in actual transactions could differ from those estimates used to evaluate the impairment of goodwill.

Inventories

The Group's management tests whether inventory suffered any impairment based on estimates of the net realizable value of the inventory. For different types of inventories, we have made estimates and assumptions relating to selling price, costs of conversion, selling expenses and related tax expense to calculate their net realizable value. It is reasonably possible, that if there is a significant change in the Group's business operations and external conditions, the net realizable value within the next financial year would be significantly affected.

U.S. GAAP Reconciliation

Our financial statements are prepared in accordance with HKFRS, which differs in various material respects from U.S. GAAP. See Note 35 to our audited consolidated financial statements. The summary of differences involves management's estimates and assumptions which may affect the reported amounts of assets and liabilities and revenues and expenses.

New HKFRS and US GAAP pronouncements

For a detailed discussion of new accounting pronouncements, please see Notes 2(a)(ii) and 35(k) to our audited consolidated financial statements.

Overview

We are the largest producer of alumina, primary aluminum and aluminum fabrication products in China. We were the third largest producer of alumina and the fourth largest producer of primary aluminum in the world in terms of production volumes for the year ended December 31, 2008. We are engaged principally in alumina refining, primary aluminum smelting and aluminum fabrication. We organize and manage our 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 both internally to our primary aluminum smelters and externally to customers outside of our Company. This segment also includes the production and sale of chemical alumina (including alumina hydrate and 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 products to the Group's internal aluminum fabrication plants and external customers. This segment also includes production and sales of carbon products and aluminum alloy products.

* Aluminum fabrication segment, which consists of purchasing primary aluminum, other raw materials, supplemental materials and electric power, and processing primary aluminum into and sales of, seven main aluminum fabrication products, including casts, planks, screens, extrusions, forges, powder and die castings.

* Others include activities of the headquarters and other operations of the Group, including research and development activities relating to aluminum business.

Factors Affecting Our Results of Operations

Our results of operations and the period-to-period comparability of our financial results are affected by a number of external factors. Our financial statements may not be indicative of our future earnings, cash flows or financial position for numerous reasons including those described below.

Acquisitions

Our results of operations and financial condition have been and will continue to be affected by subsidiaries, associates and branches we have acquired or will acquire. In 2007, we acquired Baotou Aluminum, which increased our annual production capacity of primary aluminum by 307,000 tonnes as of December 31, 2007. In 2008, we acquired 100% of the equity interest in Liancheng Longxing Aluminum Company Limited and Chalco Southwest Aluminum Cold Rolling, 56.86% of the equity interest in Huaxi Aluminum, 75% of the equity interest in Chalco Ruimin, 60% of the equity interest in Chalco Southwest Aluminum and 84.02% of the equity interest in Henan Aluminum in 2008, which increased our annual aluminum fabrication production capacity and primary aluminum production capacity by 762,000 tonnes and 230,000 tones, respectively, as of December 31, 2008.

Alumina Prices

We sell our alumina products by way of spot sales and under long-term contracts. Pricing for our alumina products is determined by the nature of the sale as described below.

Spot sales.

We set uniform prices for all our external sales of alumina by reference to alumina prices in reference markets, the market supply and demand conditions as well as our short-term and mid-term projections. Our pricing generally takes into account:

* alumina exports into China, CLF Chinese ports;

* international transportation costs;

* the applicable standard PRC import tariff;

* value-added tax at 17%;

* import related fees; and

* domestic demand and supply conditions.

In 2008, the international and domestic spot prices of alumina decreased gradually due to a number of factors including, but not limited to, the rapid expansion of alumina production capacity, sharp decrease in demand as a result of the reduction in production by primary aluminum producers brought about by international financial crisis. The spot price of alumina in the international market supplied to PRC reached its highest point at approximately US$450 per tonne and bottomed at approximately US$200 per tonne, the spot price of alumina in the domestic market reached its highest point at RMB4,500 (US$659.6) per tonne and bottomed at RMB1,850 (US$271.2) per tonne. The annual average import price of alumina in 2008 was US$357 per tonne, representing a year-on-year decrease of 9.2%. The yearly average selling price of our alumina in 2008 was RMB3,171 per tonne, representing a year-on-year decrease of 7.1%.

The global output of alumina for 2008 was approximately 79.18 million tonnes, representing a year-on-year increase of 6.2%. The global alumina consumption reached approximately 78.07 million tonnes, representing a year-on-year increase of 4.5%. In response to the decrease in demand from aluminum producers, global alumina manufacturers started to reduce their production scales in the fourth quarter of 2008. As of the end of December 2008, approximately 9.8% of the total global alumina production capacity was idled, while in China, approximately 24.4% of the alumina production capacity was idled. In 2008, the domestic output of alumina products reached approximately 22.78 million tonnes, representing a year-on-year increase of 17.1%. The domestic consumption of alumina was approximately 26.70 million tonnes, representing a year-on-year increase of 2.7%. In 2008, alumina imported into the PRC amounted to approximately 4.58 million tonnes, representing a year-on-year decrease of 12.4%.

Long-term contracts sales.

Internationally, the customary practice for alumina pricing under long-term contracts is by reference to the LME prices for primary aluminum. Since 2001, we have entered into a number of domestic long-term alumina sales contracts with terms ranging from three to five years, pursuant to which, the sales price is set as a percentage of the three-month primary aluminum prices on the Shanghai Futures Exchange ("SHFE"). As a result, fluctuations of primary aluminum prices on the SHFE can affect our alumina prices under these long-term contracts, and the significance of such effects may increase as we increase the proportion of alumina sales under long-term contracts. We sold approximately 2.6 million tonnes of alumina under long-term contracts in 2008.

Primary Aluminum Prices

Like most primary aluminum producers in China, we price our primary aluminum products by reference to SHFE spot prices. The SHFE primary aluminum spot prices generally reflect LME primary aluminum spot prices, plus an amount on account of international transportation, import tariffs, value-added tax and other import-related costs. Thus, fluctuations in the SHFE (and, by extension, the LME) spot prices affect our operating results. Primary aluminum prices on the SHFE and LME tend to be cyclical and volatile. The following table sets out the average three-month primary aluminum futures price on LME and the SHFE in 2006, 2007 and 2008.

	2006	2007	2008
	(U.S. Dollar per tonne)		
LME	2,591.0	2,661.0	2,573.0
Shanghai Futures Exchange	2,227.0	2,294.0	2,180.0

During the year 2008, the international and domestic prices of primary aluminum were volatile. Prior to September 2008, affected by various factors such as the U.S. subprime crisis, economic slowdown in western countries as well as power restriction and production cuts of primary aluminum in countries such as the PRC and South Africa, the highest spot price of aluminum at the LME reached US$3,260 per tonne as compared with the lowest spot price of US$2,370 per tonne. The highest and the lowest spot prices of aluminum on the SHFE were RMB21,600 per tonne and RMB18,040 per tonne respectively. Since October 2008, the aluminum price experienced a drastic fall with intensification of the international financial crisis. Spot prices of aluminum on the LME and SHFE hit a record low of US$1,471 per tonne and RMB10,050 per tonne, respectively. The average spot price of aluminum as quoted by LME in 2008 was US$2,573 per tonne, representing a decrease of 2.5% compared with the prior year, while that of SHFE was RMB17,345 per tonne, representing a decrease of 11.4% compared with the prior year.

In 2008, the global output of primary aluminum reached approximately 39.96 million tonnes, representing an increase of 4.7% over 2007. The global consumption of aluminum reached approximately 38.13 million tonnes, representing an increase of 0.8% over 2007. Since 2008, especially in the fourth quarter of 2008 when the international financial crisis posed a deepening impact on enterprises' results, major aluminum consumption industries such as the real estate and automobile sectors have seen negative growth, followed by decreased global aluminum consumption and increase in inventories. In light of the drastic decline in aluminum prices and decreased consumption, both domestic and international aluminum producers reduced production. As of the end of December 2008, approximately 13.5% of the global aluminum production capacity was idled, while in China, approximately 24.1% of the aluminum production capacity was idled. In 2008, the domestic output of primary aluminum reached approximately 13.18 million tonnes, representing an increase of 4.9% over 2007 and the domestic consumption of primary aluminum reached approximately 12.50 million tonnes, representing an increase of 0.5% over 2007.

Electricity Prices

The smelting of primary aluminum requires a substantial and continuous supply of electricity. Therefore, the availability and price of electricity are key considerations in our primary aluminum production operations. 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. The preferential electricity prices originally enjoyed by Chinese primary aluminum enterprises are being gradually eliminated according to "Notice on Further Solutions to the Differences in Electricity Rates" issued by the Chinese government in October 2007, which further increased the costs for our primary aluminum production. The prices of electricity increased during the first three quarters of 2008 due to the gradual abolishment of the preferential policies and adjustment of the electricity prices by the State, and then decreased in some provinces during the last quarter of 2008. The average annual price of electricity increased by 9.7% from 2007 to 2008. In addition, several Chinese provinces experienced power shortages in the first quarter of 2008 mainly due to damage to power supply caused by the severe weather conditions. In 2009, nine of our primary aluminum smelters were selected to participate in a direct electricity purchase program, which allows those smelters to purchase electricity supply directly from power generation enterprises. We are negotiating with relevant power generation enterprises on the terms of electricity supply under such program and if successful, we believe the electricity prices for those smelters will decrease in 2009. Electricity accounted for approximately 7.8% of our unit alumina production costs and 36.4% of our unit primary aluminum production costs in 2008.

Debt and Financing Costs

Our financing costs consist predominantly of interest expense on our borrowings. Our debts have been incurred mainly to fund our capital expenditures. Interest rates on loans related to capital expenditures and working capital set by banks generally follow guidelines issued by the People's Bank of China. The People's Bank of China increased interest rates for commercial loans chargeable by state-owned banks in 2006, 2007 and first three quarters in 2008, which correspondingly increased our interest expense on our floating rate loans during these periods. In the fourth quarter of 2008, the People's Bank of China started to reduce such interest rates. In 2008, we incurred interest expense of RMB1,864.7 million on our short-term, medium-term and long-term borrowings, representing a 52.1% increase compared with 2007. Such increase was primarily due to an increase in the outstanding bank loans and other borrowings, including short-term and long-term bonds and medium-term notes.

Consolidated results of operations

The following table sets forth, for the periods indicated, certain income and expense items as a percentage of our revenue from our consolidated statements of income:

	Years Ended December 31,		
	2006	2007	2008
	(%)	(%)	(%)
Revenue	100.0	100.0	100.0
Cost of sales	(70.5)	(76.2)	(91.3)
Gross profit	29.5	23.8	8.7
Other gains, net	0.5	0.2	0.5
Selling and distribution expenses	(1.6)	(1.6)	(2.0)
General and administrative expenses	(3.7)	(3.6)	(4.6)
Research and development expenses	(0.2)	(0.3)	(0.2)
Operating profit	24.5	18.5	2.4
Finance costs, net	(1.1)	(1.2)	(2.3)
Operating profit after net finance costs	23.4	17.3	0.1

Sales to Chinalco and its subsidiaries, jointly-controlled entities, associates and other related parties accounted for approximately 15.1% and 11.0% of consolidated revenue for the two years ended December 31, 2007 and 2008, respectively. For information on related party transactions, see "Item 7 - Major Shareholders and Related Party Transactions - Related Party Transactions" and Note 31 to our audited consolidated financial statements.

Year Ended December 31, 2008 Compared with Year Ended December 31, 2007

Results of Operations.

Our net profit attributable to our equity holders decreased by 99.9% from RMB10,753.0 million for the year ended December 31, 2007 to RMB9.2 million for the year ended December 31, 2008.

Revenue

Our total revenue decreased by 9.9% from RMB85,198.8 million for the year ended December 31, 2007 to RMB76,725.9 million for the year ended December 31, 2008, primarily due to the decrease in the prices of our products. In 2008, our average selling prices of alumina and primary aluminum decreased by 7.6% and 15.0%, respectively, from 2007. Meanwhile, our external sales volume of alumina decreased by 23.1% from 5,545,100 tonnes (including sales volume from trading of 1,270,000 tonnes) in 2007 to 4,264,400 tonnes (including sales volume from trading of 1,134,800 tonnes) in 2008. The decrease was primarily due to our increased self-consumption of alumina by our own smelters and reduction in alumina production in the fourth quarter in response to decrease in demand resulting from the international financial crisis. Our external sales volume of primary aluminum increased by 11.2% from 2,760,000 tonnes in 2007 to 3,070,000 tonnes in 2008 primarily because we consolidated the results of Jiaozuo Wanfang which became our subsidiary in 2008 as we obtained its de facto control.

Cost of Sales

Our total cost of sales increased by 7.9% from RMB64,936.1 million for the year ended December 31, 2007 to RMB70,073.7 million for the year ended December 31, 2008, primarily due to an increase in the prices of bauxite, supplemental materials, fuel and electricity.

We have adopted effective measures and implemented flexible production plans to mitigate the adverse impact arising from cost increase to a certain extent, such measures include (i) proactive measures to reduce the procurement cost of raw materials, fuels and ore; (ii) trimming down expenses and the cost of staff and (iii) reducing average production cost through advancement in technology.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 15.3% from RMB1,355.5 million for the year ended December 31, 2007 to RMB1,562.4 million for the year ended December 31, 2008, primarily due to increase in transportation and loading expenses and increase in packaging expenses, storage fees and port expenses. Our transportation expenses increased primarily due to the snow storm in early 2008 and earthquakes in Sichuan in May 2008, which forced us to use more road transportation, which was more expensive than by rail, as well as the increase in the oil prices.

General and Administrative Expenses

Our general and administrative expenses increased by 13.8% from RMB3,042.4 million for the year ended December 31, 2007 to RMB3,462.5 million for the year ended December 31, 2008, primarily due to the impairment of inventory in accordance with changes in market condition, representing an increase of provision for inventory obsolescence of RMB890.9 million.

On December 31, 2008, we conducted an impairment test on all of our inventories, which took into consideration the production plans of the Group and the financial budget and with reference to inventory turnover, purpose of inventories and post balance sheet events to arrive at provisions for inventory impairment for 2008 in accordance with accounting standards. Subsequent to a thorough testing, the provisions for inventory impairment of the Group in 2008 amounted to RMB916.3 million. The loss arising from such impairment classified under the general and administrative expenses increased by RMB890.9 million over 2007.

In 2008, no other assets have recorded material impairment loss upon evaluation.

Research and Development Expenses

Our expenditure for research and development decreased by 22.8% from RMB229.8 million for the year ended December 31, 2007 to RMB177.5 million for the year ended December 31, 2008.

Other Gains, Net

Our net other gains increased by 134.6% from RMB158.9 million for the year ended December 31, 2007 to RMB372.8 million for the year ended December 31, 2008, primarily due to an increase in government grants and an increase in realized and unrealized gains on future and option contracts.

Operating Profit

As a result of the foregoing, our operating profit decreased by 88.5% from RMB15,793.9 million for the year ended December 31, 2007 to RMB1,822.7 million for the year ended December 31, 2008. Our operating profit as a percentage of revenue was 2.4% in 2008 and 18.5% in 2007.

Finance Costs, Net

Our net finance costs increased by 64.4% from RMB1,040.2 million for the year ended December 31, 2007 to RMB1,709.6 million for the year ended December 31, 2008, primarily due to the increase in the outstanding bank loans, issuance of corporate bonds and increase in interest rates. In addition, our net exchange loss increased by 210.7% from RMB12.2 million for the year ended December 31, 2007 to RMB37.9 million for the year ended December 31, 2008, primarily due to changes in foreign exchange rates.

Income Tax

We had income tax benefits of RMB33.6 million for the year ended December 31, 2008 primarily because the Group's profit decreased significantly, certain subsidiaries recorded losses and the Group was entitled to the preferential policies on the reduction and exemption of enterprises income tax for our purchase of domestically manufactured production equipment in 2007 and 2008.

For the year ended December 31, 2007, we had income tax expense of RMB2,869.2 million.

Minority Interest

Minority interest decreased by 89.1% from RMB1,370.1 million for the year ended December 31, 2007 to RMB149.1 million for the year ended December 31, 2008 due to decrease in profits of our subsidiaries other than wholly-owned subsidiaries.

Year Ended December 31, 2007 Compared with Year Ended December 31, 2006

Results of Operations

Our net profit attributable to our equity holders decreased by 11.1% from RMB12,093.1 million for the year ended December 31, 2006 to RMB10,753.0 million for the year ended December 31, 2007.

Revenue

Our total revenue increased by 14.7% from RMB74,287.0 million for the year ended December 31, 2006 to RMB85,198.8 million for the year ended December 31, 2007. The increase was primarily due to an increase in the sales of primary aluminum partially offset by decrease in the average price of primary aluminum. Our sales volume of primary aluminum to third party customers reached 2,760,000 tonnes, representing an increase of 29.2% from 2,135,900 tonnes in 2006. The growth was primarily attributable to the increase in the production volume of primary aluminum, as a result of the acquisition and establishment of Zunyi Aluminum and other subsidiaries and the merger with Lanzhou Aluminum. The increase in the sale of primary aluminum was also attributable to the increased efficiency in production output through technological innovation of production lines and the increase in trade sales. Our external sales volume of alumina decreased from 6,275,700 tonnes in 2006 to 4,830,000 tonnes in 2007 primarily because of the shift of external sales of alumina to internal sales due to our acquisition of addition aluminum smelters.

Our average external selling price of primary aluminum decreased from RMB17,463 per tonne in 2006 to RMB16,828 per tonne in 2007 due to the general market decline in demand for primary aluminum. Our external selling price of alumina also decreased from RMB3,618 per tonne in 2006 to RMB3,171 per tonne in 2007 due to the general market decline in demand for alumina.

Cost of Sales

Our total cost of sales increased by 24.0% from RMB52,358.3 million in 2006 to RMB64,936.1 million in 2007. The increase was mainly attributable to the growth in external sales volumes of primary aluminum and alumina and the increase in the prices of bauxite and coal.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 14.4% from RMB1,185.1 million in 2006 to RMB1,355.5 million in 2007, primarily attributable to the increase in transportation and loading/unloading expenses resulting from the growth of sales volume of primary aluminum products.

General and Administrative Expenses

General and administrative expenses increased by 7.7% from RMB2,825.9 million in 2006 to RMB3,042.4 million in 2007. The increase was mainly attributable to increase in expenses on depreciation for office equipment by approximately RMB85.3 million, increase in losses on assets disposal by approximately RMB77.2 million and increase in rental expenses by RMB71.6 million partially offset by decrease in salaries and welfare expenses by approximately RMB259.1 million.

Research and Development Expenses

Our expenditure for research and development increased by 81.9% from RMB126.3 million in 2006 to RMB229.8 million in 2007.

Other Gains, Net

Net other gains decreased by 57.4% from RMB373.1 million in 2006 to RMB158.9 million in 2007, primarily attributable to negative goodwill of RMB236 million arising from the acquisitions of subsidiaries in the year of 2006, whereas there was no such item in 2007.

Operating Profit

As a result of the foregoing, our operating profit decreased by 13.1% from RMB18,164.5 million in 2006 to RMB15,793.9 million in 2007. Our operating profit as a percentage of revenue was 24.5% in 2006 and 18.5% in 2007.

Finance Costs, Net

Our net finance costs increased by 30.7% from RMB795.9 million in 2006 to RMB1,040.2 million in 2007. This was attributable to the increase of interest expense arising from the increase in the outstanding bank loans as well as interest rates.

Income Tax Expense

Our income tax expense decreased by 35.7% from RMB4,465.3 million in 2006 to RMB2,869.2 million in 2007. Of this amount, approximately RMB800 million was due to a year-on-year decrease in our profit and a decrease of an aggregate of RMB805 million due to the preferential policies on reduction and exemption of enterprise income tax for the purchase of domestically-manufactured production equipment, which resulted in decrease of income tax expense of RMB737 million as compared with 2007. In 2007, our average tax rate was 19.1%, which was lower than the average tax rate of 25.6% in 2006 and the statutory tax rate of 33.0%, primarily due to the decrease of consolidated tax rate as a result of our merger and acquisition of Lanzhou Aluminum, Baotou Aluminum, as well as the establishment of Zunyi Aluminum. The decrease was also attributable to the preferential policies that we enjoyed in 2007 in respect of the reduction and exemption of enterprise income tax for the purchase of domestically manufactured production equipment.

Minority Interest

Minority interest increased by 51.6% from RMB903.9 million in 2006 to RMB1,370.1 million in 2007, primarily due to the increase in the minority interest after the acquisition of subsidiaries in which we hold less than 100% of the equity interest.

Discussion of Segment Operations

We account for our operations on a segmental basis, that is, separately accounting for the alumina, primary aluminum and aluminum fabrication segments as well as other operations segment. Unless otherwise indicated, also included in these segments are other revenues derived from such activities as supplying electricity, gas, heat and water to affiliates, selling scrap and other materials, and providing services including transportation and research and development to third parties. Interest income included in net finance costs is not attributed to any segments. For additional data and information relating to our business segments and segment presentation, see Note 22 to our audited consolidated financial statements.

The following table sets forth (i) revenue by segment for the periods indicated, and (ii) the contribution of external sales and inter-segment sales for 2008 as a percentage of revenue for such period, both before and after elimination of inter-segment sales.

	Before Elimination of Inter-segment Sales				After Elimination of Inter-segment Sales
	Years Ended December 31,				
	2006	2007	2008	2008	2008
	RMB	RMB	RMB	%	%
	(in millions)				
Revenue					
Alumina:					
External sales	25,111.5	19,435.2	14,510.6	15.1	18.9
Inter-segment sales	13,157.3	15,694.7	16,431.4	17.0	
Total	38,268.8	35,129.9	30,942.0	32.1	
Primary aluminum:					
External sales	41,167.0	51,834.9	48,428.8	50.3	63.1
Inter-Segment sales	557.5	2,342.4	3,158.6	3.3	
Total	41,724.5	54,177.3	51,587.4	53.6	
Aluminum fabrication:					

External sales	7,177.7	12,491.3	10,899.7	11.3	14.2
Total	7,177.7	12,491.3	10,899.7	11.3	
Others:					
External sales	830.8	1,437.4	2,886.8	3.0	3.8
Total Revenue before Inter-segment eliminations	88,001.8	103,235.9	96,315.9	100.0	
Eliminations of inter-segment sales	(13,714.8)	(18,037.1)	(19,590.0)		
Consolidated total sales	74,287.0	85,198.8	76,725.9		100.0

The following table sets forth, for the periods indicated, revenue, costs of sales, other costs net of other revenues and other income, and segment results by segment before and after elimination of inter-segment transactions.

	Years Ended December 31,		
	2006	2007	2008
	RMB	RMB	RMB
	(in millions)		
Alumina:			
Sales	38,268.8	35,129.9	30,942.0
Total operating expenses	(24,410.3)	(27,238.7)	(29,360.0)
Segment results	13,858.5	7,891.2	1,582.0

Primary aluminum:			
Sales	41,724.5	54,177.3	51,587.4
Total operating expenses	(36,372.6)	(46,366.9)	(51,103.3)
Segment results	5,351.9	7,810.4	484.1
Aluminum Fabrication:			
Sales	7,177.7	12,491.3	10,899.7
Total operating expenses	(6,972.9)	(12,359.0)	(11,213.8)
Segment results	204.8	132.3	(314.1)
Others:			
Sales	830.8	1,437.4	2,886.9
Total operating expenses	(890.2)	(1,458.0)	(2,850.6)
Segment results	(59.4)	(20.6)	36.3

Elimination	(331.6)	429.8	266.2
Total operating income	19,024.2	16,243.1	2,054.5

Year Ended December 31, 2008 Compared with Year Ended December 31, 2007.

Alumina Segment

Revenue.

Total revenue of the alumina segment decreased by 11.9% from RMB35,129.9 million in 2007 to RMB30,942.0 million in 2008, primarily due to decrease in the price of alumina in 2008.

Revenue from external sales of the alumina segment decreased by 25.3% from RMB19,435.2 million in 2007 to RMB14,510.7 million in 2008, mainly due to the decrease in external sales volume as well as decrease in the selling prices. External sales volume of alumina decreased by 23.1% from 5,545,100 tonnes (including sales volume from trading of 1,270,000 tonnes) in 2007 to 4,264,400 tonnes (including sales volume from trading of 1,134,800 tonnes) in 2008. The decrease was primarily due to our increased self-consumption of alumina by our own smelters and reduction in alumina production in the fourth quarter in response to the decrease in demand resulting from the international financial crisis. Our external average selling price of alumina decreased by 7.1% from RMB2,918 per tonne in 2007 to RMB2,710 per tonne.

Revenue from the sales of alumina to our smelters increased by 4.7% from RMB15,694.7 million in 2007 to RMB16,431.4 million in 2008 primarily due to an increase in our primary aluminum output as a result of consolidation of the results of Jiaozuo Wanfang.

Cost of Sales.

Alumina segment cost of sales increased by 7.8% from RMB27,238.7 million in 2007 to RMB29,360.0 million in 2008, primarily due to the increase in the prices of bauxite, alkali, coal, fuel and other supplemental materials.

Segment Results.

Operating profit of the alumina segment decreased by 80.0% from RMB7,891.2 million in 2007 to RMB1,582.1 million in 2008.

Primary Aluminum Segment

Revenue.

Total revenue of the primary aluminum segment decreased by 4.8% from RMB54,177.3 million in 2007 to RMB51,587.4 million in 2008, primarily due to the substantial decrease in selling prices caused by decrease in demand brought about by the international financial crisis. The production and sales volume of the primary aluminum segment were also affected by the power shortage caused by the snow storm in early 2008 as well as our reduced production volume during the fourth quarter of 2008 due to decrease in demand.

Revenue from external sales of the primary aluminum segment decreased by 6.6% from RMB51,834.9 million in 2007 to RMB48,428.8 million in 2008, primarily due to decrease in the selling prices of our products, partially offset by the increase in our external sales volume. Affected by the market price of primary aluminum in 2008, our average external selling price of primary aluminum decreased by 15.2% from RMB17,093 per tonne in 2007 to RMB14,503 per tonne in 2008. The external sales volume of primary aluminum increased by 18.5% from 2,122,000 tonnes in 2007 to 2,514,300 tonnes in 2008, mainly due to increased output resulting from the consolidation of the results of Jiaozuo Wanfang.

The internal revenue in the primary aluminum segment increased by 34.8% from RMB2,342.4 million in 2007 to RMB3,158.6 million in 2008 due to increase in demand resulting from the increased output of our aluminum fabrication plants.

Cost of Sales.

Primary aluminum segment cost of sales increased by 10.2% from RMB46,366.9 million in 2007 to RMB51,103.3 million in 2008, primarily due to increase in the prices of supplemental materials, and electricity, partially offset by decrease in the price of alumina.

Segment Results.

Operating profit of the primary aluminum segment decreased by 93.8% from RMB7,810.4 million in 2007 to RMB484.1 million in 2008.

Aluminum Fabrication Segment

Revenue.

Total revenue of the aluminum fabrication segment decreased by 12.7% from RMB12,491.3 million in 2007 to RMB10,899.7 million in 2008, primarily due to decrease in demand.

Cost of Sales.

Aluminum fabrication segment cost of sales decreased by 9.3% from RMB12,359.0 million in 2007 to RMB11,213.7 million in 2008, primarily due to decrease in sales of aluminum fabrication products and decrease in the price of primary aluminum.

Segment Results.

Our aluminum fabrication segment recorded an operating loss of RMB314.1 million in 2008, compared with an operating profit of RMB132.3 million in 2007.

Year Ended December 31, 2007 Compared with Year Ended December 31, 2006

Alumina Segment

Revenue.

Total revenue of the alumina segment decreased by 8.2% from RMB38,268.8 million in 2006 to RMB35,129.9 million in 2007, mainly due to a decrease in the price of alumina products.

Revenue from the external sales of alumina segment decreased by 22.6% from RMB25,111.5 million in 2006 to RMB19,435.2 million in 2007, mainly due to the decrease in external sales volume and decrease in the selling price of our alumina.

Revenue from the sales of alumina to our smelters increased by 19.3% from RMB13,157.3 million in 2006 to RMB15,694.7 million in 2007, mainly due to the increase in the total demand for alumina resulting from increased primary aluminum output as a result of the acquisition of additional aluminum smelters.

Cost of Sales.

Alumina segment cost of sales increased by 11.6% from RMB24,410.3 million in 2006 to RMB27,238.7 million in 2007, primarily due to an increase in the sales volume of alumina and an increase in the prices of raw materials and supplemental materials.

Segment Results.

Operating profit of alumina segment decreased by 43.1% from RMB13,858.5 million in 2006 to RMB7,891.2 million in 2007.

Primary Aluminum Segment

Revenue.

Total revenue for the primary aluminum segment increased by 29.8% from RMB41,724.5 million in 2006 to RMB54,177.3 million in 2007, mainly due to the increase in our primary aluminum sales volume resulting from increased production capacity as a result of our acquisition and establishment of additional primary aluminum enterprises and technological renovation to increase the output of primary aluminum.

Revenue from external sales of the primary aluminum segment increased by 25.9% from RMB41,167.0 million in 2006 to RMB51,834.9 million in 2007.

Revenue from internal sales of the primary aluminum segment increased from RMB557.5 million in 2006 to RMB2,342.4 million in 2007, mainly due to the increase in demand from our aluminum fabrication segment resulting from increased production capacity in 2007.

Cost of Sales.

Primary aluminum segment cost of sales increased by 27.5% from RMB36,372.6 million in 2006 to RMB46,366.9 million in 2007, primarily due to an increase in the sales volume of primary aluminum in 2007.

Segment Results.

Operating profit of the primary aluminum segment increased by 45.9% from RMB5,351.9 million in 2006 to RMB7,810.4 million in 2007.

Aluminum Fabrication Segment

Revenue.

Total revenue of the aluminum fabrication segment increased by 74.0% from RMB7,177.7 million in 2006 to RMB12,491.3 million in 2007.

Cost of Sales.

Aluminum fabrication segment cost of sales increased by 77.2% from RMB6,972.9 million in 2006 to RMB12,359.0 million in 2007.

Segment Results.

Operating profit of the aluminum fabrication segment decreased by 35.4% from RMB204.8 million in 2006 to RMB132.3 million in 2007.

Working Capital and Liabilities

Our primary sources of funding are cash generated by operating activities, prepayments and deposits from customers, short-term and long-term borrowings, and proceeds from equity or debt offerings. Our primary uses of funds have been production-related working capital, repayments of short-term and long-term borrowings and capital expenditures.

Since 2004, we have required our customers to make deposits or prepayments for purchases of alumina. As of December 31, 2008, the total amount of deposits and prepayments received amounted to RMB3,957 million. Our current assets amounted to RMB42,487.0 million as of December 31, 2008, representing an increase of RMB12,212.1 million as compared with RMB30,274.9 million as of December 31, 2007.

As of December 31, 2008, our bank balances and cash amounted to RMB16,295.6 million, representing an increase of RMB7,241.0 million as compared with RMB9,054.6 million as of December 31, 2007.

In February and July 2008, we issued short-term bonds in the principal amount of RMB2 billion and RMB3 billion, respectively with one-year terms for working capital purposes. The fixed annual coupons of these bonds were 4.99% and 4.83%, respectively. The effective interest rates of these bonds were 5.40% and 5.25%, respectively.

As of December 31, 2008, our net accounts receivable amounted to RMB2,035.3 million, representing a decrease of RMB1,683.5 million as compared with RMB3,718.8 million as of December 31, 2007. Of the accounts receivable, notes receivable decreased from RMB2,539.5 million as of December 31, 2007 to RMB722.3 million, while trade receivables increased by RMB133.7 million from RMB1,179.3 million as of December 31, 2007 to RMB1,313.0 million. The revenue rate of trade receivables in 2008 was six days representing an increase of two days as compared with four days in 2007.

As of December 31, 2008, our inventories amounted to RMB19,876.0 million, representing an increase of RMB4,506.2 million as compared with RMB15,369.8 million as of December 31, 2007.

Our net current assets amounted to RMB4,036.2 million as of December 31, 2008. This represented a decrease of RMB2,696.4 million as compared with the net current assets of RMB6,732.6 million as of December 31, 2007.

As of December 31, 2008, our current liabilities amounted to RMB38,450.8 million, representing an increase of RMB14,908.6 million from RMB23,542.2 million at the end of 2007. Of the current liabilities, the total short-term loans increased by RMB8,370.1 million to RMB14,188.2 million in 2008 from RMB5,818.1 million in 2007; short-term bonds amounted to RMB5,152.3 million, representing an increase of RMB2,100.8 million as compared with 2007; and accounts payable and other payables and accrued expenses increased by RMB275.8 million, and RMB3,989.6 million, respectively while current income taxes payables decreased by RMB486.2 million.

As of December 31, 2008, our current ratio (current assets/current liabilities) was 1.10, representing a decrease of 0.19 as compared with 1.29 as of December 31, 2007. Our quick ratio ((current assets - inventories)/current liabilities) was 0.59, representing a decrease of 0.04 as compared with 0.63 in 2007.

On June 13, 2007, we issued long-term corporate bonds with maturity of 10 years in the principal amount of RMB2 billion. The fixed annual coupon and effective rates of these bonds are 4.50% and 4.64%, respectively.

In June 2008, we issued medium-term notes in the principal amount of RMB5 billion with three-year terms for operating cash flows and bank loans re-financing. The fixed annual coupon and effective interest rates of these notes are 5.30% and 5.62%, respectively.

In October 2008, we issued medium-term notes with a total face value of RMB5 billion at par (face value of RMB100 per unit) with five-year terms for operating cash flows and bank loans re-financing. The fixed annual coupon and effective interest rates of these notes are 4.58% and 4.92%, respectively.

As of December 31, 2008, our gearing ratio (net debts/total capital as defined in Note 3(c) to our audited consolidated financial statements) was approximately 51.7% as of December 31, 2008 as compared with approximately 34.2% as of December 31, 2007.

Our ability to obtain additional external financing in the future and the cost of such financing are subject to a variety of uncertainties, including:

* obtaining PRC government approvals required to access domestic or international financing or to undertake any project involving significant capital investment, which, depending on the circumstances, may include one or more approvals from the NDRC, the State Administration of Foreign Exchange, the Ministry of Commerce and the China Securities Regulatory Commission;

* our future operating performance, financial condition and cash flows;

* the cost of financing and the condition of financial markets; and

* potential changes in monetary policy of the PRC government with respect to bank interest rates and lending practices.

If we fail to achieve timely rollover, extension or refinancing of our short-term debts, we may be unable to meet our obligations in connection with debt servicing, accounts payable and/or other liabilities when they become due and payable.

In light of our good credit standing and various domestic and overseas financing channels, we believe that there will be no difficulty in financing capital investments. Our capital expenditures and external investments are mainly financed by operating activities, long-term and medium-term borrowings and additional shares placement.

Cash and Cash Equivalents

Our cash and cash equivalents as of December 31, 2008 amounted to RMB15,982.1 million, including Renminbi balances and foreign currency deposits of Hong Kong dollar, US$, EURO and Australian dollar which were respectively translated to RMB46.4 million, RMB190.7 million, RMB9.9 million and RMB147.7 million. The following table sets forth, for the periods indicated, a condensed summary of our statement of cash flows:

Years Ended December 31,		
2006	2007	2008
RMB	RMB	RMB

	(in millions)		
Net cash generated from operating activities:			
Operating profit before working capital changes(1)	21,960.0	20,827.1	7,030.2
Net change in working capital(2)	(3,349.2)	(4,649.6)	(560.1)
Interest received	158.5	96.0	186.7
Interest paid	(1,093.7)	(1,490.3)	(2,563.0)
PRC income tax paid	(3,714.0)	(4,130.6)	(1,639.4)
Total	13,961.6	10,652.6	2,454.4
Net cash used in investing activities:			
Purchase of property, plant and equipment and intangible assets	(7,801.8)	(10,850.2)	(16,788.4)
Purchase of land use rights	(47.0)	(440.8)	(277.4)
Investment in jointly controlled entities	(402.8)	(63.9)	(63.9)
Investment in associates	(247.5)	-	(30.0)

Interest received	33.3	130.4	6.4
(Increase)/Decrease in short-term cash investment	(3,078.0)	2,981.9	-
Net cash (used in)/provided by aquisitions of subsidiaries	(465.2)	173.7	(4,610.6)
Others	(282.8)	(494.5)	(440.6)
Total	(12,291.8)	(8,563.4)	(22,204.5)

Net cash generated from/(used in) from financing activities:

Net proceeds from issuance of shares	4,390.5	(119.0)	-
Drawdown of loans	7,935.6	12,442.0	32,677.7
Repayments of loans	(9,760.4)	(12,154.1)	(16,049.1)
Proceeds from bonds	4,913.4	4,966.5	14,950.0
Repayments of bonds	(2,000.0)	(5,000.0)	(3,000.0)
Net contributions from owners and minority shareholders	42.5	(84.0)	184.8
Dividends paid by subsidiaries to minority shareholders	(118.4)	(476.9)	(386.9)
Dividends paid	(4,562.2)	(3,528.6)	(1,439.5)
Total	841.0	(3,954.1)	26,937.0
Net increase/(decrease) in cash and cash equivalents	2,510.8	(1,864.9)	7,186.9

(1) Represents profit before income tax expense and minority interest as adjusted for depreciation, loss on disposal of property, plant and equipment, interest income and interest expense, etc.

(2) Represent changes in inventories, accounts receivable, other current assets, accounts payable and other payables and accrued expenses, etc. across years.

Net Cash Generated from Operating Activities

Net cash flow generated from operating activities decreased by 77.0% from RMB10,652.6 million in 2007 to RMB2,454.4 million in 2008, primarily due to the decrease in the Group's profit. Net cash generated from operating activities in 2008 consisted primarily of cash generated from operating activities of RMB6,470.2 million less interest and income tax we paid in 2008. Our cash generated from operations of RMB6,470.2 million consisted of operating profit before changes in working capital of RMB7,030.2 million partially offset by the changes in working capital of RMB560.1 million. The operating profit before working capital changes of RMB7,030.2 million consisted primarily of (i) the profit before income tax of RMB124.8 million, (ii) depreciation of property, plant and equipment of RMB5,269.9 million and (iii) interest expense of RMB1,864.7 million, partially offset by (i) realized and unrealized gains on futures and option contracts of RMB267.3 million, and (ii) interest income of RMB193.0 million. Changes in working capital primarily consisted of (i) increase in inventories of RMB3,860.3 million and (ii) increase in other current assets of RMB1,303.4 million, partially offset by (i) increase in other payables and accrued expenses of

RMB3,186.3 million and (ii) decrease in accounts receivable of RMB1,998.9 million.

Net cash flow generated from operating activities decreased by 23.7% from RMB13,961.6 million in 2006 to RMB10,652.6 million in 2007, primarily due to the decrease in the Group's profit. Net cash generated from operating activities in 2007 consisted primarily of cash generated from operating activities of RMB16,177.4 million less interest and income tax we paid in 2008. Our cash generated from operations of RMB16,177.4 million consisted of operating profit before changes in working capital of RMB20,827.1 million partially offset by the changes in working capital of RMB4,649.7 million. The operating profit before working capital changes of RMB20,827.1 million consisted primarily of (i) the profit before income tax of RMB14,992.3 million, (ii) depreciation of property, plant and equipment of RMB4,821.2 million and (iii) interest expense of RMB1,226.2 million, partially offset by (i) shares of profits of associates of RMB241.9 million and (ii) interest income of RMB198.2 million. Changes in working capital primarily consisted of (i) increase inventories of RMB2,939.6 million and (ii) decrease in other payables and accrued expenses of RMB1,166.2 million, partially offset by (i) increase in accounts payables of RMB136.8 million and (ii) decrease in other current assets of RMB85.4 million.

In 2006, we had net cash generated from operating activities of RMB13,961.6 million consisting primarily of cash generated from operating activities of RMB18,610.8 million less interest and income tax we paid in 2008. Our cash generated from operations of RMB18,610.8 million consisted of operating profit before changes in working capital of RMB21,960.0 million partially offset by the changes in working capital of RMB3,349.2 million. The operating profit before working capital changes of RMB21,960.0 million consisted primarily of (i) the profit before income tax of RMB17,462.4 million, (ii) depreciation of property, plant and equipment of RMB3,979.5 million and (iii) interest expense of RMB934.0 million, partially offset by (i) interest income of RMB192.4 million, and (ii) excess of interest in the net fair value of net assets acquired over cost arising from acquisitions of subsidiaries of RMB261.7 million. Changes in working capital primarily consisted of (i) increase in inventories of RMB1,947.0 million and (ii) increase in accounts receivable of RMB940.7 million, partially offset by (i) increase in other non-current liabilities of RMB190.4 million and (ii) increase in other payables and accrued expenses of RMB47.2 million.

Net Cash Used in Investing Activities

Net cash used in investing activities increased by 159.3% from RMB8,563.4 million in 2007 to RMB22,204.5 million in 2008, primarily due to the increased capital expenditure of the Group and the acquisitions of five aluminum fabrication plants and one primary aluminum plant. Our net cash used in investing activities in 2008 consisted primarily of (i) purchases of property, plant and equipment of RMB16,788.4 million and (ii) acquisitions of subsidiaries of RMB4,858.4 million, partially offset by cash and cash equivalents acquired from acquisitions of subsidiaries of RMB247.8 million.

Net cash used in investing activities decreased by 30.3% from RMB12,291.8 million in 2006 to RMB8,563.4 million in 2007, primarily due to the combination of increase in our capital expenditure and decrease in short-term cash investment upon maturity. Our net cash used in investing activities in 2007 consisted primarily of (i) purchases of property, plant and equipment of RMB10,850.2 million and (ii) acquisitions of minority interest of RMB564.9 million, partially offset by decrease in short-term cash investment of RMB2,981.9 million.

In 2006, our net cash used in investing activities was RMB12,291.8 million. Our net cash used in investing activities consisted primarily of (i) purchases of property, plant and equipment of RMB7,801.6 million and (ii) increase in short-term cash investment of RMB3,078.0 million, partially offset by cash and cash equivalents acquired from acquisitions of subsidiaries of RMB519.6 million

Net Cash Generated from/(Used in) from Financing Activities

In 2008, our net cash generated from financing activities was RMB26,937.0 million compared with net cash used in financing activities of RMB3,954.1 million in 2007, primarily because we increased bank borrowing and issued medium-term notes and short-term bonds. Our net cash inflow from financing activities consisted primarily of (i) drawdown of loans of RMB32,677.7 million, (ii) net proceeds from issuance of medium-term notes of RMB9,970.0 million and (iii) net proceeds from issuance of short-term bonds of RMB4,980.0 million, partially offset by (i) repayments of loans of RMB16,049.1 million and (ii) repayments of short-term bonds of RMB3,000.0 million.

In 2007, our net cash used in financing activities was RMB3,954.1 million compared with net cash generated from financing activities of RMB841.0 million in 2006, primarily due to repayment of short-term bonds, bank loans and payment of dividend. Our net cash outflow for financing activities consisted primarily of (i) repayments of loans of RMB12,154.2 million, (ii) repayments of short-term bonds of RMB5,000.0 million and (iii) dividends paid of RMB3,528.6 million, partially offset by (i) drawdown of loans of RMB12,442.0 million and (ii) net proceeds from issuance of short-term bonds of RMB2,988.0 million.

In 2006, our net cash inflow from financing activities was RMB841.0 million. Our net cash inflow from financing activities consisted primarily of (i) drawdown of short-term loans of RMB6,293.5 million, (ii) net proceeds from issuance of short-term bonds of RMB4,913.4 million and (iii) net proceeds from issuance of shares of RMB4,390.5 million, partially offset by (i) repayments of loans of RMB9,760.3 million and (ii) dividends paid of RMB4,562.2 million.

Borrowings and Banking Facilities

Our net borrowings for the years ended December 31, 2006, 2007 and 2008 were as follows:

	As of December 31,			
	2006	2007	2008	2008
	RMB	RMB	RMB	US$(1)
	(in millions)			
Short-term loans	6,050.2	5,818.0	14,188.2	2,079.6
Short-term bonds	4,985.1	3,051.5	5,152.3	755.2
Long-term loans	14,447.3	17,956.9	27,119.2	3,975.0
Medium-term notes and long-term bonds	-	1,979.7	11,963.1	1,753.5
Total debts	25,482.6	28,806.1	58,422.8	8,563.3

Less: Bank balances and cash	(13,897.3)	(9,054.6)	(16,295.6)	(2,388.5)
Net debts	11,585.3	19,751.5	42,127.2	6,174.8

The aggregate maturities of our outstanding long-term borrowings (including long-term loans, medium-term notes and long-term bonds) as of December 31, 2008 were as follows:

Maturity Date	Principal Outstanding as of December 31, 2008	
	RMB	US$(1)
	(in millions)	
2009	2,949.7	432.3
2010	3,412.1	500.1
2011	10,378.4	1,521.2
2012	3,351.2	491.2
2013	9,529.5	1,396.8
After 2013	9,498.3	1,392.2
Total	39,119.2	5,733.8

(1) Translated solely for the convenience of the reader into U.S. dollars at noon buying rate in New York City on December 31, 2008 for cable transfers in RMB by the Federal Reserve Bank of New York of US$1.00 to RMB6.8225

As of December 31, 2008, except for a long-term loan of approximately 698 million Japanese yen (or equivalent of RMB52.8 million), long-term loans of approximately US$42 million (or equivalent of RMB284.4 million) and a short-term loan of approximately US$9 million (or equivalent of RMB63.2 million), all the other borrowings were denominated in RMB. Please also refer to Item 11 for details of interest rate structure disclosure of the borrowings above.

As of December 31, 2008, we had total bank balances and cash of RMB16,295.6 million, equivalent to US$2,388.5 million. Additionally, we have a history of strong earnings and of generating significant cash inflows from our continuous operating activities (cash generated from operating activities amounted to approximately RMB2,454.4

million, equivalent to US$359.8 million for the year ended December 31, 2008). Our Directors are of the view that we will continue to be able to meet our borrowing payment obligations as they fall due from working capital generated from our operating activities. Additionally, our Directors do not foresee any events that may have an impact on our satisfaction of such obligations.

As of December 31, 2008, we had secured loans of RMB926 million (including short-term loans) and we, on a stand-alone basis, provided guarantees in respect of RMB1,170 million of long-term loans for our subsidiaries.

As of December 31, 2008, Chinalco guaranteed RMB3,535 million of our bank loans. The guarantees by Chinalco and its subsidiaries to various banks in respect of banking facilities and loans granted to third parties as of December 31, 2000 remained with Chinalco after our reorganization.

As of December 31, 2008, we had total banking facilities of RMB70,668 million. Out of the total banking facilities granted, amounts totaling RMB41,238 million had been utilized as of December 31, 2008. Approximately RMB46,988 million in bank facilities are subject to renewals in 2009. We believe that we will be able to renew these facilities when they expire.

In addition, as of December 31, 2008, we had credit facilities through our primary aluminum futures agent at the LME amounting to RMB800 million, of which RMB114 million had been utilized. The futures agent has the right to adjust the related credit facilities.

Foreign Exchange

We conduct our business primarily in Renminbi, which is also our functional and reporting currency. We convert a portion of our Renminbi revenue into other currencies to meet foreign currency financial obligations and to pay for imported equipment and materials. Under current foreign currency regulations in China, to meet these needs, we are permitted to convert Renminbi into the necessary foreign currencies at authorized banks based on a presentation of the relevant contracts. We may also borrow foreign currency loans from such banks for these purposes. To the extent that we need to obtain foreign currency funding for capital projects as defined under foreign exchange regulations, we would be required to obtain approval from the State Administration of Foreign Exchange. Transactions in foreign exchange are translated at exchange rates prevailing at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at exchange rates prevailing at the balance sheet date. Exchange differences arising in these cases are recognized as income or expense in the income statement.

Renminbi is not a freely convertible currency. The restrictions on foreign exchange imposed by the PRC government may result in material differences between future exchange rates and current exchange rates or historical exchange rates. The changes in the exchange rate of Renminbi will impact our ability to carry out operations relating to foreign exchange. Those changes will also impact our ability to pay dividends in HK dollars and to pay dividends of American Depository Shares in U.S. dollars. We believe that we are able to obtain sufficient foreign exchanges to fulfill the above-mentioned obligations. In addition, our foreign currency denominated short-term bank deposits amounted to RMB465.4 million, of which RMB190.7 million was denominated in U.S. dollars, RMB218.4 million was denominated in Australian dollars, RMB46.4 million was denominated in HK dollars and RMB9.9 million was denominated in Euro. Most of our sales are domestic and, as such, we have a limited amount of foreign currency denominated accounts receivable. See "Item 11 - Quantitative and Qualitative Disclosures About Market Risks - Foreign Exchange Rate Risk". Our sources of foreign exchange include the H Shares placement, borrowings and funds converted from Renminbi. We do not anticipate that we will incur significant additional foreign currency debts in the near future.

We have been, and will continue to be, affected by changes in exchange rates in connection with our ability to meet our foreign currency obligations and will be affected by such changes in connection with our ability to pay dividends on H Shares in HK dollars and on ADSs in U.S. dollars. As of December 31, 2008, we maintained bank balances of US$27.9 million, HK$52.6 million, AUD46.3 million and Euro1.0 million or the equivalent of approximately RMB465.4 million for purposes of satisfying our foreign currency obligations and paying dividends to our overseas shareholders. We believe that we have obtained and will be able to obtain sufficient foreign exchange to continue to satisfy these obligations. We do not engage in any financial contract or other arrangement to hedge our currency exposure.

Trend Information

In 2008, China's GDP growth rate was 9%. However, affected by the international financial crisis, the global demand for aluminum products decreased significantly in the fourth quarter of 2008. We expect the global demand for alumina, primary aluminum and aluminum fabrication products will continue to decrease in 2009, which may cause the market prices of alumina, primary aluminum and aluminum fabrication products to further decline.

We will continue to face challenges in 2009, such as:

* continued decline in the demand for alumina, primary aluminum and aluminum fabrication products;

* an increase in production cost resulting from continued increases in prices of raw materials, fuel and electricity; and

* intensified domestic competition resulting from the cancellation of tax refunds for primary aluminum exports and the enhancement of the production capacity of alumina.

U.S. GAAP Reconciliation

Our financial statements are prepared in accordance with HKFRS, which differs in various material respects from U.S. GAAP. See Note 35 to our audited consolidated financial statements for details. The summary of differences involve management's estimates and assumptions which may affect the reported amounts of assets and liabilities, the disclosure regarding contingent assets and liabilities and revenues and expenses. These material differences, as they apply to our audited consolidated financial statements, relate primarily to the following:

(a) Revaluation of property, plant and equipment

(b) Amortization of goodwill

(c) Unrecognized excess of interest in the net fair value of net assets acquired over cost

(d) Revaluation of mining rights

(e) Fair value of consideration on acquisitions

(f) Acquisition of minority interest

(g) Common control business combinations

(h) Business combination with Jiaozuo Wanfang

(i) Minority interest

(j) Income tax effect of U.S. GAAP adjustments

Contractual obligations

The following table summarizes our contractual obligations and commercial commitments as of December 31, 2008:

	Payment due by period				
	Total	2009	2010-2011	2012-2013	Thereafter
	RMB	RMB	RMB	RMB	RMB
	(in millions)				
Long-term loans	27,119.2	2,949.7	8,790.5	7,880.7	7,498.3
Medium-term notes	10,000.0	-	5,000.0	5,000.0	-
Long-term bonds	2,000.0	-	-	-	2,000.0
Interest payments	10,003.0	2,354.8	3,996.8	2,291.7	1,359.7
Operating leases	35,404.7	905.5	1,811.0	1,811.0	30,877.2
Capital commitments for property, plant and equipment	10,278.2	10,278.2	-	-	-
Commitments for capital contribution	395.2	395.2	-	-	-

Total	95,200.3	16,883.4	19,598.3	16,983.4	41,735.2

Capital Expenditures and Capital Commitments

The following table sets forth our capital expenditures by segment for the years ended 2006, 2007 and 2008, and the capital expenditures in each segment as a percentage of our total capital expenditures for such years.

	Years Ended December 31					
	2006		2007		2008	
	RMB	**%**	**RMB**	**%**	**RMB**	**%**
	(in millions, except percentages)					

Alumina	3,462.9	24.5	4,634.9	23.8	8,582.8	38.3
Primary aluminum	8,649.7	61.3	12,651.7	64.9	10,668.9	47.6
Aluminum fabrication	1,198.7	8.5	1,203.2	6.2	1,805.8	8.1
Others	120.3	0.9	493.7	2.5	138.9	0.6
Unallocated	682.1	4.8	498.0	2.6	1,217.4	5.4
Total	14,113.7	100.0	19,481.5	100.0	22,413.8	100.0

In 2008, we spent approximately RMB19.7 billion of our capital expenditures primarily on improving our alumina and primary aluminum production capacity, environmental protection and energy saving.

In 2009, we expect to use approximately RMB13.4 billion on technology upgrades and the acquisition of new plants. Of this amount, we expect to use approximately RMB5.8 billion on our alumina projects, approximately RMB1.8 billion on our primary aluminum projects, approximately RMB2.2 billion on our aluminum fabrication projects and approximately RMB3.6 billion on research and development, exploration, information technology and overseas projects.

Our capacity expansion plan reflects our focus on completion of our production chain, which consists of mining operations, alumina production operations, primary aluminum production operations, and aluminum fabrication operations, to take advantage of our market position in China. In addition, we continually evaluate acquisition and joint venture opportunities and may take advantage of these opportunities if we determine that it is in our and our shareholders' best interests. We expect that our alumina, primary aluminum and aluminum fabrication products production capacity will reach approximately 11.3 million, 3.9 million and 1.3 million tonnes, respectively, by the end of 2009.

These are our current plans with respect to our capital expenditures. They may change as circumstances change, and may be modified as our business plans evolve. Other than as required by law, we do not undertake any obligation to publish updates of our plans.

As of December 31, 2008, our capital commitments relating to investments in property, plant and equipment amounted to RMB40,409.4 million, of which those contracted but not provided for amounted to RMB10,278.2 million and those authorized and not contracted amounted to RMB30,131.2 million. Our external investment commitments amounted to RMB395.2 million, mainly attributable to the establishment of Chalco Zunyi. Our investment in construction and upgrades of technology as well as external investment and acquisition improved our capacity and output of alumina, primary aluminum and aluminum fabrication products.

We expect to use operating cash flow in meeting such commitments with the shortfall to be satisfied by bank loans, and short-term and long-term bonds and medium-term notes.

Research and Development

Our department of science and technology coordinates the research and development efforts undertaken at our Research Institute and technology centers at our plants. The Research Institute, the only organization in China dedicated to aluminum research, is responsible for the research and development of technologies and associated projects that are applied at our relevant plants. The technology centers at our plants focus on providing engineering solutions to, and technological application of, research and development efforts. Each of the plants also conducts operational testing and pilot experimentation relating to various research and development topics. Although we collaborate with universities and other research institutions in China on some of our projects, we generally do not outsource our research and development.

Our total expenditure for research and development was approximately RMB126.3 million, RMB229.8 million and RMB177.5 million for 2006, 2007 and 2008 respectively.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

All of our Directors and Supervisors are elected for a three-year term. At the expiry of the term of office, the term is renewable upon re-election. Each of our Directors and Supervisors has entered into a service contract with us for a term of three years. The service contract is not terminable by us within one year without payment of compensation (other than statutory compensation). There were no arrangements providing for benefits upon termination of our Directors, Supervisors or other senior management personnel.

In addition to Director's fees, our Directors are entitled to performance bonuses. The Executive Directors are also entitled to the welfare benefits provided under the relevant PRC laws and regulations.

Directors

The third session of the board of directors of the Company ("Board") currently consists of nine Directors, of which four are Executive Directors, namely Mr. Xiao Yaqing, Mr. Luo Jianchuan, Mr. Chen Jihua and Mr. Liu Xiangmin, one Non-Executive Director, namely Mr. Shi Chungui, and four Independent Non-Executive Directors, namely Mr. Kang Yi, Mr. Zhang Zhuoyuan, Mr. Wang Mengkui and Mr. Zhu Demiao.

Mr. Xiao Yaqing, former Chairman of the Company, resigned as the Chairman of the Company on March 27, 2009 with immediate effect. He also resigned as the Chief Executive Officer, Executive Director and Chairman of Nomination Committee of the Board on March 27, 2009, which will take effect after the election of a new Executive Director at the 2008 annual general meeting of the Company to be convened on May 26, 2009. The Board of the Company extend thanks to Mr. Xiao for his contribution to the Company during his tenure. Mr. Xiong Weiping was nominated by Chinalco, the controlling shareholder of the Company, and approved by the third session of the Board of the Company, as an Executive Director candidate of the third session of the Board of the Company, and his nomination will be submitted to the 2008 annual general meeting of the Company to be convened on May 26, 2009 for election and approval.

The business address of each of our directors is No. 62 North Xizhimen Street, Hai Dian District, Beijing, People's Republic of China, 100082.

We follow our home country practice in relation to the composition of our Board in reliance on the exemption provided under Section 303A.00 of the NYSE Corporate Governance Rules available to foreign private issuers. Our home country practice does not require a majority of directors of a listed company to be independent directors. As such, the majority of our Directors are not independent within the meaning of NYSE Corporate Governance Rules.

The table and discussion below set forth information concerning our current directors.

Name	Age	Positions with the Company
Executive Directors		
Xiao Yaqing	50	Director and Chief Executive Officer
Luo Jianchuan	46	Director and President
Chen Jihua	41	Director, Vice President and Chief Financial Officer
Liu Xiangmin	47	Director and Vice President
Non-executive Directors		

Shi Chungui	68	Director
Independent Non-executive Directors		
Kang Yi	68	Independent Director
Zhang Zhuoyuan	75	Independent Director
Wang Mengkui	71	Independent Director
Zhu Demiao	45	Independent Director

Executive Directors

Xiao Yaqing,

aged 50, is former Chairman of the Board, Chief Executive Officer of the Company, the Chairman of the Nomination Committee of the Board and also the President of Chinalco during the reporting period. He has been employed by the Company since 2004. Mr. Xiao resigned as the Chairman of the Board with immediate effect on March 27, 2009. He also resigned as the Chief Executive Officer, Executive Director and Chairman of the Nomination Committee on March 27, 2009 which will take effect after the 2008 annual general meeting of shareholders to be held on May 26, 2009. Mr. Xiao graduated from Central South University of Industry in 1982 majoring in pressure processing, Mr. Xiao holds a doctorate degree from Central South University of Industry. He is a professor-grade senior engineer. Having engaged in such fields as metallic material research, production and corporate management, and capital operation for a long time, Mr. Xiao has outstanding achievement as well as extensive practical experience and eminent management competence. He has formerly served as engineer, department head, deputy chief engineer and chief engineer of Northeast Light Alloy Fabrication Plant. He has also served as the General Manager of Northeast Light Alloy Corporation Limited, the plant manager of Southwest Aluminum Fabrication Plant, the Chairman and General Manager of Chalco Southwest Aluminum (Group) Co., Ltd. and Deputy President of Chinalco.

Luo Jianchuan,

aged 46, is an Executive Director and President of the Company as well as Chairman of the Development Planning Committee of the Board. He has been employed by the Company since 2001. Mr. Luo graduated from Kunming University of Science and Technology in 1985 majoring in mining, holds a doctorate degree from Central South University of Industry and is a senior engineer. He has participated in nonferrous metal trading and corporate management for a long period of time, and thus has extensive professional experience and strong management skill in those fields. Mr. Luo had formerly served as an engineer of the Lead and Zinc Bureau of China Non-ferrous Metals Industry Corporation, Manager of Haikou Nanxin Industry & Commerce Corporation, Assistant to General Manager of Jinpeng Mining Development Corporation, Deputy General Manager and General Manager of Beijing Xinquan Tech-trading Corporation, Assistant to General Manager of China Non- Ferrous Metals Industry Trading Group Corporation, Deputy Chief of the Trading Division of China Copper, Lead & Zinc Group Corporation, General Manager of China Aluminum International Trading Corporation Limited, General Manager of the Operations and Sales Division, Vice President and Senior Vice President of the Company.

Chen Jihua,

aged 41, is an Executive Director, Vice President and the Chief Financial Officer of the Company. Mr. Chen has been employed by the Company since 2001. He holds a Master's degree from Central University of Finance and Economics. He has engaged in corporate and financial management for a long time and accumulated extensive and professional experience. He formerly served as Executive Manager of the International Finance Department of China Chengxin Securities Appraisal Company Limited, Financial Controller of Red Bull Vitamin Beverages Company Limited, Regional (China) Financial Controller of Saudi Arabia ALJ (China) Limited, Financial Controller of Jitong Network Communications Company Limited, Assistant to the President of Chinalco and General Manager of the Company's Finance Department.

Liu Xiangmin,

aged 47, is an Executive Director and Vice President of the Company and has been employed by the Company since 2001. Mr. Liu graduated from Central South University of Industry in 1982, majoring in non-ferrous metal science and holds a doctorate degree in Central South University of Industry. He is a professor-grade senior engineer and has participated in non-ferrous metal metallurgy and corporate management for a long period of time and accumulated extensive and professional experience. Mr. Liu had previously served as Deputy Head and Head of the Alumina branch of Zhongzhou Aluminum Plant, Deputy Head of Zhongzhou Aluminum Plant, and General Manager of Zhongzhou branch of the Company.

Non-Executive Directors

Shi Chungui,

aged 68, is a Non-executive Director of the Company. He has been with the Company since 2005. He graduated from Northeast University of Finance and Economics majoring in accounting in 1964. Mr Shi is a senior economist with extensive experience in finance, government and corporate management. Mr. Shi was previously Head of Commerce Bureau of Qinhuangdao City, Hebei Province, the Standing Deputy Mayor of Qinhuangdao City, Hebei Province, President of Hebei Branch of China Construction Bank, President of Beijing Branch of China Construction Bank, Deputy President of the Head Office of China Construction Bank and Deputy President of China Cinda Asset Management Corporation. Mr.Shi is currently an independent director of China Securities Co., Ltd..

Independent Non-Executive Directors

Kang Yi,

aged 68, is an Independent Non-Executive Director and the Chairman of the Remuneration Committee of the Board.

Mr. Kang has served as an Independent Non-Executive Director of the Company since 2004. He is also the chairman of the China Nonferrous Metals Industry Association. Mr. Kang graduated in 1965 from Central-South Institute of Mining and Metallurgy majoring in the metallurgy of non-ferrous metals. He is a professor-grade senior engineer and has engaged in corporate management and civil service for a long period of time. Mr. Kang has extensive experience and have once served as the factory manager of Qingtongxia Aluminum Plant, the Head of the Economic Committee of Ningxia Hui Autonomous Region, Deputy General Manager of China Non-ferrous Metals Industry Corporation, Deputy Head of the State Non-ferrous Metals Industry Bureau and an independent Non-Executive Director of Jiangxi Copper Company Limited. Currently, Mr Kang is also a member of National Committee of the Chinese People's Political Consultative Conference ("CPPCC") and the China Association for Science and Technology, the Chairman of Non-ferrous Metals Society of China and an Independent Non-executive Director of Jinduicheng Molybdenum Co., Ltd. and Baoji Titanium Industry Co., Ltd.

Zhang Zhuoyuan,

aged 75, is an Independent Non-Executive Director of the Company who has been with the Company since 2007. Mr Zhang graduated from the Faculty of Economics of Zhongnan University of Economics and has achieved extensive and professional accomplishment in such aspects as political economy, price theory and marketing. Mr. Zhang had consecutively served as the director and researcher of the Institute of Finance, Trade and Economics of Chinese Academy of Social Sciences, the chief editor of "Finance & Trade Economics", a director, researcher and tutor of doctorate students of the Institute of Industrial Economics of Chinese Academy of Social Sciences and a director, researcher and tutor of doctorate students of the Institute of Economics of Chinese Academy of Social Sciences. He is the chief editor of Economics Research Journal. Mr. Zhang is also a member of the Ninth and Tenth Sessions of CPPCC, a deputy director of China Association of Pricing, China Society of Urban Economy and Chinese Society for Urban Studies, and a director of Chinese Society for Cost Studies and Secretary-General of Foundation of Sun Ye Fang Economics and Science. Mr. Zhang is a member of the Chinese Academy of Social Sciences and a researcher of Institute of Economics as well as an independent Director of Jiangnan Securities Co. Ltd.

Wang Mengkui,

aged 71, an Independent Non-Executive Director of the Company who has been with the Company since 2008. Mr. Wang graduated from the School of Economics, Peking University. He is an economist and is currently a professor and advisor of doctor candidates of Peking University. Mr. Wang engaged on a long-term basis in the analysis of economic theory and policy. He has published many articles with respect to economics and other aspects and is experienced in economic theory and practice. Mr. Wang had served as a vice head and researcher of the economic team of the research office of the Secretariat of the CPC Central Committee, the governing member of the State Development and Planning Commission, the executive vice director of economic research centre of the State Development and Planning Commission, the vice director and director of the Research Office of the State Council, the President of the Development Research Center of the State Council. Mr. Wang had also served as a member of the tenth Standing Committee of National People's Congress ("NPC"), the vice director of Financial and Economic Affairs Committee of NPC. He is currently the Chairman of the China Development Research Foundation and a committee member of the National Council for Social Security Fund of the PRC.

Zhu Demiao,

aged 45, is an Independent Non-Executive Director of the Company and the Chairman of the Audit Committee of the Board. He has been with the Company since 2008. Mr. Zhu is currently the managing director of Oaktree Capital (Hong Kong) Ltd. Mr. Zhu graduated from the University of Chicago GSB with a MBA degree, and obtained a master's degree in economics from the Research Institute for Fiscal Science, Ministry of Finance, PRC and obtained a bachelor's degree in economics from Hebei Geological Institute. Mr. Zhu is one of the PRC Certified Public Accountants in the early period. He has extensive experience in professional fields including finance, audit and capital management. Mr. Zhu has worked in the Ministry of Finance of the PRC and the investment analysis department of FMC. He has also served as the head of China business in the equity capital market department and investment bank department of Credit Suisse First Boston, the managing director, member of the executive committee of Asia-Pacific region and chairman of operation committee of the Greater China Region of JP Morgan Chase &Co. Mr. Zhu is currently an independent director of WSP Holding Limited.

Supervisors

Our supervisors are elected to represent our employees and shareholders and serve a term of three years or until the election of their respective successors. As of March 31, 2009, our supervisors are Mr. Ao Hong, Mr. Yuanli and Mr. Zhang Zhankui who were elected to renew their terms of office on May 18, 2007.

The supervisors convened five meetings in 2008. The table and discussion below set forth certain information concerning our supervisors.

Name	Age	Positions with the Company
Ao Hong	48	Chairman of Supervisor Committee
Yuan Li	51	Supervisor (employee representative), General Manager of Corporate Culture Department of the Company
Zhang Zhankui	51	Supervisor

Ao Hong,

aged 48, is currently a Vice President of Chinalco. Mr. Ao graduated from Kunming University of Science and Technology majoring in Metallurgy. He holds a master degree from Central South University and is a professor-grade senior engineer with extensive experience in nonferrous metals research, corporate management, corporate governance and internal control. Mr. Ao had formerly served as an engineer, senior engineer, Head of General Office and Vice Chairman of Beijing General Research Institute for Non-ferrous Metals, the Chairman of GRINM Semiconductor Materials Co., Ltd., Guorui Electronic Materials Co., Ltd., Beijing Guojing Infrared Optical Technology Co., Ltd., Guowei Silver Anticorrosive Materials Company and Guo Jing Micro-electronic Holdings Ltd. in Hong Kong, respectively.

Yuan Li,

aged 51, is a Supervisor elected as the employee representative supervisor of the Company and a General Manager of the Corporate Culture Department of the Company. Mr. Yuan has been employed by the Company since 2001. He is an engineer with extensive administrative and managerial experience. He had formerly served as a Manager of the General Management Office and the Deputy Head of the Department of Research and Investigation of China

Non-ferrous Metals Industry Corporation, the Head of the Department of Research and Investigation as well as the Head of the Secretariat and an assistant inspector of the State Bureau of Nonferrous Metals Industry and the Deputy Head of the Department of Political Affairs and the Head of the Community Union Working Department of Chinalco.

Zhang Zhankui,

aged 51, is the Deputy Head of the Finance Department of Chinalco. Mr. Zhang is a postgraduate researcher in economic management and a senior accountant. He has extensive experience in corporate financial accounting, fund management and auditing. Mr. Zhang had formerly served as Head of the Finance Division and then the Head of the Audit Division of China General Design Institute for Non-ferrous Metals a deputy General Manager of Beijing Enfei Tech-industry Group, the head of the Accounting Division of the Finance Department and the Deputy Head of the Finance Department of China Copper Lead & Zinc Group Corporation, the manager of the Asset and Finance of the Listing Office of Chalco and the head of the Fund Division of the Finance Department of Company and the manager of the General Division of the Finance Department of the Company.

Other Senior Management Personnel

The table and discussion below set forth certain information concerning other senior management personnel.

Name	Age	Positions with the Company
Ding Haiyan	51	Vice President
Jiang Yinggang	46	Vice President
Liu Qiang	45	Secretary to the Board

Ding Haiyan,

aged 51, is a Vice President of the Company and has been employed by the Company since 2001. Mr. Ding graduated from Beijing Economics University in 1982 majoring in Labor Economics and holds a Master degree in Economics and is a senior economist with extensive experience in labor, wages, insurance, merger and acquisition of enterprises and capital operation. He once served as Head of Labor Wage Division of the Human Resource Department of China Nonferrous Metals Industry Corporation, the Deputy Director of the Bureau of Labor and Insurance, Deputy Director-General of the Enterprise Reform Department of the State Bureau of Non-ferrous Metals Industry as well as Head Manager of the Department of Asset Operation, Deputy Head of the Listing Office, and an assistant to President of Chinalco, Executive Director and the Secretary to Board of the Company.

Jiang Yinggang,

aged 46, is a Vice President of the Company and the General Manager of Qinghai Branch of the Company during the reporting period. Mr. Jiang graduated in 1983 from Central South University of Industry majoring in the metallurgy of non-ferrous metals. Mr. Jiang holds a Master degree in metallurgy Engineering of non-ferrous metals and is a professor-grade senior engineer. He has participated in production operation and corporate management of production enterprises for a long period of time and has extensive professional experience. He has served as Deputy Head and then the Head of Corporate Management Department of Qinghai Aluminum Plant, Head of Qinghai Aluminum Smelter, Deputy General Manager and General Manager of Qinghai Aluminum Company Limited, and General Manager of Qinghai branch of the Company.

Liu Qiang,

aged 45, is the Secretary to the Board and has been employed by the Company since 2001. In 1989, Ms. Liu graduated from Beijing International Studies University majoring in English literature, obtained a Master's degree in Literature and is a deputy senior translator. Ms. Liu studied finance, financial management and business administration at the University of International Business and Economics in Beijing and received trainings on finance and financial management in Hong Kong. She once served in the finance department of Hong Kong Oriental Xinyuan (Holdings) Company Limited and has served as Manager of Finance Department of the Australian branch of China National Non-Ferrous Metals Import and Export Corporation. Ms. Liu has extensive experience in the import and export of non-ferrous metals and analysis of the aluminum market. She has formerly served as Manager of the aluminum department of China National Non-Ferrous Metals Import and Export Corporation; a senior market analyst for the Aluminum Industry in China National Non-Ferrous Metals Trading Group and China National Metals and Minerals Import and Export Corporation as well as the Deputy Manager of the Import and Export Division of China Aluminum International Trading Corporation Limited.

Compensation

Directors', Supervisors' and Senior Officers' Compensation

The aggregate amount of cash compensation paid by us to our Directors (not including our Independent Directors), Supervisors and senior management in 2008 for services performed as Directors, Supervisors and officers or employees of our Company was approximately RMB6.59 million. The aggregate amount of cash compensation paid by us to our Supervisors and senior management in 2008 was approximately RMB0.53 million and RMB1.8 million, respectively. Our Executive Directors and Supervisors who are employees also receive compensation in the form of housing allowances, other allowances and benefits, as well as our contribution to the pension plans. Directors and Supervisors who are not employed by us receive fees for their services. We have entered into three-year service contracts with all of our Directors and Supervisors. None of these service contracts provides benefits to our Directors upon termination.

Details of the emoluments paid to the Company's Directors during the reporting period are as follows:

Name of Director	Fees	Salary	Discretionary bonus	Pension	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000

Executive Directors					
Xiao Yaqing[1]	-	684	374	23	1,081
Luo Jianchuan	-	572	312	23	907
Chen Jihua	-	468	169	23	660
Liu Xiangmin	-	468	169	23	660
Non-Executive Directors					
Shi Chungui	150	-	-	-	150
Independent Non-Executive Directors					
Poon Yiu Kin, Samuel[2]	84	-	-	-	84
Kang Yi	214	-	-	-	214
Zhang Zhuoyuan	214	-	-	-	214
Wang Mengkui[3]	142	-	-	-	142
Zhu Demiao[3]	143	-	-	-	143
Total	947	2,192	1,024	92	4,255

(1) Mr. Xiao Yaqing resigned from his office as Chairman with immediate effect on March 27, 2009. He also resigned as Chief Executive Officer, Executive Director and Chairman of Nomination Committee on March 27, 2009, which will take effect after the election of a new executive director at the 2008 annual general meeting of the Company to be convened on May 26, 2009.

(2) Mr. Poon Yiu Kin, Samuel resigned from the position of Independent Non-Executive Director on May 9, 2008.

(3) Appointed on May 9, 2008.

Senior Management Incentive System

In order to better provide incentives for our senior management and improve our shareholders' value, we adopted a special compensation system for our senior management designed to tie our senior management's financial interests with our operating performance. Under this system, the senior management's compensation consists of the following components:

* basic salaries;

* performance bonuses; and

* incentive bonuses.

Board Practices

Board of Directors

All of our Directors and Supervisors serve a term of three years or until such later date as their successors are elected or appointed. Directors and Supervisors may serve consecutive terms. One of the Supervisors is an employee representative appointed by our employees and the rest are appointed by the shareholders. The following table sets forth the number of years our Directors, executive officers and Supervisors have held their positions and the expiration of their current term.

Name	Held Position Since	Expiration of Term
Xiao Yaqing	May 18, 2007	May 26, 2009
Luo Jianchuan	May 18, 2007	May 18, 2010
Chen Jihua	May 18, 2007	May 18, 2010
Liu Xiangmin	May 18, 2007	May 18, 2010
Shi Chungui	May 18, 2007	May 18, 2010
Kang Yi	May 18, 2007	May 18, 2010
Zhang Zhuoyuan	May 18, 2007	May 18, 2010
Wang Mengkui	May 9, 2008	May 9, 2011
Zhu Demiao	May 9, 2008	May 9, 2011
Ao Hong	May 18, 2007	May 18, 2010
Yuan Li	May 18, 2007	May 18, 2010
Zhang Zhuankui	May 18, 2007	May 18, 2010

Audit Committee

Currently, our audit committee consists of four Independent Non-Executive Directors, namely, Mr. Wang Mengkui, Mr. Zhu Demiao, Mr. Kang Yi and Mr. Zhang Zhuoyuan. Mr. Zhu Demiao is Chairman of the audit committee. Our audit committee satisfies the requirements of Rule 10A-3 of the Exchange Act and NYSE Rule 303A.06 relating to audit committees, including the requirements relating to independence of the audit committee members. The primary duties of our audit committee as set out in the committee charter are to review our annual and interim financial reports, review and approve the selection of and remuneration paid to our independent auditors, approve audit and audit-related services, approve related party transactions, supervise our internal financial reporting process, including our internal controls and disclosure controls and procedures, supervise our internal and external auditors, and review management policies. The audit committee convened four meetings in 2008.

Remuneration Committee

Our Remuneration and Nomination Committee is divided into two committees, namely Remuneration Committee and Nomination Committee. Currently, our remuneration committee consists of four Independent Non-Executive Directors, Mr. Zhu Demiao, Mr. Wang Mengkui, Mr. Kang Yi, and Mr. Zhang Zhuoyuan. Mr. Kang Yi serves as the Chairman of the Committee.

Committee members' responsibilities as set out in the committee charter include reviewing compensation policies and performance appraisals with respect to the Directors and senior management. In 2008, Remuneration Committee convened three meetings, mainly focusing on the discretionary bonus of the Company's Directors, Supervisors and senior management, and changes to the Remuneration committee.

Nomination Committee

Currently, the nomination committee consists of two Executive Directors, namely Mr. Xiao Yaqing and Mr. Luo Jianchuan and two Independent Non-executive Directors, Mr. Kang Yi and Mr. Zhang Zhuoyuan. Mr. Xiao Yaqing serves as the Chairman of the Committee.

Mr. Xiao Yaqing, resigned as the Executive Director and Chairman of the Nomination Committee of the board on March 27, 2009, which will take effect after the election of a new executive director at the 2008 annual general meeting of the company to be convened on May 26, 2009.

Committee members responsibilities as set out in the committee charter include reviewing and recommending selection of Independent Directors and members of the committees under the Board approving the terms of Directors service contracts, and the appointment and removal of senior executives. In 2008, the Committee convened three meetings, mainly focusing on nomination of the Independent Directors.

We follow our home country practice in relation to the composition of our nomination committee in reliance on the exemption provided under NYSE Corporate Governance Rule 303A.00 available to foreign private issuers. Our home country practice does not require us to establish a nomination committee which must be composed entirely of independent directors.

Planning and Development Committee

Our planning and development committee currently consists of Executive Directors, Mr. Luo Jianchuan, Mr. Liu Xiangmin and Vice President Mr. Ding Haiyan. Mr. Luo Jianchuan is Chairman of the Committee. In accordance with the committee charter, the committee reviews and assesses our strategic plans for development, fiscal budgeting, investment, business operations and investments returns.

Disclosure Committee

Our disclosure committee consists of the Chief Executive Officer, the Chief Financial Officer and other senior management members. Our Chief Executive Officer and Chief Financial Officer serve as the Chairman and Vice Chairman of the committee, respectively. The committee implements our disclosure controls and procedures and reviews information disclosed to ensure accurate, open and timely disclosure. All discloseable information (including annual and interim results) shall be subject to the approval of the Company's Disclosure Committee with the Chief Executive Officer as its Chairman. For the purpose of discloseable financial statements and the relevant 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 relevant accounting principles and requirements.

Supervisory Committee

We have a supervisory committee composed of three Supervisors, with one Supervisor being elected from the staff as a representative of the employees. Members of the Supervisory Committee may also observe meetings of the Board. Our current supervisory committee was appointed at the Annual General Meeting held on May 18, 2007, and Mr. Ao Hong and Mr. Zhang Zhankui have been re-elected as Chairman of the supervisory committee and Supervisor, respectively. In the election of employee representatives held in the same month, Mr. Yuan Li was re-elected as the employee representative Supervisor of the Third Session of the Supervisory Committee.

Supervisors attend Board meetings as non-voting members. The Supervisory Committee is responsible to the shareholders' general meeting and has the following duties and responsibilities:

* to supervise our handling of our financial matters;
* to supervise any acts of directors, the general manager, deputy general manager and other senior officers that are in violation of laws, administrative regulations or our Articles of Association;
* to request Directors, the general manager, deputy general manager and other senior officers to rectify their acts that are detrimental to the interests of Chalco;
* to verify such financial information as financial reports, business reports and profit distribution plans submitted by the board of directors to the shareholders' general meeting, and arrange certified public accountants and auditors to verify issues;
* to propose to convene interim shareholders' general meetings; and
* to bring lawsuits against Directors on behalf of Chalco.

Employees

As of December 31, 2006, 2007 and 2008, we had a total of approximately 88,004, 94,269 and 107,887 employees, respectively.

The table below sets forth the number of our employees by function as of the period indicated:

	As of December 31,					
	2006		2007		2008	
		% of Total		% of Total		% of Total
Function:						
Alumina production	38,360	43.6	40,508	43.0	43,682	40.5
Primary aluminum production	35,564	40.4	39,741	42.1	49,078	45.5
Aluminum fabrication	-	-	-	-	6,615	6.1
Mining	4,400	5.0	4,658	5.0	4,738	4.4
Research and development	2,552	2.9	2,510	2.7	656	0.6
Sales and marketing	880	1.0	583	0.6	1,128	1.0
Management and others	6,248	7.1	6,269	6.6	1,990	1.9
Total	88,004	100.0	94,269	100.0	107,887	100.0

The table below sets forth the number of our employees as of December 31, 2008:

Location	Employees	% of Total
Shandong		
Shandong branch	10,703	9.92
Shandong Huayu	1,954	1.81
Chalco Qingdao	269	0.25

Henan		
Henan branch	10,462	9.70
Zhongzhou branch	5,256	4.87
Research Institute	649	0.60
Chalco Mining	3,011	2.79
Jiaozuo Wanfang	3,660	3.39
Henan Aluminum	2,540	2.35

Guizhou		
Guizhou branch	15,251	14.14
Zunyi Aluminum	1,432	1.33
Zunyi Alumina	449	0.42
Guangxi		
Guangxi branch	5,642	5.23
Shanxi		
Shanxi branch	11,920	11.05
Shanxi Huasheng	2,273	2.11
Shanxi Huaze	2,437	2.26
Gansu		
Lanzhou branch	5,132	4.76
Northwest Aluminum	3,019	2.80
Gansu Hualu	1,529	1.42
Liancheng branch	4,017	3.72
Liaoning		
Fushun Aluminum	2,010	1.86
Qinghai		
Qinghai branch	4,947	4.59
Sichuan		
Huaxi Aluminum	523	0.48
Chongqing		

Chongqing branch	522	229
Chalco Southwest Aluminum Cold Rolling	238	0.48
Chalco Southwest Aluminum	0.21	0.22
Fujian		
Chalco Ruimin	535	0.50
Inner Mongolia		
Baotou Aluminum	6,237	5.78
Others (including employees of subsidiaries under construction)	862	0.80
Headquarters	179	0.17
Total	107,887	100.00

We have workers' unions at the plant level that protect employees' rights and welfare benefits, organize educational programs, encourage employee participation in management decisions, and assist in mediating disputes between individual employees and us. All employees are union members. We have not been subjected to any strikes or other labor disturbances that have interfered with our operations, and we believe that we have good relationships with our employees.

The remuneration package of our employees includes salary, bonuses and allowances. Employees also receive welfare benefits including medical care, housing subsidies, childcare and education, retirement and other miscellaneous items.

In accordance with applicable PRC regulations, we participate in pension contribution plans organized by provincial and municipal governments, under which each of our plants is required to contribute an amount equal to a specified percentage of its employees' salaries, bonuses and various allowances. The amount of contribution as a percentage of the employees' salary is, on average, approximately 20.0% depending in part on the location of the plant and the average age of the employees. We have made all required pension contributions up to December 31, 2008. Retirees who retired prior to the date of the reorganization will have their pensions paid out of the pension plans established by the PRC government. We have also introduced a new employee incentive plan which includes performance bonuses for our employees. We provide to our employees various social welfare benefits through hospitals, schools, retirement homes and other institutions owned by Chinalco and its other affiliates or through third parties.

Share Ownership

None of our Directors, Supervisors or senior management owns any interest in any shares or options to purchase our shares.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Major Shareholders

We are a joint stock limited company organized under the laws of the PRC. Our parent company, Chinalco, a state-owned enterprise, currently beneficially owns 41.82% of our outstanding common shares directly and indirectly through its controlled entities and is our largest shareholder. Chinalco holds a significant portion of our domestic shares in the form of state legal person shares and can exercise all rights as our controlling shareholder according to the relevant laws, rules and regulations. Chinalco has substantial influence over our management, policies and corporate actions in its capacity as the largest shareholder. Approximately 58.23% of our total outstanding common shares are held by public holders, with 29.16% and 29.07% owned by public holders of H Shares and public holders of A Shares, respectively.

The following table sets forth information regarding ownership of our issued and outstanding capital stock as of December 31, 2008. The table includes all persons who are known by us to own, either as beneficial owners or holders of record, five percent or more of our capital stock.

	As of December 31, 2008	
Holders of Domestic Shares and H Shares	No. of shares	Approximate % of issued share capital
	(in millions)	
Holders of Domestic Shares		
Chinalco[(1)]	5,656.36	41.82
China Cinda Asset Management Corporation	900.56	6.65
China Construction Bank Corporation	709.77	5.25
China Development Bank	554.94	4.10

Other public holders of A Shares	1,758.89	13.02
Holders of H Shares		
Templeton Asset Management Ltd.	479.87	3.55
Barclays PLC(2)	277.41	2.05
HSBC Holdings PLC(3)	501.40	3.70
J.P. Morgan Chase & Co.(4)	299.41	2.22
Other H shares Holders	2,385.88	17.64
Total	13,524.49	100.00

(1) Including 5,214,407,195 A Shares held directly by Chinalco, 351,217,795 A Shares held by Baotou Group, 79,472,482 A Shares held by Lanzhou Aluminum Factory, 4,119,573 A Shares held by Guiyang Aluminum and Magnesium Design and Research Institute and 7,140,254 A Shares held by Shanxi Aluminum Plant. Baotou Group, Lanzhou Aluminum Factory, Guiyang Aluminum Magnesium Design and Research Institute and Shanxi Aluminum Plant are controlled by Chinalco.

(2) Including 360,000 H Shares held by Barclays Global Investors (Deutschland) AG, 23,363,316 H Shares held by Barclays Global Investors Ltd., 194,406,000 H Shares held by Barclays Global Fund Advisors and 59,284,000 H Shares held by Barclays Global Investors, N.A. Barclays Global Investors (Deutschland) AG, Barclays Global Investors Ltd., Barclays Global Fund Advisors and Barclays Global Investors, N.A. are controlled by Barclays PLC.

(3) Including 487,136,739 H Shares held by The Hongkong and Shanghai Banking Corporation Limited, 13,521,725 H Shares held by HSBC Financial Products (France), 743,750 H Shares held by Hang Seng Bank Trustee International Limited and 500 H Shares held by HSBC Bank plc. The Hongkong and Shanghai Banking Corporation Limited, HSBC Financial Products (France), Hang Seng Bank Trustee International Limited and HSBC Bank plc are controlled by HSBC Holdings plc.

(4) Including 24,300,000 H Shares held by JF Asset Management (Singapore) Limited, 24,110,000 H Shares held by Bear, Stearns International Limited, 35,985,370 H Shares held by J.P. Morgan Securities Ltd., 74,985,140 H

Shares held by J.P. Morgan Whitefriars Inc., 20,812,000 H Shares held by China International Fund Management Ltd., 28,876,000 H Shares held by JF Asset Management Limited, 482,000 H Shares held by J.P. Morgan Investment Management Inc., 79,464,900 H Shares held by JP Morgan Chase Bank, N.A., 10,396,000 H Shares held by J.P. Morgan Structured Products B.V. JF Asset Management (Singapore) Limited, Bear, Stearns International Limited, J.P. Morgan Securities Ltd., J.P. Morgan Whitefriars Inc., China International Fund Management Ltd., JF Asset Management Limited, J.P. Morgan Investment Management Inc., JP Morgan Chase Bank, N.A. and J.P. Morgan Structured Products B.V. are controlled by JP Morgan Chase & Co.

We are not aware of any arrangement that may at a subsequent date result in a change of control of Chalco.

On May 9, 2006, we placed 644,100,000 H Shares in the share capital of our Company at a price of HK$7.25 per H Share ("Placing Shares"). The Placing Shares comprise (i) 600,000,000 new H Shares to be allotted and issued by the Company and (ii) 44,100,000 H Shares to be converted from the same number of existing State-owned domestic shares that are to be allocated from Chinalco to the National Social Security Fund Council (the "NSSF") of the PRC, in reliance upon Regulation S under the U.S. Securities Act of 1933. The Placing Shares represent approximately 5.83% of then issued share capital of our Company at that time and approximately 5.53% of then issued share capital of our Company as enlarged by the issuance of the new H Shares. The Placing shares were listed on the Hong Kong Stock Exchange on May 19, 2006.

On April 30, 2007, dealings in the A Shares on the Shanghai Stock Exchange commenced. We initially offered 1,236,731,739 A Shares in exchange for the existing issued shares of Shandong Aluminum and Lanzhou Aluminum, other than those held by us. Our total share capital increased to 12,886.6 million shares from 11,649.9 million shares.

On December 28, 2007, we offered 637,880,000 A Shares in exchange for the existing issued shares of Baotou Aluminum, resulting in the total share capital of the Company increasing by 637,880,000 shares to 13,524,487,892 shares.

To the best of our knowledge, as of December 31, 2008, none of the outstanding H Shares was held by United States holders of record, and all of the outstanding ADSs were held by 114 United States holders of record. There were no non-PRC holders holding A Shares of record. Our ADS ratio changed from one (1) ADS representing one hundred (100) H Shares to one (1) ADS representing twenty-five (25) H Shares. The ratio change is effected with the holders of ADSs of record on October 6, 2006. The new ADSs have been distributed to the holders of ADSs on October 11, 2006.

As an owner of at least 30% of our issued and outstanding shares, the parent company is deemed a controlling shareholder and therefore may not exercise its voting rights relating to our shares with respect to various matters in a manner prejudicial to the interests of our other Shareholders. See "Item 10. Additional Information - Memorandum and Articles of Association". In accordance with our Articles of Association, each share of our capital stock has one vote and the shares of the same class have the same rights. Other than the restrictions noted in the first sentence of this paragraph, the voting rights of our major holders of domestic shares are identical to those of any other holders of our domestic shares, and the voting rights of our major holders of H Shares are identical to those of our other holders of H Shares. Holders of domestic shares and H Shares are deemed to be shareholders of different classes for some matters, which may affect their respective interests. Holders of H Shares and domestic shares are entitled to the same voting rights.

Related Party Transactions

Connected Transactions under Hong Kong Listing Rules

Under the Listing Rules, transactions between connected persons and us constitute connected transactions and such transactions are normally subject to reporting, announcement and/or shareholders' approval unless otherwise waived by the Hong Kong Stock Exchange or exempted under the Listing Rules. Under the Listing Rules, Chinalco, Guangxi Investment, Guizhou Development, Zhangze Electric Power, Xinan Aluminum, Nanping Aluminum, Guan Lv, Huasheng Jiangquan and Pingguo Aluminum are considered as our connected persons. Where the transactions are non-exempt continuing connected transactions, each year our Independent Non-executive Directors must review and confirm in the annual reports and accounts that the transactions have been entered into:

(i) in the ordinary and usual course of our business;

(ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to us than terms available to or from (as appropriate) independent third parties; and

(iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of our shareholders as a whole.

Although connected transactions are not synonymous with related party transactions, the concepts are sufficiently similar that the following description of our connected transactions would satisfy the disclosure requirements under U.S. securities laws.

We have the following connected transactions with our connected persons;

* Provision of Services by Chinalco to the Group;

* Comprehensive Social Welfare and Logistics Agreement with Chinalco;

* General Agreement on Mutual Provision of Production Supplies and Ancillary Services with Chinalco;

* Mineral Supply Agreement with Chinalco;

* Land Use Rights Leasing Agreement with Chinalco;

* Buildings Leasing Agreement with Chinalco;

* Mutual Provision of Products with Guangxi Investment;

* Mutual Provision of Products and Services with Xinan Aluminum;

* Mutual Provision of Products and services with Guizhou Development;

* Mutual Provision of Products and Services with Nanping Aluminum;

* Provision of products to Guan Lv;

* Acquisition of equity interests in five aluminum fabrication plants and one aluminum production from Chinalco and China Nonferrous Metals Technology;

* Engaging Huasheng Jiangquan to construct a new aluminum smelter;

* Acquisition of assets from Pingguo Aluminum; and

* Agreement on Management of Electricity Generators with Zhangze Electric Power.

Provision of services by Chinalco to the Group

Pursuant to the Provision of Engineering, Construction and Supervisory Services Agreement dated November 5, 2001, which was for an initial term of three years expiring on June 30, 2004 and subsequently extended by two extension agreements to December 31, 2009, Chinalco agreed to provide certain engineering, construction and supervisory services to the Group at the state-guidance price, and if there was no State-guidance price, then at market price. Such services are mainly provided by subsidiaries of Chinalco including China Aluminum International Engineering Co., Ltd.

With the approval of the independent shareholders given at the extraordinary general meeting held on February 27, 2007, the annual cap of the transactions under the above agreement was set at RMB3,970 million for each year from 2007 to 2009. Given the increase in projects and change in the contracting model, the annual caps for the continuing connected transactions under the agreement were revised to RMB11,000 million and RMB12,200 million respectively for each of the two years ended December 31, 2008 and 2009, as approved by the independent shareholders at the extraordinary general meeting held on December 29, 2008.

Chinalco is a substantial shareholder of the Company and a connected person of the Company.

Comprehensive Social Welfare and Logistics Agreement

Chinalco provides certain social welfare and logistics services on a continuing basis to us. To regulate our relationship with Chinalco in this regard, we entered into the Comprehensive Social and Logistics Services Agreement with Chinalco on November 5, 2001 for the provision of social welfare and logistics services.

On February 27, 2007 our shareholders approved the revision of the annual caps for the amount of connected transactions, mainly due to the following reasons: (a) the logistics services equipment was expected to be refurnished in 2007 due to the aging of the equipment over the years, and therefore, this would result in increased expenses; (b) since many of our facilities have expanded their production capabilities, there would be an increase in the use of the logistics services provided by Chinalco; and (c) it is expected that Chinalco's costs for providing the services will increase over the previous years and therefore, it would mean increased charges to us.

General Agreement on Mutual Provision of Production Supplies and Ancillary Services

Chinalco retained certain non-core assets and businesses relating to ancillary production supplies and services which include assets and businesses for, among other things, (a) the supply of various raw materials required in the course of production of alumina and primary aluminum; (b) the provision of transportation and loading services; and (c) the provision of production supporting service, which continue to provide ancillary production supplies and services to us on an ongoing basis.

Chinalco retained all its assets and businesses relating to aluminum fabrication (except for aluminum fabrication capacity of Shandong Aluminum and the five aluminum fabrication subsidiaries acquired by us in 2008). It purchases its supply of primary aluminum as well as other alumina products from us. On the other hand, Chinalco transferred to us (a) operating assets and businesses for the production of alumina, primary aluminum, scrap materials, coal and pitch, and (b) assets and businesses for provision of ancillary production supplies and services which include, among other things, the supply of electricity, gas, heat and water, spare parts and the provision of repair and maintenance services. Such assets and businesses continue to provide ancillary production supplies and services to Chinalco.

As the number of subsidiaries of Chinalco has continued to increase, the need for these subsidiaries to purchase our products has also increased accordingly and hence, larger quantities of alumina are being purchased from us by Chinalco's subsidiaries. On October 12, 2007 our shareholders approved the revision of the annual caps of the transactions under the Mutual Supply Agreement with Chinalco for the three financial years ended December 31, 2007, 2008, and 2009 in order to cater for the increased volume and value of mutual supply transactions with Chinalco and its associates.

The revision of annual caps are primarily due to (a) the mergers and acquisition by Chinalco of several large-scale aluminum production plants during 2006 and early 2007 which led to increased amount and volume of purchases of alumina by Chinalco and its relevant associates from us; and (b) China International Trading Co., Ltd. directly selling primary aluminum to Chinalco and its relevant associates instead of acting as an agent for such sales as previously arranged. We hold 90.5% of the equity interest of China International Trading Co., Ltd.

Mineral Supply Agreement

Chinalco retained certain assets and businesses relating to several small bauxite mines and limestone quarries in respect of which the mining rights have not been transferred to us. Chinalco continues to provide bauxite and limestone to us on an ongoing basis. Chinalco also purchases bauxite and limestone from other mines and re-sell them to us.

To formalize the relationship between Chinalco and us in these respects, we entered into a Mineral Supply Agreement with Chinalco on November 5, 2001.

Land Use Rights Leasing Agreement

Chinalco has leased to us all the 459 pieces or parcels of land for the purposes of all aspects of our operations and businesses. On November 5, 2001, we entered into the Land Use Rights Leasing Agreement with Chinalco for the leasing of these 459 parcels of land covering an aggregate area of approximately 61.9 million square meters, which are located in eight provinces in the PRC. The annual rent payable to Chinalco is approximately RMB239.1 million.

As a result of the adjustment in the standard land price and land use tax made by relevant local authorities in 2004, Chinalco was required to pay an extra tax amount of RMB66.0 million in 2004. On January 1, 2005, after arm's length negotiations between Chinalco and us, we agreed to bear the annual tax increment beginning from January 1, 2004, pursuant to which our payment of the rental for land use right increased from RMB173.0 million to RMB239.1 million. We had applied and recommended to the HKSE for the amendment of maximum amount of annual land use right payable by us be adjusted from RMB200.0 million to RMB250.0 million.

Due to the adjustment of land tax in Zhongzhou branch and Shanxi branch, and at the request of Chinalco, we have agreed to bear the increase in land tax of approximately RMB44.9 million of these two branch factories of the Company. The relevant land use rights were leased to us pursuant to the Land Use Right Leasing Agreement between our Company and Chinalco dated November 5, 2001. Payment by us of the increased land tax for Chinalco is expected to exceed the annual limit of this category of continuing connected transactions of RMB250 million in 2006. Therefore, we revised the annual cap for the Land Use Right Leasing Agreement for the year ended December 31, 2006 to RMB290 million.

On August 20, 2007, based on an appraisal report dated April 30, 2007 prepared by China Enterprise Appraisal Company Limited, an independent valuer qualified in the PRC, the total annual rental of the land use rights of the land leased by Chinalco to us was increased to RMB620.0 million commencing from January 1, 2007. The appraisal of the prevailing market rent was made pursuant to a provision for rental adjustment in the Land Use Right Leasing Agreement. Under the Listing Rules of the Shanghai Stock Exchange and the Hong Kong Listing Rules, the aforesaid revision of annual rental was not required to be approved by the Independent Directors of the Company.

On February 25, 2008, Chinalco and we entered into a supplemental agreement, pursuant to which the total annual rental of the land use rights in connection with the land leased by Chinalco to us was further increased from RMB620.0 million to RMB1 billion for each of the two years ended December 31, 2009 (the "Supplemental Agreement"). We revised annual cap of the exempt continuing connected transaction (i.e. RMB1 billion) on March 6, 2008.

The revised annual rental for the two financial years ended December 31, 2009 resulted from (i) the increase in the PRC land use rights tax pursuant to the relevant PRC laws and regulations; (ii) the increase in the total area of leased land in relation to the mergers and acquisitions that took place in 2007; and (iii) the increase in the total number of plots of land leased by our subsidiaries in 2007. We made an announcement regarding details of this revisions on March 6, 2008.

The revised annual cap of this exempt continuing connected transaction (i.e. RMB1 billion) also provides ample contingency to accommodate the possible fluctuations resulting in any changes in market conditions given the increasing volatility of rentals of the properties in the PRC and our possible future acquisitions of assets from Chinalco as part of its business development plan.

The transactions under the Supplemental Agreement constitute continuing connected transactions of us under the Listing Rules. The revised annual rental of RMB1 billion is less than 2.5% of the applicable percentage ratio under the Listing Rules. The rental revision is required to be disclosed by way of announcement but is not required to be approved by the independent shareholders of the Company.

Buildings Leasing Agreement

At the Special General Meetings of the Company held on February 27, 2007, it was approved to aggregate the rental payable to Chinalco under the Buildings Leasing Agreement dated November 5, 2001 with the rent payable under the Head Office Leasing Agreement to China Aluminum Development Company Limited under one category of continuing connected transactions and apply for an aggregate annual cap of RMB100 million for each of the three years ended December 31, 2007, 2008 and 2009.

Chinalco transferred to us, among other operating assets, ownership of the buildings and properties for the operation of our core businesses, with Chinalco retaining the buildings and properties for its remaining operations. We leased to Chinalco and Chinalco leased to us a number of buildings and properties for ancillary uses, which include buildings and properties mainly for offices, dormitory, canteen and storage purposes. The buildings and properties we lease to Chinalco comprise 59 buildings with an aggregate gross floor area of 62,819 square meters. In turn, the buildings and properties Chinalco leases to us for ancillary uses comprise 100 buildings with an aggregate gross area of 273,637 square meters. We entered into the Buildings Leasing Agreement on November 5, 2001 with Chinalco, regarding the terms and conditions for the lease of these buildings and properties.

At the time of the 2003 Waiver Renewal, the annual cap for the Buildings Leasing Agreement was set at RMB12 million, being the estimated total amount of rent payable by us to Chinalco in respect of approximately 100 buildings leased by us from Chinalco pursuant to the Buildings Leasing Agreement dated November 5, 2001. Due to the steady growth of the PRC economy, we expect the aggregate amount of rental payable by us to Chinalco to increase during the next three years. On March 28, 2005, we entered into a tenancy agreement with China Aluminum Development Company Limited, a wholly-owned subsidiary of Chinalco, in respect of the office premises at 12th to 16th floors and 18th to 31st floors of No. 62 North Xizhimen Street, Hai Dian District, Beijing, PRC with an aggregate gross floor area of 30,160.81 square meters for a term of three years. The annual rent amounts to RMB61.6 million, determined according to the prevailing market rate. The renovation period from Frbruary 15, 2005 to October 14, 2005 was rent free.

On October 15, 2008, our tenancy agreement with China Aluminum Development Company Limited expired, and we renewed the tenancy agreement to extend it for another three years commencing on October 16, 2008, pursuant to which the aggregated gross floor area we lease under such tenancy agreement has been increased to 30,187.9 square meters at an annual rent of RMB61.7 million payable each six months. In 2008, we paid RMB30.85 million under the renewed tenancy agreement. Under our original tenancy agreement with China Aluminum Development Company before its expiry on October 15, 2008, we paid an aggregate amount of RMB184.8 million as rent during the three-year lease term.

Mutual provision of products between the Group and Guangxi Investment (including its subsidiaries and associates)

The Group has been selling alumina and aluminum ingots to Guangxi Investment since 2001 pursuant to relevant agreements, and purchasing alumina from Guangxi Huayin, an associate of Guangxi Investment, since May 2008 pursuant to the agreement made with Guanxi Huayin.

As approved at the extraordinary general meeting held on February 27, 2007, the annual cap for the continuing connected transactions in relation to the sales of alumina and primary aluminum to the subsidiaries of Guangxi Investment for each of the three years ended December 31, 2007, 2008 and 2009 was set at RMB450 million each year. As the sales by the Group to Guangxi Investment increased, during the reporting period, the annual caps in respect of the sales of alumina and aluminum products to Guangxi Investment for the two years ended December 31, 2009 were revised to RMB1,490 million for each year. The annual caps of the transactions with Guangxi Huayin (an associate of Guangxi Investment) for the purchase of alumina by the Group from Guangxi Huayin for the two years ended December 31, 2008 and 2009 were set at RMB815 million and RMB1,770 million respectively.

In order to regulate the continuing connected transactions between the Group and Guangxi Investment (including its subsidiaries and associates), the Company and Guangxi Investment entered into the Mutual Provision of Products Framework Agreement on October 20, 2008, which was effective from the execution date until December 31, 2009. Pursuant to the agreement, the Group would continue to sell alumina and aluminum ingots to Guangxi Investment (including its subsidiaries and associates) and purchase alumina from Guangxi Investment (including its subsidiaries and associates).

As Guangxi Investment is one of the promoters of the Company, Guangxi Investment, its subsidiaries and associates are connected persons of the Company.

Mutual Provision of Products and Services between the Group and Xinan Aluminum

Xinan Aluminum (including its subsidiaries and associates) has business relationships with the Company since the establishment of the Company in 2001, including the purchases of products from the Group and sales of products and services to the Group. Upon completion of the acquisition of 60% of the equity interest in Chalco Southwest Aluminum by the Company on May 30, 2008, Xinan Aluminum, being a substantial shareholder (holding 40% of the equity interest) of Chalco Southwest Aluminum, became a connected person of the Company under the Listing Rules. The transactions between Xinan Aluminum and the Group therefore constituted connected transactions.

In order to regulate the continuing connected transactions between the Group and Xinan Aluminum (including its subsidiaries and associates), the Company and Xinan Aluminum entered into the Mutual Provision of Products and Services Framework Agreement on October 20, 2008, which was effective from June 1, 2008 until December 31, 2009. As approved at the extraordinary general meeting held on December 29, 2008, the annual caps for the sale transactions by the Group to Xinan Aluminum for the two years ended December 31, 2009 were set at RMB9,000 million and RMB7,000 million respectively while the purchase transactions by the Group from Xinan Aluminum were set at RMB4,600 million and RMB4,000 million respectively.

Xinan Aluminum is a connected person of the Company by reason of it being a substantial shareholder of Chalco Southwest Aluminum, which is a subsidiary of the Company.

Mutual Provision of Products and Services between the Group and Guizhou Development

The continuing connected transactions between the Group and Guizhou Development include sale of aluminum ingots by Guizhou Development as an agent for the Company ("Agency Transactions") and sale of primary aluminum to the Group by Guizhou Development ("Sales Transactions").

During the reporting period, as the amount of Agency Transactions between the Group and Guizhou Development is de minimus under the Listing Rules, such transactions are not subject to any disclosure requirements under the Hong Kong Listing Rules.

Pursuant to the spot contract dated January 1, 2008 which was effective until December 31, 2008, Guizhou Development had purchased up to a maximum of 24,000 tonnes of primary aluminum at market prices from one of the Company's indirect non-wholly owned subsidiaries, Chalco Kailin. The value of the transactions accrued up to June 30, 2008 was de minimus under the Listing Rules. It was estimated that the continuing of these transactions from July 1, 2008 would exceed the de minimus threshold and the transactions would be subject to the reporting requirements under the Listing Rules. The annual caps for the Sales Transactions between the Group and Guizhou Development for the two years ended December 31, 2009 were set at RMB400 million and RMB450 million respectively.

Guizhou Development is a connected person of the Company by reason of it being a promoter of the Company.

Mutual Provision of Products and Services between the Group and Nanping Aluminum

Upon completion of the acquisition of 75% of the equity interests in Chalco Ruimin by the Company on May 30, 2008, Nanping Aluminum, being a substantial shareholder (holding 25% of its equity interests) of Chalco Ruimin, became a connected person of the Company. The transactions between Nanping Aluminum and the Group constituted connected transactions.

According to relevant agreements between the Group and Nanping Aluminum (including its subsidiaries and associates), Nanping Aluminum purchases alumina, primary aluminum and aluminum alloy ingots from the Group, and Chalco Ruimin, a subsidiary of the Company, purchases aluminum sheets and fabrication services from Nanping Aluminum. All the above transactions are conducted on normal commercial terms and at market prices. The annual caps for the transactions in relation to the sales of alumina, primary aluminum and aluminum alloy ingots by the Group to Nanping Aluminum for the two years ending December 31, 2008 and 2009 were set at RMB920 million and RMB1,030 million respectively. The annual caps for the transactions in relation to Chalco Ruimin's purchase of aluminum sheets and fabrication services from Nanping Aluminum for the two years ending December 31, 2008 and 2009 were set at RMB400 million and RMB450 million respectively.

Nanping Aluminum is a connected person of the Company by reason of its being a substantial shareholder of Chalco Ruimin.

Mutual Provision of Products and Services between the Group and Guan Lv

Guan Lv purchases alumina and aluminum alloy ingots from the Group pursuant to a long term supply agreement dated August 22, 2006 (valid for three years from January 1, 2007 to December 31, 2009) and certain spot contracts signed from time to time. All the above continuing connected transactions are conducted on normal commercial terms and generally in cash with delivery against payment. The annual cap for such transactions for the two years ending December 31, 2008 and 2009 was set at RMB210 million and RMB260 million, respectively.

As Guan Lv holds 49% of the equity interests in Shanxi Huasheng, a subsidiary of the Company, Guan Lv is a connected person of the Company.

Acquisition of equity interests in five aluminum fabrication plants and one aluminum production from Chinalco and China Nonferrous Metals Technology

On May 12, 2008, the Company submitted a bid to acquire 100% of the equity interests in Longxing Aluminum Company Limited, 100% of the equity interests in Chalco Southwest Aluminum Cold Rolling, 84.02% of the equity interests in Henan Aluminum, 75% of the equity interests in Chalco Ruimin, 60% of the equity interests in Chalco Southwest Aluminum, and 56.86% of the equity interests in Huaxi Aluminum from Chinalco and China Nonferrous Metals Technology. The equity interests of the above companies were listed on the China Beijing Equity Exchange for bidding at a consideration of RMB4,174.7589 million. The three parties entered into a transfer agreement on May 21, 2008 and completed all transfer procedures on May 30, 2008.

Chinalco is a substantial shareholder in the Company and a connected person of the Company.

Engaging Huasheng Jiangquan to construct a new aluminum smelter

Pursuant to an agreement dated July 30, 2008, Huayu Aluminum, a non-wholly-owned subsidiary of the Company, engaged Huasheng Jiangquan to construct an aluminum smelter with an annual capacity of 100,000 tonnes in Linyi City, Shandong Province. The construction period was from January 2008 to December 2008. The consideration for the agreement was RMB420.09 million (of which approximately RMB340.14 million had been paid up to December 31, 2008), which was determined in accordance with the Pricing Standard on Construction Estimates of the Nonferrous Metals Industry drawn up by the China Nonferrous Metals Industry Association, adjusted with reference to the local conditions in Shandong province.

As Huasheng Jiangquan is the holding company of Linyi Jiangtai Aluminum Co., Ltd. which, in turn, is a substantial shareholder of Huayu Aluminum, a non wholly-owned subsidiary of the Company, Huasheng Jiangquan is a connected person of the Company.

Acquisition of Assets from Pingguo Aluminum

By an asset acquisition agreement dated September 30, 2008, the Company agreed to acquire and Pingguo Aluminum agreed to sell certain of its assets to the Company. The assets include the majority but not all of Pingguo Aluminum's assets, mainly comprising an alloy plant and related equipment, interest in Pingguo Aluminum Building Company, a fleet of passenger vehicles and other ancillary facilities and apparatus. The assets retained by Pingguo Aluminum consist of a hospital, a child care centre, a guest house and certain allocated land. The consideration of the acquisition is RMB96.3927 million, which was determined based on the appraised value of Pingguo Aluminum's net assets as at September 30, 2007 by an independent and duly qualified PRC valuer appointed by the Company. The consideration would be paid in cash within five days from the effective date of the agreement. Currently, the transaction has been completed.

Pingguo Aluminum is a connected person of the Company by reason of its being a wholly-owned subsidiary of Chinalco.

Agreement on Management of Electricity Generators

On January 15, 2003, we entered into a joint venture agreement with Zhangze Electric Power for the establishment of a joint venture company named as Shanxi Huaze. We hold 60% of the equity interest in Shanxi Huaze and Zhangze Electric Power holds the remaining 40% of the equity interest. Accordingly, Zhangze Electric Power is a substantial shareholder of Shanxi Huaze, one of our subsidiaries, and therefore a connected person of the Company.

On December 4, 2007, Shanxi Huaze entered into a management agreement (the "Management Agreement") with Zhangze Electric Power for the management of No. 3 and No. 4 generating units of Shanxi Huaze by Zhangze Electric Power at a fixed management fee of Kilowatt per hour. Pursuant to the Management Agreement, Zhangze Electric Power is responsible for the management of the two electricity generators and is responsible for all liabilities arising from any accidents within its responsibility for the fuel costs and fixed costs, including but not limited to payment of water fee, raw materials, salaries, maintenance and taxes etc. of the two electricity generators; and Zhangze Electric Power was to manage the two electricity generators in accordance with the terms specified in the Management Agreement. It is estimated that the annual management fee payable to Zhangze Electric Power under the

Management Agreement will be approximately RMB13 million. The contracting arrangement with initial estimation of RMB800 million is no longer applicable to such transactions. The transaction was announced on December 4, 2007.

As of December 31, 2008, this transaction is considered as an exempt transaction under the Listing Rules.

We provide the following additional information on material related party transactions during the years ended December 31, 2006, 2007 and 2008:

	Years Ended December 31,		
	2006	2007	2008
	RMB	RMB	RMB
	(in thousands)		
Sales of materials and finished goods to:			
Chinalco Group	2,466,601	2,533,702	2,703,461
Jointly controlled entities	11,109	16,882	20,939
Associates	1,342,997	2,167,047	3,274
Other related parties	3,200,265	8,120,244	5,736,264
Provision of utility services to:			
Chinalco Group	294,556	439,766	580,042
Associates	24	3,659	5,461
Other related parties	-	57	44
Provision of engineering, construction and supervisory services by:			
Chinalco Group	1,695,190	3,435,029	8,373,067
Other related parties	-	24,342	22,585
Purchase of key and auxiliary materials from:			
Chinalco Group	1,795,942	2,051,360	1,804,594
Jointly controlled entities	-	243,524	6,260
Associated companies	585,835	-	345,029

Other related parties	3,153,725	5,037,148	3,113,918
Provision of social services and logistics services by Chinalco Group	1,043,606	903,272	723,129
Provision of utilities services by other related parties	-	1,514	4,010
Rental expenses for land use rights and buildings charged by Chinalco Group	368,140	728,743	948,396

Guarantees

The table below sets forth information on guarantees with certain related parties in 2008 for the purposes of financing their operations and capital investments.

		Interest	Largest Amount	Amount Outstanding as