

## CONDENSED INTERIM FINANCIAL STATEMENTS

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED JUNE 30, 2004

	Note	Unaudited	
		Six months ended June 30,	
		2004	2003
		RMB'000	RMB'000
Turnover	2	14,205,165	10,339,514
Cost of goods sold		8,566,844	7,339,403
Gross profit		5,638,321	3,000,111
Other revenues	2	294,774	226,656
Expenses related to other revenues	3	241,789	194,664
Other revenues, net		52,985	31,992
Selling and distribution expenses	4	298,060	241,581
General and administrative expenses	5	521,369	407,775
Research and development expenses		58,090	53,634
Other expenses (income), net	6	19,483	(4,053)
Operating profit		4,794,304	2,333,166
Finance costs		192,183	227,618
Operating profit after finance costs		4,602,121	2,105,548
Share of (loss) profit of jointly controlled entities		(695)	1,073
Profit before income taxes		4,601,426	2,106,621
Income taxes	9	1,035,479	463,125
Profit after income taxes		3,565,947	1,643,496
Minority interests		164,596	68,477
Profit for the period		3,401,351	1,575,019
		RMB	RMB
Basic earnings per share	10	0.31 Yuan	0.15 Yuan

**CONDENSED CONSOLIDATED BALANCE SHEET**

AS OF JUNE 30, 2004

	Note	<b>Unaudited As of June 30, 2004 RMB'000</b>	Audited As of December 31, 2003 RMB'000
<b>Non-current assets</b>			
Intangible assets	11	707,467	706,015
Property, plant and equipment	11	28,139,986	25,554,197
Fixed deposits		82,766	—
Interests in jointly controlled entities		70,104	21,330
Interests in an associated company		45,000	—
Long-term investments		21,485	21,309
Deferred tax assets		235,931	136,878
<b>Total non-current assets</b>		<b>29,302,739</b>	26,439,729
<b>Current assets</b>			
Inventories		5,904,430	4,125,818
Accounts receivable, net	12	965,089	787,891
Due from related parties	13	622,308	452,498
Other current assets	14	632,405	675,919
Bank balances and cash:			
Pledged bank balance		14,000	—
Cash and cash equivalents		4,340,322	2,596,440
<b>Total bank balances and cash</b>		<b>4,354,322</b>	2,596,440
<b>Total current assets</b>		<b>12,478,554</b>	8,638,566
<b>Current liabilities</b>			
Accounts payable	15	1,518,475	1,867,666
Due to related parties	13	773,334	387,864
Other payables and accruals		3,234,744	2,834,096
Taxation payable		603,782	564,642
Current portion of long-term loans	17	915,986	815,845
Unsecured short-term loans		3,402,497	3,801,285
<b>Total current liabilities</b>		<b>10,448,818</b>	10,271,398
<b>Net current assets (liabilities)</b>		<b>2,029,736</b>	(1,632,832)
<b>Total assets less current liabilities</b>		<b>31,332,475</b>	24,806,897

**CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)**

AS OF JUNE 30, 2004

	<i>Note</i>	<b>Unaudited As of June 30, 2004 RMB'000</b>	Audited As of December 31, 2003 RMB'000
Financed by:			
Share capital		<b>11,049,876</b>	10,499,900
Reserves		<b>7,349,967</b>	4,649,293
Retained earnings			
Proposed final dividend		—	1,060,788
Unappropriated retained earnings		<b>5,933,711</b>	2,532,360
Issued capital and reserves	16	<b>24,333,554</b>	18,742,341
Minority interests		<b>931,024</b>	651,928
Non-current liabilities			
Long-term loans	17	<b>6,067,897</b>	5,412,628
		<b>31,332,475</b>	24,806,897

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

FOR THE SIX MONTHS ENDED JUNE 30, 2004

	Unaudited					
	Six months ended June 30, 2004					
	Share capital (Note 16(a)) RMB'000	Capital reserve (Note 16 (b)(i)) RMB'000	Statutory surplus reserve (Note 16 (b)(ii)) RMB'000	Statutory public welfare fund (Note 16 (b)(iii)) RMB'000	Retained earnings RMB'000	Total RMB'000
As of January 1, 2004	10,499,900	3,493,594	592,682	563,017	3,593,148	18,742,341
Profit for the period	—	—	—	—	3,401,351	3,401,351
Dividend	—	—	—	—	(1,060,788)	(1,060,788)
Issue of new shares at a premium	549,976	2,750,672	—	—	—	3,300,648
Share issue expenses	—	(49,998)	—	—	—	(49,998)
As of June 30, 2004	<u>11,049,876</u>	<u>6,194,268</u>	<u>592,682</u>	<u>563,017</u>	<u>5,933,711</u>	<u>24,333,554</u>

	Unaudited					
	Six months ended June 30, 2003					
	Share capital (Note 16(a)) RMB'000	Capital reserve (Note 16 (b)(i)) RMB'000	Statutory surplus reserve (Note 16 (b)(ii)) RMB'000	Statutory public welfare fund (Note 16 (b)(iii)) RMB'000	Retained earnings RMB'000	Total RMB'000
As of January 1, 2003	10,499,900	3,310,258	198,486	190,469	1,324,834	15,523,947
Profit for the period	—	—	—	—	1,575,019	1,575,019
Dividend	—	—	—	—	(471,478)	(471,478)
Transfer to capital reserve (Note 16(b)(i))	—	44,476	—	—	(44,476)	—
As of June 30, 2003	<u>10,499,900</u>	<u>3,354,734</u>	<u>198,486</u>	<u>190,469</u>	<u>2,383,899</u>	<u>16,627,488</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
 FOR THE SIX MONTHS ENDED JUNE 30, 2004

	<b>Unaudited</b>	
	<b>Six months ended June 30,</b>	
	<b>2004</b>	2003
	<b>RMB'000</b>	<i>RMB'000</i>
Net cash inflow from operating activities	<b>2,788,844</b>	2,297,410
Net cash used in investing activities	<b>(3,808,094)</b>	(1,663,058)
Net cash inflow (outflow) from financing activities	<b>2,763,132</b>	(473,928)
Increase in cash and cash equivalents	<b>1,743,882</b>	160,424
Cash and cash equivalents at beginning of the period	<b>2,596,440</b>	2,296,085
Cash and cash equivalents at end of the period	<b>4,340,322</b>	2,456,509
Analysis of balances of cash and cash equivalents:		
Bank balances and cash, not pledged	<b>4,423,088</b>	2,456,509
Less: Term deposits with initial term of over three months	<b>(82,766)</b>	—
	<b>4,340,322</b>	2,456,509

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

### 1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited consolidated condensed interim financial statements are prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25: "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA").

These condensed interim financial statements should be read in conjunction with the 2003 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those used in the annual financial statements for the year ended December 31, 2003.

### 2 TURNOVER, REVENUE AND SEGMENT INFORMATION

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

	<b>Unaudited</b>	
	<b>Six months ended June 30,</b>	
	<b>2004</b>	2003
	<b>RMB'000</b>	<i>RMB'000</i>
Turnover		
Sales of goods, net of value-added tax	<b>14,205,165</b>	10,339,514
Other revenues		
Sale of scrap and other materials	<b>98,798</b>	80,819
Supply of electricity, heat, gas and water (Note 20(b))	<b>135,956</b>	124,757
Provision of transportation, machinery processing and production design services	<b>30,915</b>	6,985
Interest income	<b>28,929</b>	13,739
Income from unlisted investments	<b>176</b>	356
Total other revenues	<b>294,774</b>	226,656
Total revenues	<b>14,499,939</b>	10,566,170

#### 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.

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

### 2 TURNOVER, REVENUE AND SEGMENT INFORMATION (CONTINUED)

#### Primary reporting format - business segments (continued)

Activities of the headquarters and other operations of the Group, comprising research and development related to alumina 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.

	Unaudited	
	Six months ended June 30,	
	2004	2003
	RMB'000	RMB'000
<b>Segment results</b>		
Turnover		
Alumina		
External sales	9,353,870	5,650,957
Inter-segment sales	2,002,180	1,473,464
	<b>11,356,050</b>	7,124,421
Primary aluminum		
External sales	4,806,011	4,656,512
Corporate and other services		
External sales	45,284	32,045
Inter-segment elimination	(2,002,180)	(1,473,464)
Total turnover	<b>14,205,165</b>	10,339,514
Cost of goods sold		
Alumina	6,078,496	4,762,428
Primary aluminum	4,417,680	4,019,014
Corporate and other services	33,054	24,978
Inter-segment elimination	(1,962,386)	(1,467,017)
Total cost of goods sold	<b>8,566,844</b>	7,339,403
Gross profit		
Alumina	5,277,554	2,361,993
Primary aluminum	388,331	637,498
Corporate and other services	12,230	7,067
Inter-segment elimination	(39,794)	(6,447)
Total gross profit	<b>5,638,321</b>	3,000,111

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

## 2 TURNOVER, REVENUE AND SEGMENT INFORMATION (CONTINUED)

## Primary reporting format - business segments (continued)

	Unaudited	
	Six months ended June 30,	
	2004	2003
	RMB'000	RMB'000
<b>Segment results (Continued)</b>		
Other costs, net of other revenues and other income		
Alumina	410,171	201,286
Primary aluminum	258,826	153,613
Corporate and other services	33,271	115,365
Unallocated	141,749	196,681
	<hr/>	<hr/>
Total other costs, net of other revenues and other income	844,017	666,945
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Segment operating profit (loss)		
Alumina	4,867,383	2,160,707
Primary aluminum	129,505	483,885
Corporate and other services	(21,041)	(108,298)
Unallocated	(141,749)	(196,681)
Inter-segment elimination	(39,794)	(6,447)
	<hr/>	<hr/>
Total operating profit	4,794,304	2,333,166
Finance costs	192,183	227,618
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Operating profit after finance costs	4,602,121	2,105,548
Share of (loss) profit of jointly controlled entities	(695)	1,073
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Profit before income taxes	4,601,426	2,106,621
Income taxes	1,035,479	463,125
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Profit after income taxes	3,565,947	1,643,496
Minority interests	164,596	68,477
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Profit for the period	3,401,351	1,575,019
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## 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.



## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

### 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 20(b)).

### 4 SELLING AND DISTRIBUTION EXPENSES

	Unaudited	
	Six months ended June 30,	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Packaging expenses	62,690	50,060
Salaries and welfare expenses	12,249	11,671
Transportation and loading expenses	171,658	149,604
Sales commission and other handling fee	3,886	3,290
Miscellaneous port expenses	19,802	3,155
Others	27,775	23,801
	<b>298,060</b>	<b>241,581</b>

### 5 GENERAL AND ADMINISTRATIVE EXPENSES

	Unaudited	
	Six months ended June 30,	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation	36,296	38,193
(Gain) loss on disposal of fixed assets — non-production facilities	(2,556)	5,267
(Write-back of provision)provision for doubtful debts and bad debts written off, net	(2,722)	6,778
Insurance	15,315	11,126
Repairs and maintenance	8,746	7,450
Salaries and welfare expenses	211,328	151,674
Taxes other than income taxes (Note (a))	167,233	110,875
Traveling and entertainment	28,991	18,652
Utilities and office supplies	21,423	17,722
Amortization of goodwill (Note 11)	12,324	12,324
Others	24,991	27,714
	<b>521,369</b>	<b>407,775</b>

- (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.

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

### 5 GENERAL AND ADMINISTRATIVE EXPENSES (CONTINUED)

- (b) Amortization charge of mining rights of RMB9,715,000, impairment loss on fixed assets of RMB94,180,000 and provision for obsolete inventories of RMB38,703,000 which were included in general and administrative expenses for the period ended June 30, 2003 have now been reclassified as part of the Group's cost of goods sold.

### 6 OTHER EXPENSES (INCOME), NET

	Unaudited	
	Six months ended June 30,	
	2004	2003
	RMB'000	RMB'000
Other income		
Government subsidies	(2,248)	(4,297)
Interest waived (Note (a))	—	(44,476)
Net exchange gain (Note (b))	(13,574)	—
Realized gain on short-term investments	(561)	(189)
Unrealized gain on futures contracts (Note (c))	(205)	—
	<b>(16,588)</b>	(48,962)
Other expenses		
Penalties, fines and compensations	212	(25)
Net exchange loss	—	7,009
Unrealized loss on short-term investments	2,407	275
Loss on futures contracts (Note (c))		
— realized	33,452	35,266
— unrealized	—	2,384
	<b>36,071</b>	44,909
Other expenses (income), net	<b>19,483</b>	(4,053)

- (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 six months ended June 30, 2003.
- (b) The net exchange gain for the six months ended June 30, 2004 was mainly related to foreign currency deposits.
- (c) The Group trades a small portion of primary aluminum through the Shanghai Futures Exchange. When the price of primary aluminum is increasing, and the futures contracts price is lower than the spot price, the Group will close its open futures contracts to sell the primary aluminum in the open market at higher spot price. As a result, loss on future contracts incurred.

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

## 7 STAFF COSTS

	Unaudited	
	Six months ended June 30,	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Wages, salaries and bonus	1,070,267	807,605
Housing subsidies	92,001	67,403
Contributions to the retirement schemes (Note (a))	203,274	157,171
Welfare and other expenses	271,466	187,364
	<b>1,637,008</b>	<b>1,219,543</b>

- (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.

## 8 EXPENSES CHARGED TO THE PROFIT AND LOSS ACCOUNT

	Unaudited	
	Six months ended June 30,	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation	993,951	936,903
Operating lease rentals in respect of land and buildings	79,597	67,473
Loss on disposal of fixed assets	6,943	5,267
Amortization of mining rights (Note 11)	17,303	9,715
Provision for obsolete inventories	33,400	38,703
Impairment loss on fixed assets	14,613	94,180

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

### 9 TAXATION

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

	Unaudited	
	Six months ended June 30,	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Current taxation:		
PRC income tax	1,158,288	575,392
Over provision in prior period	(23,787)	(34,430)
Deferred tax	(99,053)	(78,191)
	<b>1,035,448</b>	462,771
Share of income tax attributable to jointly controlled entities	31	354
	<b>1,035,479</b>	<b>463,125</b>

- (b) The current PRC income taxes of the Company, its subsidiaries and the 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 so long as these branches and the subsidiary continue to engage in qualified operations in their respective regions.
  - (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) Deferred income tax is calculated in full on temporary differences under the liability method using the respective applicable rates.

### 10 EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended June 30, 2004 is based on the Group's profit for the six months ended June 30, 2004 of RMB3,401,351,000 (six months ended June 30, 2003: RMB1,575,019,000) and the weighted average number of 11,034,683,446 shares in issue (six months ended June 30, 2003: 10,499,900,153 shares) during the period.

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

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

## 11 CAPITAL EXPENDITURE

	Intangible assets			Property, plant and equipment RMB'000
	Goodwill RMB'000	Mining rights RMB'000	Total RMB'000	
<b>Audited</b>				
Net book amount as of December 31, 2003	431,334	274,681	706,015	25,554,197
<b>Unaudited</b>				
Additions	—	31,079	31,079	3,716,356
Disposals	—	—	—	(11,855)
Amortization/depreciation charge for the period	(12,324)	(17,303)	(29,627)	(1,104,099)
Impairment losses	—	—	—	(14,613)
Net book amount as of June 30, 2004	<u>419,010</u>	<u>288,457</u>	<u>707,467</u>	<u>28,139,986</u>

## 12 ACCOUNTS RECEIVABLE, NET

	Unaudited As of June 30, 2004 RMB'000	Audited As of December 31, 2003 RMB'000
Trade receivables (Note (a))	499,558	384,992
Bills receivables (Note (b))	465,531	402,899
	<u>965,089</u>	<u>787,891</u>

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

## 12 ACCOUNTS RECEIVABLE, NET (CONTINUED)

## (a) Trade receivables

	<b>Unaudited As of June 30, 2004 RMB'000</b>	Audited As of December 31, 2003 RMB'000
Gross trade receivables	823,576	721,943
Less: Provision for doubtful accounts	(324,018)	(336,951)
	<b>499,558</b>	<b>384,992</b>

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

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 June 30, 2004, the aging analysis of trade receivables, net of provision made, was as follows:

	<b>Unaudited As of June 30, 2004 RMB'000</b>	Audited As of December 31, 2003 RMB'000
Within 1 month	338,786	163,065
Between 2 and 6 months	54,315	111,614
Between 7 and 12 months	55,680	27,764
Between 1 and 2 years	38,752	53,895
Between 2 and 3 years	12,025	28,654
	<b>499,558</b>	<b>384,992</b>

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

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

### 13 DUE FROM/TO RELATED PARTIES

#### (a) Due from related parties

As of June 30, 2004, the aging analysis of amounts due from related parties, which are trading in nature, was as follows:

	<b>Unaudited</b> <b>As of</b> <b>June 30,</b> <b>2004</b> <b>RMB'000</b>	Audited As of December 31, 2003 <i>RMB'000</i>
Within 1 month	125,408	12,080
Between 2 and 6 months	8,765	6,946
Between 7 and 12 months	6,968	48,058
Between 1 and 2 years	46,825	5,778
Between 2 and 3 years	4,252	69,749
Over 3 years	61,549	—
	<b>253,767</b>	<b>142,611</b>

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

#### (b) Due to related parties

As of June 30, 2004, the aging analysis of amounts due to related parties, which are trading in nature, was as follows:

	<b>Unaudited</b> <b>As of</b> <b>June 30,</b> <b>2004</b> <b>RMB'000</b>	Audited As of December 31, 2003 <i>RMB'000</i>
Within 1 month	13,409	61,155
Between 2 and 6 months	4,244	8,570
Between 7 and 12 months	7,111	48
Over 1 year	904	1,486
	<b>25,668</b>	<b>71,259</b>

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

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

## 14 OTHER CURRENT ASSETS

	<b>Unaudited As of June 30, 2004 RMB'000</b>	Audited As of December 31, 2003 RMB'000
Purchase deposits to suppliers	210,182	301,845
Other deposits and prepayments	168,001	158,943
Value-added tax recoverable	38,585	7,072
Short-term listed investments, at fair value (Note (a))	44,350	50,080
Other receivables (Note (b))	171,287	157,979
	<b>632,405</b>	<b>675,919</b>

- (a) As of June 30, 2004, short-term listed investments primarily represented PRC treasury bonds held at fair value.
- (b) As of June 30, 2004, the balances of the Group were stated net of provision for doubtful receivables of RMB166,202,000 (December 31, 2003: RMB169,646,000).

## 15 ACCOUNTS PAYABLE

	<b>Unaudited As of June 30, 2004 RMB'000</b>	Audited As of December 31, 2003 RMB'000
Trade payables (Note (a))	1,424,723	1,441,175
Bills payable (Note (b))	93,752	426,491
	<b>1,518,475</b>	<b>1,867,666</b>

## (a) Trade payables

As of June 30, 2004, the aging analysis of trade payables was as follows:

	<b>Unaudited As of June 30, 2004 RMB'000</b>	Audited As of December 31, 2003 RMB'000
Within 1 month	852,693	1,071,310
Between 2 and 6 months	415,002	241,040
Between 7 and 12 months	77,302	46,504
Between 1 and 2 years	23,266	34,689
Between 2 and 3 years	15,113	10,550
Over 3 years	41,347	37,082
	<b>1,424,723</b>	<b>1,441,175</b>

- (b) Bills payable are repayable within six months.



## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

## 16 ISSUED CAPITAL AND RESERVES

## (a) Share capital

	<b>Company</b>	
	<b>Unaudited</b>	Audited
	<b>As of</b>	As of
	<b>June 30,</b>	December 31,
	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Registered, issued and fully paid:		
11,049,876,153 (2003: 10,499,900,153) shares of RMB1.00 each	<b>11,049,876</b>	<b>10,499,900</b>

As of January 1, 2003 and December 31, 2003, the registered, issued and fully paid capital of the Company were RMB10,499,900,153, consisting of 7,750,010,185 domestic shares and 2,749,889,968 H shares of par value of RMB1.00 per share.

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, and as of June 30, 2004, 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.

## (b) Reserves

## (i) Capital reserve

	<b>Unaudited</b>	Audited
	<b>As of</b>	As of
	<b>June 30,</b>	December 31,
	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
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>3,504,128</b>	803,454
Gain on waiver of interest (Note 6 (a))	<b>147,476</b>	147,476
Other reserve	<b>138,860</b>	138,860
	<b>6,194,268</b>	<b>3,493,594</b>

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

### 16 ISSUED CAPITAL AND RESERVES (*CONTINUED*)

#### (b) Reserves (*Continued*)

##### (i) Capital reserve (*Continued*)

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 the 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 the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

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

In accordance with the 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 the 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.

No transfer has been made to statutory surplus reserve and statutory public welfare fund from profit for the period. The Company, however, has retained sufficient funds for such purpose and these transfers shall be made at the end of the year in accordance with the articles of association of the Company.

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

## 17 LONG-TERM LOANS

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

	<b>Unaudited</b> <b>As of</b> <b>June 30,</b> <b>2004</b> <b>RMB'000</b>	Audited As of December 31, 2003 <i>RMB'000</i>
Loans - unsecured	6,983,883	6,228,473
Current portion of long-term loans	(915,986)	(815,845)
	<u>6,067,897</u>	<u>5,412,628</u>

As of June 30, 2004, the Group's bank loans and loans from other financial institutions were repayable as follows:

	<b>Bank loans</b>	
	<b>Unaudited</b> <b>As of</b> <b>June 30,</b> <b>2004</b> <b>RMB'000</b>	Audited As of December 31, 2003 <i>RMB'000</i>
Within one year	839,166	686,867
In the second year	1,355,566	1,054,566
In the third to fifth year	3,482,356	3,557,137
After the fifth year	1,229,975	750,925
	<u>6,907,063</u>	<u>6,049,495</u>

	<b>Loans from other financial institutions</b>	
	<b>Unaudited</b> <b>As of</b> <b>June 30,</b> <b>2004</b> <b>RMB'000</b>	Audited As of December 31, 2003 <i>RMB'000</i>
Within one year	76,820	128,978
In the third to fifth year	—	50,000
	<u>76,820</u>	<u>178,978</u>

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

### 17 LONG-TERM LOANS (CONTINUED)

	<b>Unaudited</b> <b>As of</b> <b>June 30,</b> <b>2004</b> <b>RMB'000</b>	<b>Total</b>  Audited As of December 31, 2003 <i>RMB'000</i>
Within one year	915,986	815,845
In the second year	1,355,566	1,054,566
In the third to fifth year	3,482,356	3,607,137
After the fifth year	1,229,975	750,925
	<b>6,983,883</b>	<b>6,228,473</b>

### 18 LITIGATION AND CONTINGENT LIABILITIES

#### (a) Litigation

As of June 30, 2004, 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. On March 29, 2004, the establishment of the Pingguo JV was approved by the National Development and Reform Commission.

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

## 19 COMMITMENTS

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

	<b>Unaudited As of June 30, 2004 RMB'000</b>	Audited As of December 31, 2003 RMB'000
Contracted but not provided for	6,766,888	4,494,778
Authorized but not contracted for	12,405,461	11,756,110
	<b>19,172,349</b>	<b>16,250,888</b>

## (b) Commitments under operating leases

The Group had future aggregate minimum lease payments in relation to land and buildings under non-cancelable operating leases as follows:

	<b>Unaudited As of June 30, 2004 RMB'000</b>	Audited As of December 31, 2003 RMB'000
Not later than one year	184,611	173,611
Later than one year and not later than five years	738,444	694,444
Later than five years (Note)	7,196,898	7,233,286
	<b>8,119,953</b>	<b>8,101,341</b>

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

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

### 20 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.

Save as disclosed elsewhere in the condensed interim financial statements, significant related party transactions which were carried out in the normal course of the Group's business during the period were as follows:

		<b>Unaudited</b>	
		<b>Six months ended June 30,</b>	
	<i>Note</i>	<b>2004</b>	2003
		<b>RMB'000</b>	<i>RMB'000</i>
Sales of materials and finished goods to:	(a)		
Holding company and fellow subsidiaries		<b>762,468</b>	488,921
Jointly controlled entity		<b>9,009</b>	15,501
Other related parties		<b>4,839</b>	12,657
		<b>776,316</b>	<u>517,079</u>
Provision of utility services to holding company and fellow subsidiaries	(b)	<b>169,020</b>	<u>109,532</u>
Provision of engineering, construction and supervisory services by the holding company and fellow subsidiaries	(c)	<b>319,662</b>	<u>234,359</u>
Purchases of key and auxiliary materials from:	(d)		
Holding company and fellow subsidiaries		<b>159,565</b>	110,062
Other related parties		<b>25,699</b>	38,319
		<b>185,264</b>	<u>148,381</u>
Provision of social services and logistics services by the holding company	(e)	<b>449,200</b>	<u>323,929</u>
Land and building rental charged by the holding company	(f)	<b>85,663</b>	<u>70,872</u>

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

### 20 RELATED PARTY TRANSACTIONS (*CONTINUED*)

- (a) Materials and finished goods sold to Chinalco, fellow subsidiaries and other related companies, during both periods mainly comprised sales of alumina, primary aluminum and scrap materials. Transactions entered into during the periods are covered by General Agreement on Mutual Provision of Production Supplies and Ancillary Services entered into between the Company and Chinalco. The pricing policy is summarized below:
- Adoption of the price prescribed by the PRC government (“Stated-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).
- (b) Utility services, including electricity, gas, heat and water, are supplied at the pricing policy as set out in (a) above.
- (c) Engineering, project construction and supervisory services were provided by Chinalco and fellow subsidiaries to the Company mainly for construction projects during the period. 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) 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.
- (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 adopted in the General Agreement on Mutual Provision of Production Supplies and Ancillary Services Agreement.

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

### 20 RELATED PARTY TRANSACTIONS (*CONTINUED*)

- (f) Rental fee is payable to Chinalco for the use of land, inclusive of land for industrial or 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 is approximately RMB166 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 retained by Chinalco.

As of June 30, 2004, 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 from July 1, 2001 to June 30, 2011 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.

### 21 SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN HONG KONG AND IN THE UNITED STATES

These condensed interim financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong ("HK GAAP") which may differ in various material respects from accounting principles generally accepted in the United States ("U.S. GAAP"). Such differences involve methods for measuring the amounts shown in these condensed interim financial statements, as well as additional disclosure required by U.S. GAAP.

Major and significant differences, which affect net income and equity, include the following:

#### (a) Capitalization of finance costs

Under HK GAAP, finance costs are capitalized to the extent that such costs are directly attributable to the construction of a qualifying asset. Under U.S. GAAP, finance costs capitalized are limited to the lower of actual finance costs incurred or avoidable finance costs. Avoidable finance cost is the amount that could have been avoided if expenditure for the qualifying assets had not been made, when qualifying expenditures have occurred and activities necessary to prepare the asset have begun.

The periodic depreciation expense under HK GAAP and U.S. GAAP differs as a result of the difference in the amount of interest capitalized under the two accounting standards.

#### (b) Depreciation of revalued fixed assets

Under HK GAAP, fixed assets transferred from Chinalco to the Group as part of the Group reorganization were accounted for under the acquisition accounting method at July 1, 2001, the date of the Group reorganization. As a result, the Group's fixed assets were revalued at fair value under HK GAAP. The fixed assets were appraised by China United Assets Appraisal Co Ltd. and Chesterton Petty Limited as of December 31, 2000 and as of June 30, 2001, respectively. Under U.S. GAAP, the new cost basis for the fixed assets was not established for the Group as the transfer was a transaction under common control. When an asset is transferred from the parent to its wholly-owned subsidiary, the subsidiary records the asset at the parent's carrying value.



**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS****21 SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN HONG KONG AND IN THE UNITED STATES (CONTINUED)****(c) Amortization of goodwill**

Under HK GAAP, goodwill resulting from acquisitions under purchase accounting is recognized as an intangible asset and amortized on a straight-line basis over its estimated useful economic life for not more than 20 years. Under U.S. GAAP, annual amortization of this amount ceased effective January 1, 2002. Goodwill is subjected to annual impairment testing and is written down if carrying value exceeds fair value.

**(d) Revaluation of mining rights**

As part of the Group reorganization and pursuant to the Mining Rights Transfer Agreement, the Group acquired mining rights of eight bauxite mines and four limestone quarries from Chinalco for a consideration of RMB285,341,000. Under HK GAAP, mining rights acquired are capitalized and stated at acquisition cost less accumulated impairment losses. Amortization of mining rights is calculated on a straight-line basis over their estimated useful lives of not more than 30 years. Under U.S. GAAP, the new cost basis was not established for the Group as the transfer was a transaction under common control.

**(e) Income tax effect of U.S. GAAP adjustments**

Under U.S. GAAP, a deferred tax liability relating to the addition of the interest capitalization effect and deferred tax assets relating to the reversal of the fixed assets revaluation, goodwill amortization and mining rights are recognized.

The net effects on net income and basic net income per share of the Group for the six months ended June 30, 2004 and equity as of June 30, 2004, after taking account of the above differences and related income tax effect, are an increase in net income of approximately RMB118 million (six months ended June 30, 2003: RMB133 million), an increase in basic net income per share of approximately RMB0.01 Yuan (six months ended June 30, 2003: RMB0.01 Yuan) and a decrease in equity of approximately RMB3.1 billion (December 31, 2003: RMB3.4 billion) respectively. In computing the net effects, the Directors are required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the estimates of revenue and expenses. Accounting estimates have been employed to determine reported amounts, including realizability, useful lives of tangible assets and income taxes. Actual results could differ from those estimates.