The pro forma combined 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 the pro forma combined financial statements, as well as additional disclosures required by U.S. GAAP.

Effect on net income of significant differences between HK GAAP and U.S. GAAP is as follows:

		For the Year Ended December 31,		
	Note	2000 RMB'000	**2001 RMB'000**	**2001 US$'000**
Net income under HK GAAP		2,522,997	**1,588,077**	**191,876**
U.S. GAAP adjustments:				
Capitalization of finance costs	a	80,151	**94,949**	**11,472**
Depreciation of capitalized finance costs	a	(20,219)	**(25,517)**	**(3,083)**
Depreciation impact of revaluation of fixed assets	b	—	**134,300**	**16,227**
Reversal of amortization of mining rights	c	—	**4,755**	**575**
Income tax effect of U.S. GAAP adjustments	d	(19,778)	**(68,801)**	**(8,314)**
Net income under U.S. GAAP		2,563,151	**1,727,763**	**208,753**
Net income under U.S. GAAP before extraordinary gain on settlement of loan and interest payables		2,538,284	**1,624,585**	**196,287**
Extraordinary gain on settlement of loan and interest payables	e	24,867	**103,178**	**12,466**
Net income under U.S. GAAP		2,563,151	**1,727,763**	**208,753**
Basic and diluted net income per share under U.S. GAAP		RMB0.32	**RMB0.22**	**US$0.02**

Effect on owner's equity of significant differences between HK GAAP and U.S. GAAP is as follows:

	Note	As of December 31, 2000 RMB'000	2001 RMB'000	2001 US$'000
Owner's equity under HK GAAP		5,026,099	**4,096,085**	**1,703,125**
U.S. GAAP adjustments:				
Capitalization of finance costs	a	267,371	**362,320**	**43,776**
Depreciation on capitalized finance costs	a	(51,219)	**(76,736)**	**(9,271)**
Revaluation of fixed assets	b	—	**(3,652,990)**	**(441,364)**
Revaluation of mining rights	c		**(280,342)**	**(33,872)**
Income tax effect of U.S. GAAP adjustments	d	(71,330)	**(140,131)**	**(16,930)**
Owner's equity under U.S. GAAP		5,170,921	**10,308,206**	**1,245,464**

In preparing the summary of differences between HK GAAP and U.S. GAAP, the Directors are required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the estimates of revenue and expenses. Accounting estimates have been employed in these financial statements to determine reported amounts, including realizability, useful lives of tangible assets and income taxes. Actual results could differ from those estimates.

(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) Revaluation of fixed assets

Under HK GAAP, fixed assets transferred from Chinalco to Chalco as part of the Reorganization were accounted for under the purchase method at July 1, 2001, the date of the Reorganization. As a result, Chalco'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 Chalco 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.

(c) Reclassification of mining rights

As part of the Reorganization and pursuant to the Mining Rights Transfer Agreement, the Company 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 30 years. Under U.S. GAAP, the new cost basis was not established for Chalco as the transfer was a transaction under common control.

(d) 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 and mining rights are recognized.

(e) Extraordinary gain on settlement of loan and interest payables

As described in Note 7(a) to the financial statements, the Group recorded a gain on the settlement, by the China Great Wall Zhongzhou Aluminum Plant of the outstanding loan and interest payable with the State Development Bank of China.

In addition, the Group recorded a gain on the settlement, by Shanxi Aluminum Plant of the outstanding interest payable with the State Development Bank of China. Shanxi Aluminum Plant had already paid tax previously regarding this interest waiver and therefore created a deferred tax asset. However, upon the Reorganization, Chalco provided against the related deferred tax asset for book purposes because of the uncertainty of carrying forward deferred tax benefits from Chinalco.

Under HK GAAP, such gains are classified as items of operating income. Under U.S. GAAP, such gains would be classified as extraordinary items. The per share effects relating to the settlement are as follows:

	For the Year Ended December 31,		
	2000	**2001**	**2001**
Basic and diluted net income per share under U.S. GAAP:			
Net income before extraordinary gain on settlement of loan and interest payables	RMB0.32	**RMB0.20**	**US$0.02**
Extraordinary gain on settlement of loan and interest payables	0.00	**0.01**	**0.00**

(f) Jointly owned assets

As described in Note 2(b)(ii) to the financial statements, under HK GAAP, the Group records its proportionate share of the jointly owned assets and liabilities at Guizhou Aluminum Complex. Under U.S. GAAP, the Group would record the entire amount of the jointly owned assets and record the unowned portion of these assets as minority interest. The minority interest in the jointly owned assets was purchased by Chalco subsequent to June 30, 2001 as part of the reorganization. The unowned portion of the jointly owned assets was RMB114,757,000 and RMB NIL at December 31, 2000 and 2001 respectively.

In addition, under U.S. GAAP, the Group would record the entire amount of revenue and expenses arising from operations of such jointly owned assets. Therefore, compared to the amounts under HK GAAP for the year ended December 31, 2000 and 2001, the corresponding amounts are higher under U.S. GAAP for sales of goods by RMB281,267,000 and RMB227,732,000 respectively, for cost of goods sold by RMB261,267,000 and RMB212,732,000 respectively, for general and administrative expenses by RMB20,000,000 and RMB15,000,000 respectively, and for depreciation by RMB20,000,000 and RMB15,000,000 respectively.

(g) Cash and cash equivalents

Under HK GAAP, cash and cash equivalents are calculated net of short-term bank advances. U.S. GAAP defines cash and cash equivalents as short-term highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash and cash equivalents determined under U.S. GAAP are greater than that determined under HK GAAP in the amount of RMB32,840,000 and RMB NIL at December 31, 2000 and 2001, respectively, which represent the bank loans payable within three months from the date of the advance.

(h) Comprehensive income

U.S. GAAP requires that a full set of general-purpose financial statements report comprehensive income and its components. Comprehensive income includes net income and the following items of other comprehensive income, when applicable: foreign currency translation items, minimum pension liability adjustments, and unrealized gains and losses on certain investments in debt and equity securities. During the year ended December 31, 2000 and 2001, the only items of other comprehensive income, net of taxes, are the unrealized holding gains/(losses) on short-term investment of RMB2,385,000 and RMB(605,000), respectively.

(i) Financial instruments

Under U.S. GAAP, it is required to discuss the various market risks that the Group is exposed to as well as disclose the fair values of its financial instruments. The Group is exposed to the following types of market risk:

(i) Credit risk

The carrying amount of accounts receivable included in the balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group performs periodic credit evaluations of its customers and believes that adequate provision for uncollectable accounts receivable has been made in the consolidated/pro forma combined financial statements.

The Group's major customers include:

	For the Year Ended December 31,			
	2000 Revenue	Percentage of total revenue	2001 Revenue	Percentage of total revenue
	RMB'000	*%*	*RMB'000*	*%*
Baotou Aluminum Co	482,336	3	354,078	3
Lanzhou Aluminum Co			180,391	1
Qingtongxia Aluminum Co	412,220	2	585,752	5
Lanzhou Liancheng Aluminum Co	325,453	2		
Fushun Aluminum Co	297,494	2	359,552	3
Liancheng Factory	288,803	2		
Chong Qing Huan Ya Aluminum Company Limited			253,428	2
Marc Rich & Co Investment AG			297,131	2

The Group maintains substantially all of its cash and cash equivalents in interest bearing accounts in several major financial institutions in the PRC. No other financial assets carry a significant exposure to credit risk.

The Group uses the majority of its futures contracts traded on the Shanghai Futures Exchange to hedge its sales. The futures contracts are marked to market at balance sheet date and corresponding unrealized holding gains and losses are recorded in income for the period. The unrealized holding gains/(losses) for the years ended December 31, 2000 and 2001 were RMB1,704,000 and RMB500,000 respectively.

(ii) Interest rate risk

The Group is exposed to changes in interest rates due to its long-term debt obligations. The Group enters into debt obligations to support general corporate purposes including capital expenditures and working capital needs. The Group does not currently use any derivative instruments to modify the nature of its debt so as to manage its interest rate risk.

(iii) Foreign currency risk

The Group has assets and liabilities that are subject to fluctuations in foreign currency exchange rates. However, the Group does not use any derivative instruments to reduce its economic exposure to changes in exchange rates. During the years ended December 31, 2000 and 2001, the Group had the following foreign currency denominated short-term deposits:

	As of December 31	
Short-term deposits	2000	**2001**
	RMB'000	***RMB'000***
U.S. dollar denominated deposits	16,565	**3,952**
Euro denominated deposits	—	**4**

The Group also had the foreign currency denominated accounts receivable at December 31, 2000 and 2001:

	As of December 31	
Accounts receivable	2000	**2001**
	RMB'000	***RMB'000***
U.S. dollar denominated accounts receivable	59,960	**34,123**
Euro denominated accounts receivable	—	**42,253**
Netherlands guilder denominated accounts receivable	—	**2,879**

The Group had foreign currency denominated bank loans during the years ended December 31, 2000 and 2001, details of which are disclosed in Note 31 to the financial statements.

(iv) Commodity price risk

As the Group sells primary aluminum at market prices, it is exposed to fluctuations in these prices. The Group uses a limited number of futures contracts to reduce its exposure to fluctuations in the price of primary aluminum.

(v) Fair values

The carrying amounts of the Group's financial assets including cash and cash equivalents, time deposits, investments, trade accounts receivable, notes receivable, amounts due from Chinalco and other receivables and financial liabilities including trade accounts payable, short-term debt and other payables, approximate their fair values due to their short maturities. Accordingly, such financial instruments are not included in the following table that provides information about the carrying amounts and estimated fair values of other financial instruments, both on and off the balance sheets:

	As of December 31, 2000		**As of December 31, 2001**	
	Carrying value *RMB'000*	Estimated fair value *RMB'000*	**Carrying value** ***RMB'000***	**Estimated fair value** ***RMB'000***
Long-term loans:				
Bank loans	6,418,129	6,403,482	**5,051,998**	**5,0129,376**
Other loans	921,073	921,073	**1,664,105**	**1,664,105**

The fair values of long-term loans are based on discounted cash flows using applicable discount rates based upon the prevailing market rates of interest offered to the Group for debt with substantially the same characteristics and maturities. Such discount rates ranged from 4.3% to 5.6% and 4.0% to 7.0% as at December 31, 2000 and 2001, respectively, depending on the type of the debt.

	As of December 31, 2000		**As of December 31, 2001**	
	Carrying value *RMB'000*	Estimated fair value *RMB'000*	**Carrying value** ***RMB'000***	**Estimated fair value** ***RMB'000***
Futures contracts	117,065	115,361	**36,590**	**36,090**

The fair values of futures contracts are based on quoted market prices. At December 31, 2000 and 2001, the Company held futures contracts covering 7,605 tonnes and 2,120 tonnes of aluminum maturing in the first 3 months of 2001 and in the first 3 months of 2002, respectively. Prices of these aluminum future contracts outstanding at December 31, 2000 and 2001 ranged from 15.1 to 16.2, and from 12.9 to 13.9, respectively.

At December 31, 2000 and 2001, the Company also held futures contracts covering Nil tonnes and 565 tonnes of copper maturing in May of 2002, respectively. Prices of these cooper future contracts outstanding at December 31, 2000 and 2001 ranged from Nil per tonne and from 14.5 to 15.4 per tonne.

Investments in unlisted equity securities are unquoted equity interests and there are no quoted market prices for such investments in the PRC. Accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs.

(j) Related party transactions

Chinalco is owned by the PRC government which also owns a significant portion of the productive assets in the PRC. Therefore, the majority of the Group's business activities had been conducted with enterprises directly or indirectly owned or controlled by the PRC government. For HK GAAP, the Group has disclosed in Note 35 transactions and balances with its immediate parent Chinalco and related companies. For U.S. GAAP purposes, the Group believes that it has provided meaningful disclosures of related party transactions through the major customer disclosures in (i)(i) and the transactions with its immediate parent disclosed in Note 35. Although the majority of the Group's activities are with PRC government authorities and affiliates and other PRC controlled enterprises, none individually constitutes a major customer or supplier other than those disclosed.

(k) Recent US accounting pronouncements

In July 2001, the Financial Accounting Standards Board issued SFAS No. 142, "Goodwill and Other Intangible Assets" ("FAS 142"). Effective January 1, 2002, Chalco will adopt FAS 142 for existing goodwill and other intangible assets. FAS 142 requires that goodwill no longer be amortized to earnings, but instead be subject to periodic testing for impairment. FAS 142 requires the assignment of assets acquired and liabilities assumed, including goodwill, to reporting units for purposes of goodwill impairment testing. Under the provisions of FAS 142, any impairment of goodwill as well as the unamortized balance of negative goodwill will be written off and recognized as a cumulative effect of a change in accounting principle effective January 1, 2002. Chalco had unamortized goodwill of RMB480,630,000 at December 31, 2001, and had recorded net goodwill amortization expense of RMB12,324,000 for the year ended December 31, 2001. The company is currently evaluating the effect and the application of FAS 142 on the consolidated financial statements; it is expected to result in cessation of amortization of goodwill, in an annual amount of RMB24,032,000.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations" ("FAS 143"). FAS 143 requires the recognition of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the carrying amount of the related long-lived asset is correspondingly increased. Over time, the liability is accreted to its present value and the related capitalized charge is depreciated over the useful life of the asset. FAS 143 is required to be adopted by Chalco beginning on January 1, 2003. Management is currently assessing the details of the standard and is preparing a plan of implementation. Impact is not expected to be material.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS 144"), FAS 144 supercedes SFAS 121, "Accounting for the Impairment of Long-lived Assets and for Long-Lived Assets to Be Disposed of". Effective January 1, 2002, Chalco will adopt FAS 144. FAS 144 applies to all long-lived assets (including discontinued operations) and consequently amends Accounting Principles Board Opinion No. 30. FAS 144 develops one accounting model for long-lived assets that are to be disposed of by sale. FAS 144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less costs to sell. Additionally, FAS 144 expands the scope of discontinued operations to include all components of an entity with operations that (1) can be distinguished from the rest of the entity and (2) will be eliminated from the ongoing operations of the entity in a disposal transaction. Management is currently developing a plan to apply the provisions of this standard to its operations on an ongoing basis. Impact is not expected to be material.