

# Notes to the Financial Statements

For the year ended December 31, 2003

## 1. Basis of preparation and accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

### (a) Basis of preparation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention as modified by the valuation of short-term investments.

In the preparation of the consolidated financial statements of Aluminum Corporation of China Limited 中國鋁業股份有限公司 ("the Company"), its subsidiaries and jointly controlled entities (together "the Group"), the Company, in the current year, adopted Statement of Standard Accounting Practice ("SSAP") 35 "Government Grants and Disclosure of Government Assistance" and SSAP 12 (revised) "Income Taxes" issued by the HKSA which are effective for accounting periods commencing on or after July 1, 2002 and January 1, 2003, respectively. The adoption of SSAP 35 has no significant effect on the Group's prior year financial statements. The changes to the Group's accounting policies upon the adoption of SSAP 12 (revised) are set out in the note 1(n).

### (b) Group accounting

#### (i) Consolidated financial statements

The consolidated financial statements included the results of the Company and its subsidiaries made up to December 31.

Subsidiaries are enterprises in which the Group controls the composition of the Board of Directors, controls more than half of the voting power, holds more than 50 percent of the issued share capital or has power to exercise control over the financial and operating policies. Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

The results of operations of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate, and the share attributable to minority interests is deducted from the net results. Intercompany transactions and balances within the Group are eliminated on consolidation.

In the Company's balance sheet, the investments in subsidiaries are stated at cost to the Company less provision for impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 1. Basis of preparation and accounting policies *(Continued)*

#### (b) Group accounting *(Continued)*

##### (ii) Joint ventures

A jointly controlled entity is the result of contractual arrangements whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities.

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost to the Company less provision for impairment losses, if any. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

#### (c) Intangibles

##### (i) Goodwill

Goodwill which represents the excess of purchase consideration over the fair values ascribed to the separable net assets of subsidiaries acquired is recognized as an asset and amortized on a straight-line basis over its estimated useful economic life of not more than 20 years.

The gain or loss on disposal of an entity includes the unamortized balance of goodwill relating to the entity disposed of.

##### (ii) Research and development costs

Research and development costs are expensed as incurred, except for development costs where the technical feasibilities of the product under development have been demonstrated, costs are identifiable and a market exists for the product such that it is probable that it will be profitable. Such development costs are recognized as an asset and amortized on a straight-line basis over the estimated economic useful period to reflect the pattern in which the related economic benefits are recognized.

No development costs were recognized as assets by the Group.

##### (iii) Mining rights

Mining rights acquired are capitalized and stated at cost to the Group less accumulated amortization and accumulated impairment losses, if any. Amortization of mining rights is calculated to write off their cost less accumulated impairment losses on a straight-line basis over their estimated useful lives of no longer than 30 years.

## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 1. Basis of preparation and accounting policies *(Continued)*

#### (c) Intangibles *(Continued)*

##### (iv) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

#### (d) Property, plant and equipment

##### (i) Tangible fixed assets are stated at cost to the Group less accumulated depreciation and accumulated impairment losses.

Tangible fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses to their estimated residual value over their estimated useful lives on a straight-line basis. The estimated useful lives of the respective categories of fixed assets are as follows:

Buildings	15 to 40 years
Plant and machinery	10 to 20 years
Motor vehicles and transportation facilities	6 to 12 years
Office and other equipment	5 to 10 years

Costs incurred in maintaining fixed assets in their normal working conditions are charged to the profit and loss account. Improvements are capitalized and depreciated over their expected useful lives to the Group.

##### (ii) The carrying amounts of long-lived assets are reviewed whenever events or changes in circumstances indicate that the book value 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 as 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 asset belongs. 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 projections of cash inflows from the continuing use of the asset; projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and that can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life. If there is an indication of impairment, the carrying value of such assets is written down to its recoverable amount.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognized in the profit and loss account.

## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 1. Basis of preparation and accounting policies *(Continued)*

#### (e) Construction in progress

Construction in progress represents buildings, various plant and equipment under construction and pending installation, and is stated at cost to the Group. Cost comprises direct costs of construction as well as finance costs related to funds borrowed specifically for the purpose of obtaining a qualifying asset less any accumulated impairment losses. Borrowing costs are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Capitalization of these borrowing costs ceases and the construction in progress is transferred to fixed assets when the asset is substantially ready for its intended use.

#### (f) Assets under leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

The Group did not have any assets under finance leases.

#### (g) Investments in securities

##### (i) Investment securities

These represent long-term investments in unlisted securities and which are stated at cost to the Group less provision for impairment losses. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to the fair value. The amount of the reduction is recognized as an expense in the profit and loss account.

##### (ii) Trading securities

These represent short-term investments in listed securities that the Group intends to hold for sale and are carried at fair value, which normally represents the market value. At each balance sheet date, the net unrealized gains or losses arising from the changes in fair value of the investments are recognized in the profit and loss account. Gains or losses on disposal of short-term investments, representing the difference between the net sales proceeds and the carrying amounts, are recognized in the profit and loss account as they arise.

## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 1. Basis of preparation and accounting policies *(Continued)*

#### (g) Investments in securities *(Continued)*

##### (iii) Futures contracts

The Group uses futures contracts to reduce its exposure to fluctuations in the price of primary aluminum. Payments for entering into these futures contracts are initially recognized in the balance sheet at cost and are subsequently remeasured at their fair value. Changes in fair value of futures contracts are recognized immediately in the profit and loss account.

The fair value of futures contracts is based on quoted market prices at the balance sheet date.

#### (h) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost to the Group and net realizable value. Cost, calculated on the weighted average method, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realizable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

#### (i) Accounts and other receivables

Provision is made against accounts and other receivables to the extent which they are considered to be doubtful. Accounts and other receivables in the balance sheet are stated net of such provision.

#### (j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, time deposits with an initial term of within three months less advances from bank with repayment within three months from the date of the advance and bank overdrafts.

#### (k) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are recognized as income or expenses in the profit and loss account.

#### (l) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 1. Basis of preparation and accounting policies *(Continued)*

#### (m) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow becomes probable, it will then be recognized as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognized but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognized.

#### (n) Taxation

Income taxation charged to the results comprise current and deferred tax. Current income tax is calculated based on the taxable income at the prevailing applicable rates of taxation for the year that is chargeable to tax.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of SSAP 12 (revised) has no significant effect on the Group's current and prior year financial statements.

## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 1. Basis of preparation and accounting policies *(Continued)*

#### (o) Revenue recognition

Revenue from the sale of goods is recognized on the transfer of risks and rewards of ownership, which occurs at the time when the goods are delivered to customers and title has passed. No amount of revenue is recorded when the amount of revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

Revenue from the provision of services is recognized when the services are rendered.

Interest income is recognized on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognized when the right to receive payment is established.

#### (p) Employee benefits

##### (i) Employee leave entitlements

Employee entitlements to annual leave, sick leave, maternity leave and paternity leave, where applicable, are not recognized until the time of leave.

##### (ii) Profit sharing and bonus plans

The expected cost of profit sharing and bonus payments are recognized as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

##### (iii) Retirement obligations

The Group contributes on a monthly basis to various defined contribution retirement benefit plan organized by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired employees payable under these plans. Contributions to these plans are expensed as incurred.

#### (q) Borrowing costs

Borrowing costs are charged to the profit and loss account in the year in which they are incurred unless they are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 1. Basis of preparation and accounting policies *(Continued)*

#### (r) Environmental expenditures

Environmental expenditures mainly include expenditures necessary to complete remediation efforts and expenses related to the handling of waste water, gas and materials. Environmental expenditures that relate to current ongoing operations or to conditions caused by past operations are expensed as incurred.

Under the PRC law, the Company is required to remediate the area that it mines. The government of the province in which the mine is located prescribes the remediation requirements on the basis of the future intended use of the land and monitors the Company's remediation efforts. Such activities are typically performed concurrently with production. However, remediation efforts at certain mines are expected to commence after 2007 and the Company has established a liability sufficient to meet its remediation obligations. The expenditures necessary to complete remediation efforts are not expected to be material to cash flows or results of operations in any period.

#### (s) Government subsidies

A government subsidy is initially recognized as deferred income, when there is reasonable assurance that the Group will comply with the conditions attaching with it and that the subsidy will be received.

Government subsidies relating to income are recognized as other income in the profit and loss account on a systematic basis to match with the related costs which they are intended to compensate. Subsidies relating to assets are recognized in the financial statements, on a systematic basis over the useful lives of the related assets.

Government subsidies relating to the purchase of fixed assets are included in non-current liabilities as deferred income and are credited to profit and loss account on a straight-line basis over the expected useful lives of the related assets.

#### (t) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and exclude assets not dedicated to a particular segment (Note 2(ii)). Segment liabilities comprise operating liabilities and exclude liabilities not dedicated to a particular segment (Note 2(iii)). Capital expenditure comprises additions to intangible assets and fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.



## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 2. Turnover, revenue and segment information

The Group is principally engaged in the production and distribution of alumina and primary aluminum. Revenues recognized are as follows:

	Year ended December 31,	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Turnover		
Sales of goods, net of value-added tax	<b>23,245,858</b>	16,792,766
Other revenues		
Sales of scrap and other materials	<b>210,128</b>	194,961
Supply of electricity, heat, gas and water (Note 34(b))	<b>266,808</b>	163,759
Rendering of services (Note)	<b>76,680</b>	122,056
Interest income	<b>26,204</b>	42,069
Income from unlisted investment securities	<b>351</b>	30
Total other revenues	<b>580,171</b>	522,875
Total revenues	<b>23,826,029</b>	17,315,641

Note: Rendering of services mainly comprises revenues from the provision of transportation, machinery processing and production design services.

#### Primary reporting format - business segments

The Group is organized in the People's Republic of China (the "PRC") into two main business segments:

- Alumina segment - comprising mining and processing of bauxite into alumina and the associated distribution activities.
- Primary aluminum segment - comprising production of primary aluminum and the associated distribution activities.

Activities of the headquarters and other operations of the Group, comprising research and development related to alumina and primary aluminum business and minor production and distribution of alumina hydrate, are grouped under corporate and other services segment.

All inter-segment and inter-plant sales are made at prices approximate to market prices.

## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 2. Turnover, revenue and segment information *(Continued)*

#### Primary reporting format - business segments *(Continued)*

	Year ended December 31,	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Segment results		
Turnover		
Alumina		
External sales	<b>12,327,527</b>	7,458,951
Inter-segment sales	<b>3,131,674</b>	2,320,642
	<b>15,459,201</b>	9,779,593
Primary aluminum		
External sales	<b>10,845,603</b>	9,268,120
Corporate and other services		
External sales (i)	<b>72,728</b>	65,695
Inter-segment elimination	<b>(3,131,674)</b>	(2,320,642)
Total turnover	<b>23,245,858</b>	16,792,766
Cost of goods sold		
Alumina	<b>9,591,954</b>	7,685,072
Primary aluminum	<b>9,883,991</b>	7,902,487
Corporate and other services	<b>64,982</b>	51,667
Inter-segment elimination	<b>(3,101,393)</b>	(2,289,712)
Total cost of goods sold	<b>16,439,534</b>	13,349,514
Gross profit		
Alumina	<b>5,867,247</b>	2,094,521
Primary aluminum	<b>961,612</b>	1,365,633
Corporate and other services	<b>7,746</b>	14,028
Inter-segment elimination	<b>(30,281)</b>	(30,930)
Total gross profit	<b>6,806,324</b>	3,443,252

## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 2. Turnover, revenue and segment information *(Continued)*

#### Primary reporting format - business segments *(Continued)*

	Year ended December 31,	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Segment results <i>(Continued)</i>		
Other costs, net of other revenues and other income		
Alumina	<b>757,709</b>	714,899
Primary aluminum	<b>516,375</b>	221,975
Corporate and other services	<b>86,083</b>	71,961
Unallocated	<b>367,677</b>	311,729
Total other costs, net of other revenues and other income	<b>1,727,844</b>	1,320,564
Segment operating profit (loss)		
Alumina	<b>5,109,538</b>	1,379,622
Primary aluminum	<b>445,237</b>	1,143,658
Corporate and other services	<b>(78,337)</b>	(57,933)
Unallocated	<b>(367,677)</b>	(311,729)
Inter-segment elimination	<b>(30,281)</b>	(30,930)
Total operating profit	<b>5,078,480</b>	2,122,688
Finance costs	<b>451,411</b>	490,614
Operating profit after finance costs	<b>4,627,069</b>	1,632,074
Share of profit (loss) of jointly controlled entities	<b>1,193</b>	(254)
Profit before income taxes	<b>4,628,262</b>	1,631,820
Income taxes	<b>918,862</b>	183,393
Profit after income taxes	<b>3,709,400</b>	1,448,427
Minority interests	<b>157,370</b>	46,822
Profit for the year	<b>3,552,030</b>	1,401,605
Capital expenditure		
Alumina	<b>3,831,590</b>	3,192,788
Primary aluminum	<b>1,471,539</b>	700,572
Corporate and other services	<b>47,259</b>	49,304
Unallocated	<b>33,030</b>	29,930
Total capital expenditure	<b>5,383,418</b>	3,972,594

## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 2. Turnover, revenue and segment information *(Continued)*

#### Primary reporting format - business segments *(Continued)*

	Year ended December 31,	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Depreciation and amortization charged to the profit and loss account		
Alumina	<b>1,316,722</b>	1,301,487
Primary aluminum	<b>716,611</b>	702,149
Corporate and other services	<b>29,890</b>	4,768
Unallocated	<b>29,224</b>	17,252
<b>Total</b>	<b>2,092,447</b>	2,025,656
Impairment losses charged to the profit and loss account		
Alumina	<b>33,116</b>	—
Primary aluminum	<b>41,369</b>	—
<b>Total</b>	<b>74,485</b>	—
	As at December 31,	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Segment assets		
Alumina	<b>21,824,989</b>	19,777,345
Primary aluminum	<b>9,795,912</b>	9,320,057
Corporate and other services	<b>1,979,357</b>	2,074,000
Unallocated (ii)	<b>2,049,685</b>	1,469,237
	<b>35,649,943</b>	32,640,639
Inter-segment elimination	<b>(571,648)</b>	(720,675)
<b>Total assets</b>	<b>35,078,295</b>	31,919,964

## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 2. Turnover, revenue and segment information *(Continued)*

#### Primary reporting format - business segments *(Continued)*

	<b>As at December 31,</b>	
	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Segment liabilities		
Alumina	<b>8,280,529</b>	7,323,135
Primary aluminum	<b>2,314,226</b>	2,079,414
Corporate and other services	<b>2,351,653</b>	1,438,618
Unallocated (iii)	<b>3,309,266</b>	5,272,396
	<b>16,255,674</b>	16,113,563
Inter-segment elimination	<b>(571,648)</b>	(155,355)
Total liabilities	<b>15,684,026</b>	15,958,208

- (i) Sales of corporate and other services mainly represent the sale of alumina by Zhengzhou Research Institute.
- (ii) Unallocated assets, which represent assets not dedicated to a particular segment, consist primarily of bank balances and cash, investments, deferred tax assets, other receivables and fixed assets.
- (iii) Unallocated liabilities, which represent liabilities not dedicated to a particular segment, consist primarily of short-term and long-term loans, taxation payable and other liabilities.

#### Secondary reporting format - geographical segments

All operations of the Group are carried out in the PRC and the related assets are located there. The PRC market is considered as one geographical location in an economic environment with similar risks and returns.

### 3. Expenses related to other revenues

Expenses related to other revenues mainly include the cost of scrap and other materials sold and costs incurred in the supply of electricity, heat, gas and water (Note 34(b)).

## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 4. Selling and distribution expenses

	Year ended December 31,	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Packaging expenses	157,173	137,972
Salaries and welfare expenses	28,543	27,336
Transportation and loading	271,398	268,518
Sales commission and other handling fee	13,762	12,075
Miscellaneous port expenses	39,315	4,535
Others	39,241	51,393
	<b>549,432</b>	501,829

### 5. General and administrative expenses

	Year ended December 31,	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Auditors' remuneration	16,839	17,350
Depreciation	71,016	73,166
Loss on disposal of fixed assets - non-production facilities	24,095	7,270
Provision (write-back of provision) for doubtful debts and bad debts written off, net	7,231	(97,050)
Insurance	23,657	23,124
Repairs and maintenance	23,189	24,463
Salaries and welfare expenses	362,887	226,680
Taxes other than income taxes (Note (a))	233,213	178,169
Travelling and entertainment	50,846	41,047
Utilities and office supplies	41,524	53,836
Amortization of goodwill (Note 15)	24,648	24,648
Operating leases in respect of land and buildings	18,967	13,418
Others	149,349	147,682
	<b>1,047,461</b>	733,803

## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 5. General and administrative expenses *(Continued)*

- (a) Taxes other than income taxes mainly comprise land use tax, city construction tax and education surcharge. City construction tax and education surcharge are levied on an entity based on its total amount of value-added tax and business tax payable.
- (b) Amortization charge of mining rights of RMB19,471,000 and write-back of provision for obsolete inventories of RMB28,318,000 which were included in general and administrative expenses for the year ended December 31, 2002 have now been reclassified as part of the Group's cost of goods sold.

### 6. Other expenses, net

	Year ended December 31,	
	2003 RMB'000	2002 RMB'000
Other income		
Government subsidies	(6,492)	(990)
Interest waived (Note (a))	(44,476)	—
Unrealized gain on futures contracts	—	(13,180)
	<b>(50,968)</b>	(14,170)
Other expenses		
Net exchange loss (Note (b))	8,234	28,276
Penalties, fines and compensations	84	1,197
Unrealized loss on short-term investments	2,979	786
Realized loss on futures contracts	54,970	—
Unrealized loss on futures contracts	10,244	—
	<b>76,511</b>	30,259
Other expenses, net	<b>25,543</b>	16,089

- (a) The gain was related to an interest waiver arrangement made between the Company and China Construction Bank for full settlement of the outstanding loans and related interest payable of RMB99.48 million by the payment by the Company of a lump sum of RMB55.00 million during the year.
- (b) The net exchange loss for the year ended December 31, 2003 was mainly related to foreign currency borrowings.

## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 7. Directors', Supervisors' and senior management's remuneration

#### (a) Directors' and Supervisors' remuneration

The aggregate amounts of remuneration payable to Directors and Supervisors of the Company during the year are as follows:

	Year ended December 31,	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Fees	877	817
Basic salaries, housing allowances, other allowances and benefits in kind	2,356	2,381
Discretionary bonus	2,200	—
Contributions to the retirement scheme	67	46
	<b>5,500</b>	3,244

The remuneration of the Directors and Supervisors fell within the following bands:

	Number of Directors and Supervisors Year ended December 31,	
	2003	2002
Nil - RMB1,000,000	11	12
RMB1,000,001 - RMB2,000,000	1	—

Directors' fees disclosed above of RMB264,871 and RMB291,500 were in respect of amounts payable to the two independent non-executive Directors for the years ended December 31, 2003 and 2002, respectively.

No Directors or Supervisors of the Company waived any remuneration during the respective years.



## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 7. Directors', Supervisors' and senior management's remuneration *(Continued)*

#### (b) Five highest paid individuals

The five individuals whose remuneration amounts were the highest in the Group were as follows:

	<b>Number of individuals</b>	
	<b>Year ended December 31,</b>	
	<b>2003</b>	2002
Directors and Supervisors	<b>3</b>	3
Senior management	<b>2</b>	2

Details of remuneration of senior management amongst the five highest paid individuals are as follows:

	<b>Year ended</b>	
	<b>December 31,</b>	
	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	<b>782</b>	782
Discretionary bonus	<b>544</b>	—
Contributions to the retirement scheme	<b>25</b>	18
	<b>1,351</b>	800

## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 8. Staff costs

	Year ended December 31,	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Wages, salaries and bonus	<b>1,993,282</b>	1,531,308
Housing subsidies	<b>138,433</b>	121,984
Contributions to retirement schemes (Note (a))	<b>315,221</b>	275,329
Discretionary bonus	<b>12,000</b>	—
Welfare and other expenses	<b>441,022</b>	285,688
	<b>2,899,958</b>	2,214,309

- (a) The employees of the Group participate in various retirement benefit schemes organized by the relevant provincial and municipal governments under which the Group was required to make monthly defined contributions to these plans at rates ranging from 15% to 25% of the employees' basic salary for the respective years. The Group's contributions to these defined contribution schemes are expensed as incurred and are not reduced by forfeited contributions. The assets of these schemes, which are operated by the respective governments are held separately from the Company and its subsidiaries.
- (b) Staff costs include remuneration payable to Directors, Supervisors and senior management as set out in Note 7.

### 9. Expenses charged (written back) to the profit and loss account

	Year ended December 31,	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Depreciation	<b>2,043,983</b>	1,981,537
Operating lease rentals in respect of land and buildings	<b>154,363</b>	116,428
Loss on disposal of fixed assets (Note (a))	<b>160,823</b>	7,270
Amortization of mining rights (Note 15)	<b>23,816</b>	19,471
Write-back of provision for obsolete inventories	<b>(15,223)</b>	(28,318)

- (a) Loss on disposal of fixed assets for the year ended December 31, 2003 includes loss on the dismantling of certain aged production equipment to carry out technology renovation to the production line and equipment of the Company's Guizhou branch and loss on disposal of other non-production facilities.

## Notes to the Financial Statements (Continued)

For the year ended December 31, 2003

### 10. Finance costs

	Year ended December 31,	
	2003 RMB'000	2002 RMB'000
Interest on bank loans	509,598	553,392
Interest on loan from other financial institutions		
Wholly repayable within five years	9,818	15,557
Not wholly repayable within five years	—	61
Total finance costs incurred	519,416	569,010
Less: amount capitalized in construction in progress	(68,005)	(78,396)
	451,411	490,614
Interest rates per annum at which finance costs were capitalized	4.9% to 5.6%	6.0% to 6.2%

### 11. Taxation

(a) The amount of taxation charged to the profit and loss account represents:

	Year ended December 31,	
	2003 RMB'000	2002 RMB'000
Current taxation:		
PRC income tax	1,075,255	343,980
Over provision in prior years (Note (d))	(53,107)	(171,568)
Deferred tax	(104,144)	10,981
	918,004	183,393
Share of income tax attributable to jointly controlled entities	858	—
	918,862	183,393

## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 11. Taxation *(Continued)*

- (b) The current PRC income taxes of the Company, its subsidiaries and jointly controlled entities have been provided at the basic tax rate of 33% on the assessable profits for the respective years, except for those related to the following operations in the Group:
- (i) Pursuant to "Guo Ban Fa 2001 No.73" dated September 29, 2001 issued by the State Council of the PRC and approved by the respective local tax authorities in late 2002, three branches and a subsidiary of the Company located in the western region of China (namely Guangxi branch, Qinghai branch, Guizhou branch and China Aluminum Qinghai International Trading Corp., Ltd. 中鋁青海國際貿易有限公司, were granted a tax concession to pay PRC income tax at a preferential rate of 15%. The preferential tax rate is applicable to qualified operations in specified regions with retroactive effect from January 1, 2001 for a ten-year period to December 31, 2010 as long as these branches and the subsidiary continue to engage in qualified operations in their respective regions. Accordingly, the over provision of taxation payable in relation to the three branches for year 2001 were written back during the year ended December 31, 2002.
- (ii) A subsidiary in Shandong is taxed at a preferential rate of 15% since January 1, 2000 as it is classified as a "high-tech" enterprise in its province for tax purposes.
- (c) The tax on the Group's profit before income tax differs from the expected amount that would arise using the basic tax rate in the PRC applicable to the Group as follows:

	Year ended December 31,	
	2003 RMB'000	2002 RMB'000
Profit before income tax	4,628,262	1,631,820
Tax calculated at a tax rate of 33%	1,527,327	538,501
Deferred tax benefit arising from tax losses not recognized	2,704	2,951
Income not subject to tax	(60,094)	(86,124)
Expenses not deductible for tax purposes	47,594	71,303
Utilization of prior years unrecognized tax losses (Note (i))	(142,288)	—
Differential tax rates on the profit of certain branches and subsidiaries	(339,728)	(171,670)
Tax credit for capital expenditure (Note (ii))	(63,546)	—
Over provision in prior years	(53,107)	(171,568)
Tax charge	918,862	183,393

## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 11. Taxation *(Continued)*

(c) *(Continued)*

- (i) Prior to the group reorganization of Chinalco, which took place in 2001 for the purposes of the incorporation of the Company ("the group reorganization"), the various assets, liabilities and interests related to the alumina and primary aluminum businesses transferred from the promoters pursuant to the group reorganization (collectively the "Core Units") now comprising the Group were separate independent entities for tax reporting and filing purposes. Certain of these Core Units had incurred tax losses in previous years which were not recognized as deferred tax assets in prior years' financial statements as the Company was then awaiting the final agreement by the relevant tax authorities regarding the use of such tax losses.

In March 2004, the resulting deferred tax benefit arising from these tax losses of approximately RMB142 million has been recognized in the financial statements and utilized as a tax deductible item for the 2003 PRC income tax filing following the approval by the State Tax Bureau of the PRC (the "STB") in Beijing regarding the use of such tax losses.

- (ii) This primarily represents incentive in the form of tax credit given by the relevant tax authorities in respect of production plant and equipment purchased in the domestic market.
- (iii) The Company was incorporated on September 10, 2001 as a result of the group reorganization. Since it took time for the Core Units of the Company to complete their registrations with the relevant local State Administration of Industry and Commerce as branches of the Company and with the local tax bureaux for tax filing purposes, combined tax returns combining the results of Chinalco and Core Units were still filed by Chinalco for the year ended December 31, 2001. The aggregate amount of tax computed and paid for by Chinalco based on the combined tax filing for that year was less than the tax provision in the Company's financial statements, which was based on the profits of the Core Units now comprising the Company for the whole year ended December 31, 2001 at the applicable tax rates by approximately RMB 328M (the "tax difference").

In February 2004, a notice ("Guo Shui Han 2004 No. 261") was issued by the STB clarifying the tax matters in relation to the group reorganization of Chinalco. Pursuant to the notice, where the income tax of the Core Units for the year ended December 31, 2001 is paid for by Chinalco, the tax provision based on the profits of the Core Units that are in excess of the actual tax amount paid by Chinalco based on the combined tax filing of Chinalco should be the entitlement of Chinalco. Accordingly, the tax difference will be accounted for by the Company in accordance with the provision of the notice.

- (d) Over provision for taxation payable for the year ended December 31, 2002 represents the effect of reduced tax rate on taxation payable as referred to in (b)(i) above.

## Notes to the Financial Statements (Continued)

For the year ended December 31, 2003

### 11. Taxation (Continued)

- (e) Deferred income tax is calculated in full on temporary differences under the liability method using the respective applicable rates.

The movements in the deferred tax balances are as follows:

	Group									
	Provision for receivables and inventories		Impairment of fixed assets		Accrued payroll		Others		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of January 1,	29,258	33,594	—	—	—	—	3,476	10,121	32,734	43,715
Transfer from (to) profit and loss account	4,503	(4,336)	37,060	—	61,775	—	806	(6,645)	104,144	(10,981)
As of December 31,	33,761	29,258	37,060	—	61,775	—	4,282	3,476	136,878	32,734

	Company									
	Provision for receivables and inventories		Impairment of fixed assets		Accrued payroll		Others		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of January 1,	17,398	19,593	—	—	—	—	6,671	10,121	24,069	29,714
Transfer from (to) profit and loss account	12,506	(2,195)	34,189	—	50,938	—	(2,901)	(3,450)	94,732	(5,645)
As of December 31,	29,904	17,398	34,189	—	50,938	—	3,770	6,671	118,801	24,069

### 12. Profit for the year

The consolidated profit for the year and the respective amounts dealt with in the financial statements of the Company are as follows:

	Year ended December 31,			
	Group		Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the year	3,552,030	1,401,605	3,057,953	1,358,213

## Notes to the Financial Statements (Continued)

For the year ended December 31, 2003

### 13. Dividend

	Year ended December 31,	
	2003 RMB'000	2002 RMB'000
Final, proposed, of RMB0.096 per share on 11,049,876,153 total outstanding shares as of March 29, 2004 (Year ended December 31, 2002: RMB0.045 per share on 10,499,900,153 shares) (Note 28(a))	<b>1,060,788</b>	472,496

The proposed final dividend for the year ended December 31, 2003 was declared at the Board meeting held on March 29, 2004. This proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of retained earnings for the year ending December 31, 2004.

### 14. Earnings per share

The calculation of basic earnings per share is based on the Group's profit for the year ended December 31, 2003 of RMB3,552,030,000 (Year ended December 31, 2002: RMB1,401,605,000) and the weighted average number of 10,499,900,153 shares (Year ended December 31, 2002: 10,495,862,841 shares) in issue during the year.

As there are no dilutive securities, there is no difference between basic and diluted earnings per share.

### 15. Intangible assets

	Group and Company		
	Goodwill RMB'000	Mining rights RMB'000	Total RMB'000
As of January 1, 2003	455,982	280,955	736,937
Additions	—	17,542	17,542
Amortization charge for the year (Note 5)	(24,648)	(23,816)	(48,464)
<b>As of December 31, 2003</b>	<b>431,334</b>	<b>274,681</b>	<b>706,015</b>
As of December 31, 2003			
Cost	492,954	322,723	815,677
Accumulated amortization	(61,620)	(48,042)	(109,662)
<b>Net book amount</b>	<b>431,334</b>	<b>274,681</b>	<b>706,015</b>
As of December 31, 2002			
Cost	492,954	305,181	798,135
Accumulated amortization	(36,972)	(24,226)	(61,198)
Net book amount	455,982	280,955	736,937

## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 16. Property, plant and equipment

	Group					Total RMB'000
	Construction in progress RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles and transportation facilities RMB'000	Office and other equipment RMB'000	
<b>Cost</b>						
As of January 1, 2003	3,545,084	11,555,721	21,534,770	838,801	141,623	37,615,999
Additions	5,150,417	131,607	43,088	16,147	42,159	5,383,418
Transfers	(3,627,747)	1,103,618	2,323,377	172,770	27,982	—
Disposals	—	(74,757)	(738,201)	(63,850)	(2,937)	(879,745)
<b>As of December 31, 2003</b>	<b>5,067,754</b>	<b>12,716,189</b>	<b>23,163,034</b>	<b>963,868</b>	<b>208,827</b>	<b>42,119,672</b>
<b>Accumulated depreciation and impairment</b>						
As of January 1, 2003	—	3,830,944	10,658,919	494,886	67,685	15,052,434
Charge for the year	—	435,550	1,600,055	52,787	25,138	2,113,530
Impairment loss	10,420	3,364	60,559	142	—	74,485
Transfers	—	1,991	(78,914)	77,266	(343)	—
Disposals	—	(27,499)	(605,116)	(40,543)	(1,816)	(674,974)
<b>As of December 31, 2003</b>	<b>10,420</b>	<b>4,244,350</b>	<b>11,635,503</b>	<b>584,538</b>	<b>90,664</b>	<b>16,565,475</b>
<b>Net book value</b>						
<b>As of December 31, 2003</b>	<b>5,057,334</b>	<b>8,471,839</b>	<b>11,527,531</b>	<b>379,330</b>	<b>118,163</b>	<b>25,554,197</b>
As of December 31, 2002	3,545,084	7,724,777	10,875,851	343,915	73,938	22,563,565



## Notes to the Financial Statements (Continued)

For the year ended December 31, 2003

### 16. Property, plant and equipment (Continued)

	Company					Total RMB'000
	Construction in progress RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles and transportation facilities RMB'000	Office and other equipment RMB'000	
<b>Cost</b>						
As of January 1, 2003	3,432,997	10,788,096	19,480,283	810,613	123,154	34,635,143
Additions	4,018,151	113,975	26,380	12,341	37,343	4,208,190
Transfer from a subsidiary	—	4,437	129	1,685	961	7,212
Transfers	(3,217,311)	1,019,735	2,003,150	172,638	21,788	—
Disposals	—	(66,951)	(499,892)	(62,697)	(2,580)	(632,120)
<b>As of December 31, 2003</b>	<b>4,233,837</b>	<b>11,859,292</b>	<b>21,010,050</b>	<b>934,580</b>	<b>180,666</b>	<b>38,218,425</b>
<b>Accumulated depreciation and impairment</b>						
As of January 1, 2003	—	3,636,448	9,808,303	484,049	62,789	13,991,589
Charge for the year	—	393,527	1,472,598	51,426	23,371	1,940,922
Impairment loss	10,420	1,552	43,959	990	3,051	59,972
Transfers	—	1,999	(78,943)	77,243	(299)	—
Disposals	—	(23,576)	(411,008)	(39,735)	(1,447)	(475,766)
<b>As of December 31, 2003</b>	<b>10,420</b>	<b>4,009,950</b>	<b>10,834,909</b>	<b>573,973</b>	<b>87,465</b>	<b>15,516,717</b>
<b>Net book value</b>						
<b>As of December 31, 2003</b>	<b>4,223,417</b>	<b>7,849,342</b>	<b>10,175,141</b>	<b>360,607</b>	<b>93,201</b>	<b>22,701,708</b>
As of December 31, 2002	3,432,997	7,151,648	9,671,980	326,564	60,365	20,643,554

All the buildings of the Group and of the Company are located in the PRC.

As of December 31, 2002 and 2003, no fixed assets were pledged as security.

## Notes to the Financial Statements (Continued)

For the year ended December 31, 2003

### 17. Investments in subsidiaries

	Company	
	2003 RMB'000	2002 RMB'000
Investments at cost:		
Unlisted securities	317,800	210,800
Shares listed in the PRC	965,196	965,196
	<b>1,282,996</b>	1,175,996

Shares listed in the PRC are in respect of shares in Shandong Aluminum Industry Co., Ltd. 山東鋁業股份有限公司. The total market value of such listed shares as of December 31, 2003 was approximately RMB9,990,400,000 (2002: RMB3,128,062,000).

The following is a list of the principal subsidiaries as of December 31, 2003:

Name	Place of incorporation and operation	Legal status	Particulars of issued capital	Equity interest held	Principal activities
Shandong Aluminum Industry Co., Ltd. (山東鋁業股份有限公司)	PRC	Joint stock company with limited liability listed on the Shanghai Stock Exchange	560,000,000 A shares of RMB1 each	71.4%	Production and distribution of alumina and primary aluminum
Shandong Hengcheng Machinery Works (山東恒成機械製造廠)	PRC	* (Note)	Paid up capital of RMB14,087,000	100%	Production of mechanical equipment
Shanxi Longmen Aluminum Co., Ltd. (山西龍門鋁業有限公司)	PRC	Company with limited liability	Paid up capital of RMB40,000,000	55%	Production and distribution of primary aluminum
Zibo Shengye Science Industrial Trading Co., Ltd. (濰博聖業科工貿有限公司)	PRC	Company with limited liability	Paid up capital of RMB2,134,000	100% (of which 43% is held indirectly)	Production, installation and repair of testers
The Design Institute of Shandong Aluminum Corporation (山東鋁業公司設計院)	PRC	* (Note)	Paid up capital of RMB3,003,000	100%	Design of production process and provision of technical consulting services

## Notes to the Financial Statements (Continued)

For the year ended December 31, 2003

### 17. Investments in subsidiaries (Continued)

Name	Place of incorporation and operation	Legal status	Particulars of issued capital	Equity interest held	Principal activities
Zibo Wancheng Industrial Trading Co., Ltd. (淄博萬成工貿有限公司)	PRC	Company with limited liability	Paid up capital of RMB13,870,000	100%	Provision of repair and maintenance services for electrical plant and machinery
Zhengzhou Hicer Hitech Ceramics Co., Ltd. (鄭州海賽高科技陶瓷有限責任公司)	PRC	Company with limited liability	Paid up capital of RMB5,000,000	80%	Production and distribution of ceramic products
Zibo Kaipeng HI-tech and Industrial Trading Co., Ltd. (淄博凱鵬高科技工貿有限公司)	PRC	Company with limited liability	Paid up capital of RMB922,000	100% (of which 32.5% is held indirectly)	Design of production automated systems
Hejing Hedong Carbon Plant (河津市河東碳素廠)	PRC	** (Note)	Paid up capital of RMB1,750,000	72.6%	Manufacture and distribution of electrode
China Aluminum International Trading Co., Ltd. (中鋁國際貿易有限公司)	PRC	Company with limited liability	Paid up capital of RMB100,000,000	100%	Import and export activities
Shandong Aluminum Electronic Technology Co., Ltd. (山東鋁業電子技術有限公司)	PRC	Company with limited liability	Paid up capital of RMB20,000,000	75%	Manufacture and distribution of electronic products
Research & Design Institute Great Wall Aluminum Corporation (長城設計院)	PRC	* (Note)	Paid up capital of RMB2,000,000	100%	Design of production process and provision of technical consulting services
Shanxi Huazhe Aluminum and Electricity Co., Ltd. (山西華澤鋁電有限公司)	PRC	Company with limited liability	Paid up capital of RMB200,000,000	60%	Production and distribution of primary aluminum products, and the generation of electricity

## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 17. Investments in subsidiaries *(Continued)*

Name	Place of incorporation and operation	Legal status	Particulars of issued capital	Equity interest held	Principal activities
China Aluminum Qinghai International Trading Corp., Ltd (中鋁青海國際貿易有限公司)	PRC	Company with limited liability	Paid up capital of RMB6,000,000	90% (held indirectly)	Import and export activities
Chalco Foshan Trading Co., Ltd (中鋁佛山貿易有限公司)	PRC	Company with limited liability	Paid up capital of RMB10,000,000	99% (held indirectly)	Trading of alumina and primary aluminum products
Chalco Chongqing Trading Co., Ltd (中鋁重慶銷售有限公司)	PRC	Company with limited liability	Paid up capital of RMB3,000,000	99.5% (held indirectly)	Trading of alumina and primary aluminum products
China Alumimun International Shipping and Forwarding (Beijing) Corp., Ltd (中鋁國貿貨運有限公司)	PRC	Company with limited liability	Paid up capital of RMB6,000,000	98% (held indirectly)	Transportation services
Chalco Kelin Aluminum of Shanghai Co., Ltd (上海中鋁凱林鋁業有限公司)	PRC	Company with limited liability	Paid up capital of RMB3,000,000	99% (held indirectly)	Trading of alumina and primary aluminum products
Chalco Western Qinghai Int'l Trading Co., Ltd. (中鋁青海西部國際貿易有限公司)	PRC	Company with limited liability	Paid up capital of RMB6,000,000	90% (held indirectly)	Import and export activities

Note: As of December 31, 2003, the legal status of these subsidiaries was either "state-owned enterprise (marked with \*)" or "collectively-owned enterprise (marked with \*\*)", respectively. The Company is in the process of rectifying the legal status of these subsidiaries which have been consolidated into the Group's financial statements as the Directors are of the view that these enterprises meet the criteria of being a subsidiary.

The English names of the above subsidiaries are direct translations of their names in Chinese.

## Notes to the Financial Statements (Continued)

For the year ended December 31, 2003

### 18. Interests/investments in jointly controlled entities

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Unlisted equity investment, at cost	—	—	21,169	17,869
Share of net assets	21,330	17,695	—	—
	<b>21,330</b>	17,695	<b>21,169</b>	17,869

The Company has a 50% interest in ownership, voting power and profit sharing in Shanxi JinXin Aluminum Co., Ltd. 山西晉信鋁業有限公司, a joint venture incorporated and operated in the PRC which is engaged in the production and distribution of primary aluminum. The joint venture, which has paid up capital of RMB20,000,000 formed with an unrelated party, was established on April 8, 1996 for a period of 15 years.

The Company has a 33% interest in ownership, voting power and profit sharing in Guangxi Guixi Huayin Aluminum Co. Ltd. 桂西華銀鋁業有限公司, a joint venture incorporated and operated in the PRC which is engaged in the production and distribution of alumina. The joint venture, which has paid up capital of RMB10,000,000 formed with Guangxi Investment (Group) Co., Ltd. 廣西投資(集團)有限公司\*, one of the promoters of the Company, and an unrelated party, was established on February 18, 2003.

\*Formerly known as Guangxi Development and Investment Co., Ltd. 廣西開發投資有限責任公司

### 19. Long-term investments

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Unlisted equity investments, at cost (Note (a))	10,800	900	—	—
Unlisted held-to-maturity debt securities, at cost	10,509	10,158	10,509	10,158
	<b>21,309</b>	11,058	<b>10,509</b>	10,158

(a) The investments in unlisted equity as of December 31, 2003 primarily represent 5% equity investment in a newly set up subsidiary of Chinalco, Chalco International Engineering Co., Ltd. 中鋁國際工程有限責任公司, of RMB10,000,000.

## Notes to the Financial Statements (Continued)

For the year ended December 31, 2003

### 20. Inventories

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Raw materials	<b>1,080,058</b>	878,784	<b>830,826</b>	692,102
Work in progress	<b>1,492,592</b>	1,284,858	<b>1,263,597</b>	1,137,010
Finished goods	<b>1,031,064</b>	532,706	<b>544,461</b>	375,436
Production supplies	<b>522,104</b>	560,388	<b>518,656</b>	523,395
	<b>4,125,818</b>	3,256,736	<b>3,157,540</b>	2,727,943

As of December 31, 2003, included in inventories of the Group and of the Company were inventories with costs of RMB368,941,000 (2002: RMB269,645,000) and RMB246,677,000 (2002: RMB153,914,000), respectively, were stated at the net realizable values of approximately RMB335,024,000 (2002: RMB245,707,000) and RMB218,862,000 (2002: RMB137,330,000), respectively.

### 21. Accounts receivable, net

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Trade receivables (Note (a))	<b>384,992</b>	847,792	<b>228,543</b>	693,370
Bills receivable (Note (b))	<b>402,899</b>	1,068,056	<b>295,731</b>	835,668
	<b>787,891</b>	1,915,848	<b>524,274</b>	1,529,038

#### (a) Trade receivables

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Gross trade receivables	<b>721,943</b>	1,174,559	<b>494,731</b>	943,355
Less: Provision for doubtful accounts	<b>(336,951)</b>	(326,767)	<b>(266,188)</b>	(249,985)
	<b>384,992</b>	847,792	<b>228,543</b>	693,370

The Group performs periodic credit evaluation on its customers and different credit policies are adopted for individual customers accordingly.

## Notes to the Financial Statements (Continued)

For the year ended December 31, 2003

### 21. Accounts receivable, net (Continued)

#### (a) Trade receivables (Continued)

Certain of the Group's sales were on advance payment or documents against payment. A credit period, which may be extended for up to one year, may be granted, subject to negotiation, in respect of sales to large or long-established customers.

As of December 31, 2003, the aging analysis of trade receivables, net of provision made, was as follows:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Within 1 month	163,065	284,834	81,746	202,770
Between 2 and 6 months	111,614	269,880	61,896	201,063
Between 7 and 12 months	27,764	115,900	15,313	114,377
Between 1 and 2 years	53,895	165,022	49,221	164,098
Between 2 and 3 years	28,654	12,156	20,367	11,062
	<b>384,992</b>	847,792	<b>228,543</b>	693,370

(b) Bills receivable are bills of exchange with maturity dates of within six months.

### 22. Due from related parties

The amounts due from related parties can be analyzed as follows:

	Trade			
	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Fellow subsidiaries	71,108	32,939	64,655	21,624
Subsidiaries	—	—	244,840	78,918
Jointly controlled entities	13	—	—	—
Other related parties	71,490	120,439	71,490	120,439
	<b>142,611</b>	153,378	<b>380,985</b>	220,981

## Notes to the Financial Statements (Continued)

For the year ended December 31, 2003

### 22. Due from related parties (Continued)

	Others			
	Group		Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Holding company	3,539	—	3,539	—
Fellow subsidiaries	289,528	301,791	285,242	294,125
Subsidiaries	—	—	156,886	150,702
Jointly controlled entities	15,990	16,267	15,990	16,267
Other related parties	830	1,193	830	1,193
	<b>309,887</b>	319,251	<b>462,487</b>	462,287

	Total			
	Group		Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Holding company	3,539	—	3,539	—
Fellow subsidiaries	360,636	334,730	349,897	315,749
Subsidiaries	—	—	401,726	229,620
Jointly controlled entities	16,003	16,267	15,990	16,267
Other related parties	72,320	121,632	72,320	121,632
	<b>452,498</b>	472,629	<b>843,472</b>	683,268

As of December 31, 2003, the aging analysis of amounts due from related parties, which are trading in nature, was as follows:

	Group		Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 month	12,080	10,476	235,792	9,622
Between 2 and 6 months	6,946	12,277	5,586	6,417
Between 7 and 12 months	48,058	7,966	47,630	82,283
Between 1 and 2 years	5,778	122,659	22,082	122,659
Between 2 and 3 years	69,749	—	69,895	—
	<b>142,611</b>	153,378	<b>380,985</b>	220,981

Other receivables from the fellow subsidiaries, the jointly controlled entities and other related parties are unsecured, non-interest bearing and are repayable on demand.



## Notes to the Financial Statements (Continued)

For the year ended December 31, 2003

### 23. Other current assets

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Purchase deposits to suppliers	<b>301,845</b>	269,474	<b>136,922</b>	214,368
Other deposits and prepayments	<b>158,943</b>	161,554	<b>102,892</b>	95,610
Value-added tax recoverable	<b>7,072</b>	9,877	<b>2,709</b>	9,877
Short-term listed investments, at fair value (Note(a))	<b>50,080</b>	4,859	—	—
Other receivables (Note(b))	<b>157,979</b>	124,744	<b>94,604</b>	71,191
	<b>675,919</b>	570,508	<b>337,127</b>	391,046

- (a) As of December 31, 2003, short-term listed investments primarily represented PRC treasury bonds held at fair value.
- (b) As of December 31, 2003, the balances of the Group and of the Company were stated net of provision for doubtful receivables of RMB169,646,000 (2002: RMB148,542,000) and RMB169,058,000 (2002: RMB148,269,000), respectively.

### 24. Bank balances and cash

Details of bank balances pledged are as follows:

	Assets pledged		Related liabilities	
	Nature	Amount RMB'000	Nature	Amount RMB'000
As of December 31, 2003, the Group and the Company had no pledged bank balances.				
Group				
December 31, 2002	Bank balances	42,924	Bills payable	91,524
	Bank balances	3,245	Letter of credit	3,245
Company				
December 31, 2002	Bank balances	42,924	Bills payable	91,524
	Bank balances	3,245	Letter of credit	3,245

## Notes to the Financial Statements (Continued)

For the year ended December 31, 2003

### 25. Accounts payable

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Trade payables (Note (a))	<b>1,441,175</b>	1,348,816	<b>1,135,833</b>	1,151,250
Bills payable (Note (b))	<b>426,491</b>	622,693	<b>223,491</b>	472,683
	<b>1,867,666</b>	1,971,509	<b>1,359,324</b>	1,623,933

(a) Trade payables

As of December 31, 2003, the aging analysis of trade payables was as follows:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Within 1 month	<b>1,071,310</b>	768,637	<b>860,698</b>	657,517
Between 2 and 6 months	<b>241,040</b>	387,728	<b>169,536</b>	323,021
Between 7 and 12 months	<b>46,504</b>	74,221	<b>38,373</b>	61,132
Between 1 and 2 years	<b>34,689</b>	60,817	<b>24,087</b>	54,320
Between 2 and 3 years	<b>10,550</b>	3,420	<b>8,591</b>	3,302
Over 3 years	<b>37,082</b>	53,993	<b>34,548</b>	51,958
	<b>1,441,175</b>	1,348,816	<b>1,135,833</b>	1,151,250

(b) Bills payable are repayable within six months.

## Notes to the Financial Statements (Continued)

For the year ended December 31, 2003

### 26. Due to related parties

The amounts due to related parties can be analyzed as follows:

	Trade			
	Group		Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Fellow subsidiaries	<b>60,443</b>	86,292	<b>47,727</b>	69,747
Subsidiaries	—	—	<b>23,130</b>	11,655
Other related parties	<b>10,816</b>	18,812	<b>10,816</b>	18,812
	<b>71,259</b>	105,104	<b>81,673</b>	100,214

	Others			
	Group		Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Holding company	—	166,351	—	166,351
Fellow subsidiaries	<b>315,340</b>	477,635	<b>294,967</b>	464,901
Subsidiaries	—	—	<b>194,718</b>	13,125
Other related parties	<b>1,265</b>	11,979	<b>1,265</b>	11,979
	<b>316,605</b>	655,965	<b>490,950</b>	656,356

	Total			
	Group		Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Holding company	—	166,351	—	166,351
Fellow subsidiaries	<b>375,783</b>	563,927	<b>342,694</b>	534,648
Subsidiaries	—	—	<b>217,848</b>	24,780
Other related parties	<b>12,081</b>	30,791	<b>12,081</b>	30,791
	<b>387,864</b>	761,069	<b>572,623</b>	756,570

## Notes to the Financial Statements (Continued)

For the year ended December 31, 2003

### 26. Due to related parties (Continued)

As of December 31, 2003, the aging analysis of amounts due to related parties, which are trading in nature, was as follows:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Within 1 month	61,155	47,142	74,238	50,114
Between 2 and 6 months	8,570	56,130	7,156	49,367
Between 7 and 12 months	48	1,273	29	721
Over 1 year	1,486	559	250	12
	<b>71,259</b>	105,104	<b>81,673</b>	100,214

Other payables to holding company, fellow subsidiaries and other related parties are unsecured, non-interest bearing and are repayable on demand.

### 27. Other payables and accruals

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Interest payable	29,574	155,470	25,979	155,470
Sales deposits from customers	696,678	380,891	541,437	261,498
Accrued payroll and bonus	412,727	378,027	335,752	287,196
Staff welfare payable	275,641	236,670	255,780	202,394
Accrued construction costs	763,095	828,067	734,112	731,551
Taxes other than income taxes payable (Note)	279,358	358,573	273,944	331,715
Accrued contributions to retirement schemes	40,507	61,226	38,201	30,206
Other accruals	336,516	405,112	321,347	375,106
	<b>2,834,096</b>	2,804,036	<b>2,526,552</b>	2,375,136

Note: Taxes other than income taxes payable mainly comprise value-added tax, land use tax, city construction tax and education surcharge payables.

## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 28. Issued capital and reserves

#### (a) Share capital

	Company	
	2003 RMB'000	2002 RMB'000
Registered, issued and fully paid:		
10,499,900,153 (2002: 10,499,900,153) shares of RMB1.00 each	<b>10,499,900</b>	10,499,900

As of January 1, 2002 the registered, issued and fully paid capital of the Company were RMB10,352,942,000, consisting of 7,764,706,000 domestic shares and 2,588,236,000 H shares of par value of RMB1.00 per share.

In January 2002, the registered, issued and fully paid capital of the Company were all increased to RMB10,499,900,153 by the issuance of an additional 146,958,153 new H shares of RMB1.00 each to the public upon the exercise of the Over-allotment Option by the Joint Global Coordinators of the Global Offering ("Over-allotment"). The net proceeds to the Company from the Over-allotment amounted to approximately RMB205 million. As part of this exercise, a total number of 14,695,815 domestic shares in issue owned as to 9,447,940 domestic shares by Chinalco and as to 5,247,875 domestic shares in total by the three minority shareholders were converted into H shares and sold to the public.

As of December 31, 2002 and 2003, domestic shares and H shares amounted to 7,750,010,185 shares and 2,749,889,968 shares, respectively.

In January 2004, pursuant to a placing agreement between the Company and a placing agent, the Company issued an aggregate of 549,976,000 new H shares of RMB1.00 each to certain independent professional and institutional investors at a price of HK\$5.658 per H share on a fully underwritten basis ("the Placing"). The net proceeds to the Company from the Placing amounted to approximately RMB3,200 million of which, approximately RMB2,000 million will be used to fund the alumina expansion project in the Company's Shanxi branch. The Directors plan to use the balance of the net proceeds for the funding of any possible acquisitions of domestic primary aluminum projects.

Subsequent to the completion of the Placing, the registered, issued and fully paid share capital of the Company has been increased to RMB11,049,876,153, divided into 11,049,876,153 shares of RMB1.00 each, comprising 7,750,010,185 domestic shares and 3,299,865,968 H shares.

## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 28. Issued capital and reserves *(Continued)*

#### (b) Reserves of the Company

For the year ended December 31, 2003

	Capital reserve (Note (b)(i)) <i>RMB'000</i>	Statutory surplus reserve (Note (b)(ii)) <i>RMB'000</i>	Statutory public welfare fund (Note (b)(iii)) <i>RMB'000</i>	Retained earnings (Note (b)(iv)) <i>RMB'000</i>	Total <i>RMB'000</i>
<b>As of January 1, 2003</b>	<b>3,310,258</b>	<b>180,128</b>	<b>180,128</b>	<b>1,283,314</b>	<b>4,953,828</b>
Profit for the year	—	—	—	3,057,953	3,057,953
Transfer to					
- capital reserve	44,476	—	—	(44,476)	—
- statutory surplus reserve	—	338,793	—	(338,793)	—
- statutory public welfare fund	—	—	338,793	(338,793)	—
Dividend paid	—	—	—	(472,496)	(472,496)
Other reserve (Note(b)(i))	138,860	—	—	—	138,860
<b>As of December 31, 2003</b>	<b>3,493,594</b>	<b>518,921</b>	<b>518,921</b>	<b>3,146,709</b>	<b>7,678,145</b>
Representing:					
2003 final dividend proposed				1,060,788	
Unappropriated retained earnings				2,085,921	
Retained earnings as of December 31, 2003				3,146,709	

## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 28. Issued capital and reserves *(Continued)*

#### (b) Reserves of the Company *(Continued)*

For the year ended December 31, 2002

	Capital reserve (Note (b)(i)) RMB'000	Statutory surplus reserve (Note (b)(ii)) RMB'000	Statutory public welfare fund (Note (b)(iii)) RMB'000	Retained earnings (Note (b)(iv)) RMB'000	Total RMB'000
As of January 1, 2002	3,252,461	43,799	43,799	376,257	3,716,316
Issue of shares	68,212	—	—	—	68,212
Share issue expenses	(10,415)	—	—	—	(10,415)
Profit for the year	—	—	—	1,358,213	1,358,213
Transfer to					
- statutory surplus reserve	—	136,329	—	(136,329)	—
- statutory public welfare fund	—	—	136,329	(136,329)	—
Dividend paid	—	—	—	(178,498)	(178,498)
As of December 31, 2002	3,310,258	180,128	180,128	1,283,314	4,953,828
Representing:					
2002 final dividend proposed				472,496	
Unappropriated retained earnings				810,818	
Retained earnings as of December 31, 2002				1,283,314	

## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 28. Issued capital and reserves *(Continued)*

#### (b) Reserves of the Company *(Continued)*

##### (i) Capital reserve

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Capital reserve represents:		
Premium on issue of shares upon group reorganization	<b>2,403,804</b>	2,403,804
Premium on subsequent issue of shares to the public	<b>803,454</b>	803,454
Gain on waiver of interest (Note 6 (a))	<b>147,476</b>	103,000
Other reserve	<b>138,860</b>	—
	<b>3,493,594</b>	3,310,258

Capital reserve can only be used to increase share capital. Pursuant to the PRC accounting standard on debt restructuring, any gains arising from debt restructuring which represent the difference between the final settlement and the carrying value of the debt concerned are directly reflected in capital reserve and therefore not distributable. Accordingly, a transfer has been made from retained earnings to reflect its non-distributable nature.

Other reserve represents contributions from Chinalco in respect of subsidies received by Chinalco from the Ministry of Finance of the PRC to support certain technical improvement projects of the Group. Pursuant to relevant PRC regulations, these subsidies should be treated as the equity interest of Chinalco; therefore can only be used to increase Chinalco's shares in the Company in the event that new issuance of shares is made in the future.

##### (ii) Statutory surplus reserve

In accordance with relevant PRC laws and financial regulations, every year the Company is required to transfer 10% of the profit after taxation prepared in accordance with PRC accounting standards to the statutory surplus reserve until the balance reaches 50% of the paid-up share capital. Such reserve can be used to reduce any losses incurred and to increase share capital. Except for any reduction of losses incurred, any other applications should not result in this reserve balance falling below 25% of the registered capital.



## Notes to the Financial Statements (Continued)

For the year ended December 31, 2003

### 28. Issued capital and reserves (Continued)

#### (b) Reserves of the Company (Continued)

##### (iii) Statutory public welfare fund

In accordance with relevant PRC laws and financial regulations, every year the Company is required to transfer between 5% to 10% of the profit after taxation prepared in accordance with PRC accounting standards to the statutory public welfare fund. The use of this fund is restricted to capital expenditure for employees' collective welfare facilities, the ownership in respect of which belongs to the Group. The statutory public welfare fund is not available for distribution to shareholders except under liquidation. Once any capital expenditure on staff welfare facilities has been made, an equivalent amount must be transferred from the statutory public welfare fund to the discretionary surplus reserve, a reserve which can be used to reduce any losses incurred or to increase share capital.

The Company decided to make a 10% transfer as statutory public welfare fund for the year ended December 31, 2003 (Year ended December 31, 2002: 10%).

##### (iv) Retained earnings (accumulated losses)

	Group		Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Company and subsidiaries	<b>3,594,250</b>	1,326,271	<b>3,146,709</b>	1,283,314
Jointly controlled entities	<b>(1,102)</b>	(1,437)	—	—
	<b>3,593,148</b>	1,324,834	<b>3,146,709</b>	1,283,314

### 29. Long-term loans

Long-term loans include bank loans and loans from other financial institutions which are analyzed as follows:

	Group		Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Loans - unsecured	<b>6,228,473</b>	6,003,282	<b>5,778,473</b>	5,803,282
Current portion of long-term loans	<b>(815,845)</b>	(1,053,984)	<b>(775,845)</b>	(1,003,984)
	<b>5,412,628</b>	4,949,298	<b>5,002,628</b>	4,799,298

## Notes to the Financial Statements (Continued)

For the year ended December 31, 2003

### 29. Long-term loans (Continued)

The repayment terms of the loans are analyzed as follows:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Bank loans				
Wholly repayable within five years	<b>2,261,380</b>	1,634,400	<b>2,111,380</b>	1,434,400
Not wholly repayable within five years	<b>3,788,115</b>	3,800,609	<b>3,488,115</b>	3,800,609
	<b>6,049,495</b>	5,435,009	<b>5,599,495</b>	5,235,009
Loans from other financial institutions				
Wholly repayable within five years	<b>178,978</b>	273,158	<b>178,978</b>	273,158
Not wholly repayable within five years	—	295,115	—	295,115
	<b>178,978</b>	568,273	<b>178,978</b>	568,273
	<b>6,228,473</b>	6,003,282	<b>5,778,473</b>	5,803,282

As of December 31, 2003, the Group's bank loans and other borrowings were repayable as follows:

	Bank loans			
	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Within one year	<b>736,867</b>	841,131	<b>696,867</b>	791,131
In the second year	<b>1,054,566</b>	889,399	<b>944,566</b>	849,399
In the third to fifth year	<b>3,507,137</b>	2,761,494	<b>3,507,137</b>	2,651,494
After the fifth year	<b>750,925</b>	942,985	<b>450,925</b>	942,985
	<b>6,049,495</b>	5,435,009	<b>5,599,495</b>	5,235,009

## Notes to the Financial Statements (Continued)

For the year ended December 31, 2003

### 29. Long-term loans (Continued)

	Loans from other financial institutions			
	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Within one year	<b>128,978</b>	212,853	<b>128,978</b>	212,853
In the second year	—	105,420	—	105,420
In the third to fifth year	<b>50,000</b>	250,000	<b>50,000</b>	250,000
	<b>178,978</b>	568,273	<b>178,978</b>	568,273
	Total			
	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Within one year	<b>865,845</b>	1,053,984	<b>825,845</b>	1,003,984
In the second year	<b>1,054,566</b>	994,819	<b>944,566</b>	954,819
In the third to fifth year	<b>3,557,137</b>	3,011,494	<b>3,557,137</b>	2,901,494
After the fifth year	<b>750,925</b>	942,985	<b>450,925</b>	942,985
	<b>6,228,473</b>	6,003,282	<b>5,778,473</b>	5,803,282

As of December 31, 2002 and 2003, all of the Group's bank loans were unsecured.

As of December 31, 2003, bank loans of the Group and of the Company of RMB3,426,515,000 (2002: RMB4,300,949,000) and RMB3,319,515,000 (2002: RMB4,150,949,000), respectively, were guaranteed by Chinalco.

## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 29. Long-term loans *(Continued)*

The characteristics of the Group's long-term loans as of December 31, 2003 are analyzed as follows:

Loan	Interest rate and final maturity	2003 RMB'000	2002 RMB'000
Bank loans:			
Renminbi-denominated loans:			
Bank loans for development of production facilities	Variable interest rates ranging from 5% to 6% per annum as of December 31, 2003 with maturity dates through 2009 (2002: 5.2% to 6% per annum with maturity date through 2009)	1,827,000	2,067,600
Bank loans for working capital	Variable interest rates ranging from 4.9% to 5.8% per annum as of December 31, 2003 with maturity dates through 2009 (2002: 4.8% to 7.6% per annum with maturity dates through 2007)	4,209,970	3,182,071
Euro-denominated loans:			
Bank loans for development of production facilities	Fixed interest rate 9.4% per annum as of December 31, 2003 with maturity date through 2004 (2002: fixed interest rates ranging from 2.3% to 9.4% per annum with maturity dates through 2021)	272	172,911
Danish Krone-denominated loans:			
Bank loans for development of production facilities	Fixed interest rates ranging from 0.3% to 9.2% per annum as of December 31, 2003 with maturity dates through 2015 (2002: fixed interest rates ranging from 0.3% to 9.2% per annum with maturity dates through 2015)	12,253	12,427
		<b>6,049,495</b>	<b>5,435,009</b>
Loans from other financial institutions:			
Renminbi-denominated loans:			
Loans for working capital	Variable interest rates ranging from interest-free to 6.2% per annum as of December 31, 2003 with maturity dates through 2006 (2002: interest-free to 6.2% per annum with maturity dates through 2006)	178,978	568,273

## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 29. Long-term loans *(Continued)*

The analysis of the fair value of the Group's long-term loans as of December 31, 2003 is as follows:

	As of December 31, 2003		As of December 31, 2002	
	Carrying value RMB'000	Estimated fair value RMB'000	Carrying value RMB'000	Estimated fair value RMB'000
Long-term loans:				
Bank loans	6,049,495	6,047,096	5,435,009	5,414,818
Loans from other financial institutions	178,978	178,978	568,273	568,273

The fair values of long-term loans are based on discounted cash flows using applicable discount rates from the prevailing market rates of interest offered to the Group for debts with substantially the same characteristics and maturity dates. Such discount rates ranged from 4.0% to 7.6% and 2.9% to 4.0% as of December 31, 2002 and 2003, respectively, depending on the type of the debt.

#### Banking facilities

As of December 31, 2003, the Group had total banking facilities of approximately RMB28,308 million, (2002: RMB18,043 million), inclusive of long-term facilities of approximately RMB9,274 million (2002: RMB9,111 million) and other facilities of approximately RMB19,034 million (2002: RMB8,931 million). Out of the total banking facilities granted, amounts totalling RMB7,939 million have been utilized as of December 31, 2003 (2002: RMB10,813 million). Banking facilities of approximately RMB21,308 million require renewal during 2004. The Directors of the Company are confident that such banking facilities can be renewed upon expiry.

## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 30. Notes to the consolidated cash flow statement

Analysis of changes in financing during the year

	Issued capital and reserves		Minority interests		Loans	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
As of January 1,	<b>15,523,947</b>	14,096,085	<b>437,809</b>	429,880	<b>10,052,572</b>	10,869,410
Issue of shares	—	215,170	—	—	—	—
Share issue expenses	—	(10,415)	—	—	—	—
Profit for the year	<b>3,552,030</b>	1,401,605	—	—	—	—
Injection of capital by minority shareholders	—	—	<b>80,600</b>	600	—	—
Minority interests in share of profits	—	—	<b>157,370</b>	46,822	—	—
Net cash outflows from financing related to loans	—	—	—	—	<b>(22,814)</b>	(956,879)
Interest payable transferred to bank loan	—	—	—	—	—	140,041
Dividend paid to minority shareholders	—	—	<b>(23,851)</b>	(39,493)	—	—
Other reserve	<b>138,860</b>	—	—	—	—	—
Dividend paid	<b>(472,496)</b>	(178,498)	—	—	—	—
As of December 31,	<b>18,742,341</b>	15,523,947	<b>651,928</b>	437,809	<b>10,029,758</b>	10,052,572

## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 31. Litigation and contingent liabilities

#### (a) Litigation

As of December 31, 2002 and 2003, the Group has no significant pending litigation.

#### (b) Compensation with regard to the formation of an equity joint venture

Pursuant to a memorandum of understanding dated November 12, 2001 (the "MOU") signed between the Company and Alcoa International (Asia) Limited ("Alcoa"), the two parties have agreed to form a 50/50 equity joint venture which will own and operate the alumina and primary aluminum production facilities owned by the Guangxi branch of the Company (the "Pingguo JV"). Pursuant to the Subscription Agreement pertaining to which Alcoa acquired shares in the Company, if the final joint venture agreement of the Pingguo JV is not executed within eight months of the closing of the Company's global offering or if all necessary relevant PRC government approvals for the Pingguo JV are not obtained within 12 months of the closing of the Company's global offering due to the failure of a party to abide by its expressions of intent in the MOU, then that party would be obligated to pay US\$7.5 million (approximately RMB62.1 million) to the other party as compensation.

Although the final joint venture agreement was not executed, pursuant to the Supplementary Agreement of the Strategic Investor Subscription Agreement, the Company continues to work actively and closely with Alcoa to conclude the joint venture agreement consistently with its expressed intentions in the MOU. The Company has not made a claim against Alcoa nor, according to the Directors, has Alcoa asserted a claim against the Company for compensatory payment.

With effort contributed by both parties, significant progress was noted, including the finalization of the joint venture agreement, articles of association and electricity supply arrangement. The two parties are currently awaiting the approval by the PRC government for the Pingguo JV.

## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 32. Commitments

#### (a) Capital commitments for property, plant and equipment

	Group		Company	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Contracted but not provided for	<b>4,494,778</b>	2,449,333	<b>2,466,781</b>	2,227,916
Authorized but not contracted for	<b>11,756,110</b>	5,477,890	<b>8,650,477</b>	4,954,960
	<b>16,250,888</b>	7,927,223	<b>11,117,258</b>	7,182,876

#### (b) Commitments under operating leases

As of December 31, 2003, the Group and the Company had future aggregate minimum lease payments in relation to land and buildings under non-cancellable operating leases as follows:

	Group		Company	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Not later than one year	<b>173,611</b>	141,995	<b>167,640</b>	141,995
Later than one year and not later than five years	<b>694,444</b>	567,980	<b>670,558</b>	567,980
Later than five years (Note)	<b>7,233,286</b>	5,946,215	<b>6,976,520</b>	5,946,215
	<b>8,101,341</b>	6,656,190	<b>7,814,718</b>	6,656,190

Note: It mainly represents commitments under operating leases in relation to land later than five years but not later than forty-nine years.



## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 33. Futures contracts

As of December 31, 2002 and 2003, the Group held futures contracts covering 33,320 tonnes and 12,050 tonnes of aluminum maturing in the first 7 months of 2003 and in the first 9 months of 2004, respectively. Market prices of these aluminum futures contracts outstanding as of December 31, 2002 and 2003 ranged from RMB13,600 to RMB13,800 per tonne and from RMB15,620 to RMB16,410 per tonne, respectively. The carrying amounts and estimated fair values of futures contracts on the balance sheet are as follows:

	As of December 31,					
	2003			2002		
	Contract value RMB'000	Market value RMB'000	Fair value RMB'000	Contract value RMB'000	Market value RMB'000	Fair value RMB'000
Futures contracts	<b>179,244</b>	<b>189,488</b>	<b>(10,244)</b>	467,691	454,511	13,180

### 34. Related party transactions

Related parties refer to entities in which Chinalco has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, or Directors or officers of the Company. Given that the PRC government still owns a significant portion of the productive assets in the PRC despite the continuous reform of the government structure, the majority of the Group's business activities had been conducted with enterprises directly or indirectly owned or controlled by the PRC government ("state-owned enterprises"), including Chinalco, in the ordinary course of business. The management of the Company are of the view that it has provided meaningful disclosures of related party transactions through the disclosure of transactions with Chinalco and entities in which Chinalco has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, or Directors or officers of the Company.

## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 34. Related party transactions *(Continued)*

Saved as disclosed elsewhere in the financial statements. Significant related party transactions which were carried out in the normal course of the Group's business are as follows:

	Note	Year ended December 31,	
		2003 RMB'000	2002 RMB'000
Sales of materials and finished goods to:	(a)		
Holding company and fellow subsidiaries		<b>1,056,125</b>	479,408
Jointly controlled entity		<b>33,701</b>	21,496
Other related parties		<b>50,794</b>	191,677
		<b>1,140,620</b>	692,581
Provision of utility services to the holding company	(b)	<b>234,067</b>	195,519
Provision of engineering, construction and supervisory services by the holding company and fellow subsidiaries	(c)	<b>784,163</b>	665,337
Purchases of key and auxiliary materials from:	(d)		
Holding company and fellow subsidiaries		<b>391,730</b>	212,654
Other related parties		<b>128,956</b>	151,747
		<b>520,686</b>	364,401
Provision of social services and logistics services by the holding company	(e)	<b>744,575</b>	541,731
Land and building rental charged by the holding company	(f)	<b>173,611</b>	141,995

## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 34. Related party transactions *(Continued)*

- (a) Materials and finished goods sold to Chinalco, fellow subsidiaries and other related parties (including an associated company of a promoter, namely Guangxi Aluminum Development and Investment Stock Co., Ltd. 廣西鋁業開發投資股份有限公司 (“Guangxi Associate”), during all the periods mainly comprised sales of alumina, primary aluminum and scrap materials. These transactions are covered by the following agreements:
- (i) General agreement on Mutual Provision of Production Supplies and Ancillary Services entered into between the Company and Chinalco, fellow subsidiaries and other related parties. The pricing policy is summarized below:
- Adoption of the price prescribed by the PRC government (“State-prescribed price”);
  - If there is no State-prescribed price then adoption of State-guidance price;
  - If there is neither State-prescribed price nor State-guidance price, then adoption of market price (being price charged to and from independent third parties); and
  - If none of the above is available, then adoption of a contractual price (being reasonable costs incurred in providing the relevant services plus not more than 5% of such costs).
- (ii) Aluminum Ingots and Alumina Supply Agreement entered into between the Company and Guangxi Associate and, under which the Company supply aluminum ingots and alumina products to Guangxi Associate for a three-year period commencing from July 1, 2001. The prevailing market price is adopted for pricing purposes.
- (b) Utility services, including electricity, heat, gas and water, were supplied to Chinalco at the pricing policy as set out in (a)(i) above.
- (c) Engineering, project construction and supervisory services were provided by Chinalco and other related parties to the Company mainly for construction projects during all the periods. Provision of these services are covered by the Provision of Engineering, Construction and Supervisory Services Agreement. The State-guidance price or prevailing market price (including tender price where by way of tender) is adopted for pricing purposes.
- (d) The purchases of key and auxiliary materials (including bauxite, limestone, carbon, cement, coal) from Chinalco, fellow subsidiaries and other related companies are covered by the General Agreement on Mutual Provision of Production Supplies and Ancillary Services and Mineral Supply Agreement. The pricing policy is the same as that set out in (a)(i) above.

## Notes to the Financial Statements *(Continued)*

For the year ended December 31, 2003

### 34. Related party transactions *(Continued)*

- (e) Social services and logistics services were provided by Chinalco and cover public security and fire services, education and training, school and hospital services, cultural and physical education, newspaper and magazines, publications and broadcasting and printing as well as property management, environmental and hygiene, greenery, nurseries and kindergartens, sanatoriums and canteens, guesthouses and offices, public transport and retirement management, and other services. Provision of these services are covered by the Comprehensive Social and Logistics Services Agreement entered into between the Company and Chinalco. The pricing policy is the same as that set out in (a) (i) above.
- (f) Rental fee is payable to Chinalco for the rental of land, inclusive of both for industrial or for commercial purposes, occupied and used by the Company during the period at prevailing market lease rates as covered by the Land Use Rights Leasing Agreement entered into between the Company and Chinalco. The annual rent payable for the current year is approximately RMB166 million (2002: RMB134 million). Besides, according to the Building Leasing Agreement entered into between the Company and Chinalco, the Company is required to pay rental fee for the use of buildings and properties which are retained by Chinalco.

As of December 31, 2003, there existed the following arrangements between the Group and Chinalco, fellow subsidiaries and other related parties:

- (i) Guarantees granted by Chinalco to banks for the loans borrowed by the Group are covered by the Guarantee of Debts Contract entered into between the Company and Chinalco.
- (ii) The Company granted to Chinalco a non-exclusive right to use two trademarks for a period of ten years at no cost pursuant to the Trademark License Agreement. The Company will be responsible for the payment of a total annual fee of no more than RMB1,000 to maintain effective registration. Under the terms of the agreement, Chinalco may negotiate extension upon terms to be agreed upon.

### 35. Ultimate holding company

The Directors regard Chinalco, a company incorporated in the PRC, as being the ultimate holding company. As of December 31, 2003 and March 29, 2004 (being the date of the approval of the financial statements), Chinalco held 44.4% and 42.14%, respectively, of the Company's issued share capital.

### 36. Approval of financial statements

The financial statements were approved by the Board of Directors on March 29, 2004