NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

1 REORGANIZATION, BASIS OF PREPARATION AND ACCOUNTING POLICIES

(a) Reorganization

Aluminum Corporation of China Limited (the "Company") was incorporated in the People's Republic of China (the "PRC") on September 10, 2001 as a joint stock company with limited liability as a result of a group reorganization of Aluminum Corporation of China 中國鋁業公司 ("Chinalco" or the "holding company").

In accordance with a reorganization agreement between Chinalco and the Company effective as of July 1, 2001 (the "Reorganization"), 7,673.77 million shares were issued by the Company to Chinalco in exchange for the transfer of various assets, liabilities and interests related to the alumina and primary aluminum businesses including (i) the mining and refining of bauxite into alumina, (ii) the smelting of alumina into primary aluminum, (iii) the research institute and (iv) the marketing, distribution and sale of alumina and primary aluminum (collectively the "Core Units") to the Company, with the exception of one bauxite mine, two limestone quarries and one carbon plant (collectively the "Excluded Businesses") and certain bank balances (the "Excluded Cash") which were retained by Chinalco. As part of the Reorganization, Chinalco transferred mining rights in relation to eight bauxite mines and four limestone quarries to the Company. In addition, 196.80 million shares were issued to Guangxi Development and Investment Co., Ltd. 廣西開發投資有限責任公司("Guangxi Development") and 129.43 million shares to Guizhou Provincial Materials Development and Investment Corporation 貴州省物資開發投資公司("Guizhou Development") for the transfer of interest in Pingguo Aluminum Company 平果鋁業公司 and interest in assets jointly owned with Guizhou Development for the production of primary aluminum for sale in Guizhou province, respectively.

Hereinafter, the Group refers to the Company together with its subsidiaries or, where the context so requires, in respect of the period before the Reorganization, such subsidiaries, the Excluded Businesses and the Excluded Cash as if they were either the Company's subsidiaries or part of the Company at that time.

(b) Basis of preparation and accounting policies

The unaudited condensed interim financial statements as of June 30, 2002 and for the six months period then ended comprise the consolidated balance sheet, consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with the notes thereto, all of which are in condensed format. These condensed interim financial statements are prepared in accordance with Hong Kong 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 2001 annual financial statements.

1 REORGANIZATION, BASIS OF PREPARATION AND ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation and accounting policies *(continued)*

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, 2001 except that the Group has presented its cash flow statement with effect from January 1, 2002 based on SSAP 15 (revised): "Cash Flow Statements" issued by the HKSA which is effective for accounting periods commencing on or after January 1, 2002. The comparative figures have been reclassified accordingly. In addition, the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA became effective for accounting periods commencing on or after January 1, 2002:

SSAP1 (revised):	Presentation of financial statements
SSAP11 (revised):	Foreign currency translation
SSAP33:	Discontinuing operations
SSAP34:	Employee benefits

The adoption of the above SSAPs has no material effect on the Group's prior year financial statements.

The audited comparative figures comprise the combined profit and loss account, combined cash flow statement and combined statement of changes in equity for the six month period ended June 30, 2001 together with the notes thereto (collectively, the "combined comparative figures") and the audited consolidated balance sheet as of December 31, 2001 together with the notes thereto, all of which are in condensed format. The combined comparative figures are extracted from the audited combined financial statements for the six-month period ended June 30, 2001 prepared for inclusion in the prospectus dated November 30, 2001 of the Company for initial public offering purposes but are presented here in condensed format for information purposes only. They have been prepared on a combined basis as if the operations and business of and the assets and liabilities related to the Core Units and both the Excluded Businesses and the Excluded Cash were transferred to the Group from Chinalco on January 1, 2001.

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:

	Unaudited Consolidated six months ended June 30, 2002 *RMB'000*	Audited Combined six months ended June 30, 2001 *RMB'000*
Turnover		
Sales of goods, net of value-added tax	7,994,753	7,906,287
Other revenues		
Sales of scrap and other materials	130,976	155,082
Supply of electricity, heat, gas and water	84,351	78,960
Rendering of services	12,306	56,868
Interest income	23,252	20,872
Total other revenues	250,885	311,782
Total revenues	8,245,638	8,218,069

Primary reporting format — business segments

The Group is organized in the PRC into two main business segments:

Alumina segment	—	mining and processing of bauxite into alumina and the associated distribution activities.
Primary aluminum segment	—	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 the alumina business and minor production and distribution of alumina hydrate, are grouped under corporate and other services segment.

For the period to June 30, 2001, sales between segments in the same plant were made at cost whereas sales between plants were made at prices approximate to market prices. Effective July 1, 2001, all inter-segment and inter-plant sales are made at prices approximate to market prices.

2 TURNOVER, REVENUE AND SEGMENT INFORMATION *(continued)*

Primary reporting format - business segments *(continued)*

	Unaudited Consolidated six months ended June 30, 2002 *RMB'000*	Audited Combined six months ended June 30, 2001 *RMB'000*
Segment results		
Turnover		
Alumina		
External sales	3,520,110	3,484,947
Inter-segment sales	1,257,699	1,131,584
	4,777,809	4,616,531
Primary aluminum		
External sales	4,446,359	4,402,305
Corporate and other services		
External sales	28,284	19,035
Inter-segment elimination	(1,257,699)	(1,131,584)
Total turnover	7,994,753	7,906,287
Cost of goods sold		
Alumina	3,800,416	3,117,530
Primary aluminum	3,725,345	3,509,802
Corporate and other services	24,463	15,867
Inter-segment elimination	(1,226,699)	(1,108,210)
Total cost of goods sold	6,323,525	5,534,989
Gross profit		
Alumina	977,393	1,499,001
Primary aluminum	721,014	892,503
Corporate and other services	3,821	3,168
Inter-segment elimination	(31,000)	(23,374)
Total gross profit	1,671,228	2,371,298

2 TURNOVER, REVENUE AND SEGMENT INFORMATION *(continued)*

Primary reporting format - business segments *(continued)*

	Unaudited Consolidated six months ended June 30, 2002 *RMB'000*	Audited Combined six months ended June 30, 2001 *RMB'000*
Segment results *(continued)*		
Other costs, net of other revenues and other income		
Alumina	283,858	361,492
Primary aluminum	84,591	103,826
Corporate and other services	25,485	3,077
Unallocated	226,164	112,986
Total other costs, net of other revenues and other income	620,098	581,381
Segment operating profit/(loss)		
Alumina	693,535	1,137,509
Primary aluminum	636,423	788,677
Corporate and other services	(21,664)	91
Unallocated	(226,164)	(112,986)
Inter-segment elimination	(31,000)	(23,374)
Total operating profit	1,051,130	1,789,917
Finance costs	272,290	279,025
Operating profit after finance costs	778,840	1,510,892
Share of (loss)/profit of a jointly controlled entity	(168)	1,324
Profit before income taxes	778,672	1,512,216
Income taxes	187,681	472,069
Profit after income taxes	590,991	1,040,147
Minority interests	18,641	45,752
Profit for the period	572,350	994,395

Secondary reporting format — geographical segments

All assets and operations of the Group are located in the PRC which 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 and costs incurred in the supply of electricity, heat, gas and water.

4 SELLING AND DISTRIBUTION EXPENSES

	Unaudited Consolidated six months ended June 30, 2002 *RMB'000*	Audited Combined six months ended June 30, 2001 *RMB'000*
Advertising expenses	164	1,490
Packaging expenses	71,959	23,198
Salaries and welfare expenses	6,744	3,636
Transportation and loading	150,794	92,265
Others	18,890	19,160
	248,551	139,749

5 GENERAL AND ADMINISTRATIVE EXPENSES

	Unaudited Consolidated six months ended June 30, 2002 *RMB'000*	Audited Combined six months ended June 30, 2001 *RMB'000*
Depreciation	38,655	34,626
Impairment loss on fixed assets	—	1,533
Loss on disposal of fixed assets	1,890	22,010
(Write-back of provision)/provision for doubtful debts and bad debts written off, net	(71,865)	49,958
Repairs and maintenance	6,261	13,295
Insurance	6,419	11,232
Operating lease rentals in respect of land and buildings	16,021	3,548
Salaries and welfare expenses	131,267	123,255
Taxes other than income taxes	82,513	86,890
Travelling and entertainment	17,007	17,945
Utilities and office supplies	23,038	27,616
Amortization of goodwill	12,324	—
Amortization of mining rights	4,755	—
Others	61,309	25,626
	329,594	417,534

6 OTHER EXPENSES/(INCOME), NET

	Unaudited Consolidated six months ended June 30, 2002 *RMB'000*	Audited Combined six months ended June 30, 2001 *RMB'000*
Government subsidies	—	(1,750)
Interest waived	—	(265)
Net exchange loss/(gain)	18,622	(21,920)
Penalties, fines and compensations	411	215
Gain on short-term investments		
—unrealized	—	(150)
—realized	(114)	(3,261)
	18,919	(27,131)

7 STAFF COSTS

	Unaudited Consolidated six months ended June 30, 2002 *RMB'000*	Audited Combined six months ended June 30, 2001 *RMB'000*
Wages and salaries	743,316	841,794
Housing subsidies	57,939	73,096
Contributions to the retirement scheme	154,470	166,969
Welfare and other expenses	148,625	155,271
	1,104,350	1,237,130

8 DEPRECIATION

	Unaudited Consolidated six months ended June 30, 2002 *RMB'000*	Audited Combined six months ended June 30, 2001 *RMB'000*
Depreciation charged to the profit and loss account during the period	926,086	713,232

9 TAXATION

The current income taxes of the Company, its subsidiaries and the jointly controlled entity have been provided at the PRC enterprises income tax rate of 33% (Combined six months ended June 30, 2001: 33%) on the estimated assessable profits for the respective periods, except for a subsidiary which is taxed at a preferential rate of 15% with effect from January 1, 2000 as it is classified as a "high-tech" enterprise in its province for tax purposes.

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

	Unaudited Consolidated six months ended June 30, 2002 *RMB'000*	Audited Combined six months ended June 30, 2001 *RMB'000*
PRC income tax	165,393	470,943
Deferred tax	22,288	—
	187,681	470,943
Share of taxation attributable to a jointly controlled entity	—	1,126
	187,681	472,069

Prior to the Reorganization, 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 periods. As the utilization of these tax losses in future periods, as a result of the Reorganization, is uncertain, the resulting deferred tax benefit arising from these tax losses of approximately RMB220 million (December 31, 2001: RMB220 million) has not been recognized in the financial statements.

10 DIVIDENDS

The Board of Directors does not recommend an interim dividend for the six months ended June 30, 2002.

11 EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended June 30, 2002 is based on the Group's consolidated profit of RMB572,350,000 and the weighted average number of 10,491,735,811 issued shares during the period.

The calculation of basic earnings per share for the period ended June 30, 2001 is based on the Group's combined profit of RMB994,395,000 and the 8,000,000,000 shares issued and outstanding upon the legal formation of the Company as if such shares had been outstanding throughout the period.

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

12 CAPITAL EXPENDITURE

	Goodwill *RMB'000*	Mining rights *RMB'000*	Total intangible assets *RMB'000*	Property, plant and equipment *RMB'000*
Audited				
Net book amount as of December 31, 2001	480,630	280,586	761,216	20,558,151
Unaudited				
Additions	—	—	—	1,380,227
Disposals	—	—	—	(5,639)
Depreciation/amortization charge	(12,324)	(4,755)	(17,079)	(955,255)
Net book amount as of June 30, 2002	468,306	275,831	744,137	20,977,484

13 ACCOUNTS RECEIVABLE, NET

	Unaudited As of June 30, 2002 *RMB'000*	Audited As of December 31, 2001 *RMB'000*
Trade receivables (Note (a))	1,346,167	1,431,031
Bills receivables (Note (b))	1,058,189	935,266
	2,404,356	2,366,297

(a) Trade receivables

Gross trade receivables	1,698,653	1,856,747
Less: Allowances for doubtful accounts	(352,486)	(425,716)
	1,346,167	1,431,031

13 ACCOUNTS RECEIVABLE, NET *(continued)*

(a) Trade receivables *(continued)*

No specific credit period is granted by the Group to its customers. Certain of the Group's sales were on advance payment or documents against payment and sales to newly established customers are normally expected to be settled shortly after delivery. A credit period, which may be extended for up to one year, may be granted, in respect of sales to substantial or long-established customers.

As of June 30, 2002, the aging analysis of trade receivables, net of provision made, was as follows:

	Unaudited As of June 30, 2002 ***RMB'000***	Audited As of December 31, 2001 *RMB'000*
Within 1 month	647,523	789,891
Between 2 and 6 months	452,371	541,680
Between 7 and 12 months	203,863	45,955
Between 1 and 2 years	24,841	39,002
Between 2 and 3 years	17,569	14,503
	1,346,167	1,431,031

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

14. DUE FROM/TO RELATED PARTIES

(a) Due from related parties, net

Included in the amounts due from related parties as of June 30, 2002 were trade balances of RMB48,273,000 (As of December 31, 2001: RMB20,420,000), which were net of provision made, the aging analysis of which was as follows:

	Unaudited 2002 ***RMB'000***	Audited 2001 *RMB'000*
Within 1 month	25,667	13,409
Between 2 and 6 months	12,148	1,538
Between 7 and 12 months	5,833	2,554
Over 1 year	4,625	2,919
	48,273	20,420

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

(b) Due to related parties

Included in the amounts due to related parties as of June 30, 2002 were trade balances of RMB75,637,000 (As of December 31, 2001: RMB30,947,000), the aging analysis of which was as follows:

	Unaudited 2002 ***RMB'000***	Audited 2001 *RMB'000*
Within 1 month	19,221	7,502
Between 2 and 6 months	51,404	23,445
Between 7 and 12 months	5,012	—
	75,637	30,947

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

15. OTHER CURRENT ASSETS

	Unaudited As of June 30, 2002 *RMB'000*	Audited As of December 31, 2001 *RMB'000*
Purchase deposits to suppliers	244,505	174,934
Other deposits and prepayments	123,556	160,908
Value-added tax recoverable	15,315	20,893
Short-term listed investments, at fair value	2,351	2,376
Others	171,880	287,553
	557,607	646,664

As of June 30, 2002, others were stated net of provision for doubtful receivables of RMB175,544,000 (December 31, 2001: RMB178,808,000).

16 ACCOUNTS PAYABLE

	Unaudited As of June 30, 2002 *RMB'000*	Audited As of December 31, 2001 *RMB'000*
Trade payables (Note (a))	1,328,069	1,462,577
Bills payables (Note (b))	660,446	663,446
	1,988,515	2,126,023

16 ACCOUNTS PAYABLE *(continued)*

(a) Trade payables

As of June 30, 2002, the aging analysis of trade payables was as follows:

	Unaudited As of June 30, 2002 *RMB'000*	Audited As of December 31, 2001 *RMB'000*
Within 1 month	790,316	866,481
Between 2 and 6 months	331,450	245,544
Between 7 and 12 months	64,050	150,564
Between 1 and 2 years	46,016	71,126
Between 2 and 3 years	3,566	47,347
Over 3 years	92,671	81,515
	1,328,069	1,462,577

(b) Bills payables are repayable within six months.

17 ISSUED CAPITAL AND RESERVES

(a) Share capital

	Unaudited As of June 30, 2002 *RMB'000*	Audited As of December 31, 2001 *RMB'000*
Registered, issued and fully paid: 10,499,900,153 (2001:10,352,942,000) shares of RMB1.00 each	10,499,900	10,352,942

The initial registered capital of the Company was RMB8,000,000,000, consisting of 8,000,000,000 domestic shares of par value of RMB1.00 per share. These 8,000,000,000 shares were issued to promoters of the Company, namely Chinalco, Guangxi Development and Guizhou Development.

17 ISSUED CAPITAL AND RESERVES *(continued)*

(a) Share capital *(continued)*

In mid December 2001, the registered, issued and fully paid capital of the Company were all increased to RMB10,352,942,000 by the issuance of an additional 2,352,942,000 new H shares of RMB1.00 each to the public. In addition, a total number of 235,294,200 domestic shares in issue were sold to the public by certain holders of domestic shares.

In January 2002, the registered, issued and fully paid capital of the Company were further 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 were sold to the public by certain holders of domestic shares. As of June 30, 2002, the total number of domestic shares and H shares were 7,750,009,985 shares and 2,749,890,168 shares, respectively.

(b) Reserves

(i) 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.

(ii) 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.

17 ISSUED CAPITAL AND RESERVES *(continued)*

(c) Owner's equity

The owner's equity as of June 30, 2001 represented the total of the capital and reserves at that date of the enterprises and companies comprising the Group.

18 LONG-TERM LOANS

	Unaudited As of June 30, 2002	Audited As of December 31, 2001
	RMB'000	*RMB'000*
Loans		
Unsecured	5,662,568	6,125,346
Secured	393,000	590,757
	6,055,568	6,716,103
Current portion of long-term loans	(1,025,179)	(1,324,242)
	5,030,389	5,391,861

As of June 30, 2002, the Group's bank loans and other borrowings were repayable as follows:

	Bank loans	
	Unaudited As of June 30, 2002	Audited As of December 31, 2001
	RMB'000	*RMB'000*
Within one year	550,688	691,707
In the second year	1,167,172	787,976
In the third to fifth year	2,715,500	2,763,427
After the fifth year	455,552	808,888
	4,888,912	5,051,998

18 LONG-TERM LOANS *(continued)*

	Other loans	
	Unaudited As of June 30, 2002 *RMB'000*	Audited As of December 31, 2001 *RMB'000*
Within one year	474,491	632,535
In the second year	306,745	447,550
In the third to fifth year	385,420	564,020
After the fifth year	—	20,000
	1,166,656	1,664,105

	Total	
	Unaudited As of June 30, 2002 *RMB'000*	Audited As of December 31, 2001 *RMB'000*
Within one year	1,025,179	1,324,242
In the second year	1,473,917	1,235,526
In the third to fifth year	3,100,920	3,327,447
After the fifth year	455,552	828,888
	6,055,568	6,716,103

19 PENDING LITIGATION AND CONTINGENT LIABILITIES

(a) Pending litigation

(i) Certain lawsuits, where Chinalco or entities retained by Chinalco are the defendants or plaintiffs and such lawsuits are related to business and operations transferred to the Group, were also transferred to the Group as part of the Reorganization. The results of these proceedings cannot be determined at present, the Directors of the Company are of the opinion that any resulting liabilities will not have a material impact on the financial position of the Group.

(ii) In July 2002, a service provider of the Company sued the Company in Hong Kong for recovery of service fee of approximately HK$27.8 million for document processing, printing and translation services provided in respect of the prospectus during the listing process of the Company. The Directors consider that the service fee claimed is excessive and the Company is vigorously defending the lawsuit. However, provision, which is considered as appropriate and adequate by the Directors, has already been made in the financial statements as of June 30, 2002 and December 31, 2001.

(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 a branch of the Company in Pingguo, Guangxi (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 to the other party as compensation.

Although the final joint venture agreement was not executed within eight months of the closing of the Company's global offering, 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 feasibility study report of the joint venture is expected to be submitted shortly to the PRC State Development Planning Commission for approval. Neither the Company nor Alcoa has asserted a claim against the other party for compensation payment.

20 COMMITMENTS

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

	Unaudited As of June 30, 2002 *RMB'000*	Audited As of December 31, 2001 *RMB'000*
Contracted but not provided for	738,881	3,241,135
Authorized but not contracted for	4,140,961	2,427,418
	4,879,842	5,668,553

(b) Commitments under operating leases

As of June 30, 2002, the Group had future aggregate minimum lease payments in relation to land and buildings under non-cancelable operating leases as follows:

	Unaudited As of June 30, 2002 *RMB'000*	Audited As of December 31, 2001 *RMB'000*
Not later than one year	141,968	141,968
Later than one year and not later than five years	567,873	567,873
Later than five years	6,016,861	6,087,845
	6,726,702	6,797,686

21 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 the Group is not to disclose transactions with stated-owned enterprises whose relationships with the Group were merely by virtue of common control or significant influence by the PRC government as related party transactions.

21 RELATED PARTY TRANSACTIONS *(continued)*

Saved as the transactions with respect to the Reorganization 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:

	Note	**Unaudited Consolidated six months ended June 30, 2002** ***RMB'000***	Audited Combined six months ended December 31, 2001 *RMB'000*
Sales of materials and finished goods to:	(a)		
Holding company and fellow subsidiaries		97,162	220,588
Jointly controlled entity		10,211	10,571
Other related parties		95,051	145,146
		202,424	376,305
Provision of utility services to the holding company	(b)	77,453	90,660
Provision of engineering, construction and supervisory services by the holding company and fellow subsidiaries	(c)	148,964	178,722
Purchases of key and auxiliary materials from:	(d)		
Holding company and fellow subsidiaries		105,958	151,765
Other related parties		30,876	76,733
		136,834	228,498
Provision of social services and logistics services by the holding company	(e)	221,532	241,025
Land and building rentals charged by the holding company	(f)	70,956	—
Net temporary advances to related parties		—	72,663

21 RELATED PARTY TRANSACTIONS *(continued)*

(a) Materials and finished goods sold to Chinalco, fellow subsidiaries and other related companies (including an associated company of a promotor, namely Guangxi Aluminum Development and Investment Stock Co., Ltd. ("Guangxi Associate")), during both periods mainly comprised sales of alumina, primary aluminum and scrap materials. Transactions entered into prior to the Reorganization were conducted in the normal course of business at normal commercial terms. Transaction entered into after the Reorganization are as covered by the following agreements:

(i) 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).

(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, gas, heat and water, were supplied to Chinalco at cost prior to the Reorganization. Cost of the Company was based on the government fixed price where applicable. Subsequent to the Reorganization, these are supplied 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 the period. Prior to the Reorganization, these services were provided at prevailing market prices and on commercial terms no more favourable than terms available to third parties. Subsequent to the Reorganization, 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.

21 RELATED PARTY TRANSACTIONS *(continued)*

(d) Prior to the Reorganization, key and auxiliary materials (including bauxite, limestone, carbon, cement, coal) were purchased from Chinalco, fellow subsidiaries and other related companies at normal commercial terms. Subsequent to the Reorganization these purchases 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. Prior to the Reorganisation, these services were provided at cost. Subsequent to the Reorganization, provision of these services are covered by the Comprehensive Social and Logistics Services Agreement entered in 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.

(f) Prior to the Reorganization, land had been occupied and used by the Company without incurring charge payable to Chinalco. Subsequent to the Reorganization, rental fee was payable to Chinalco for the rental of land, inclusive of both for industrial or for commercial purposes, occupied and used by the Group 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 RMB134 million.

As at June 30, 2002, there existed the following arrangements between the Group and Chinalco, fellow subsidiaries and other related parties:

(i) Prior to the Reorganization, guarantees were granted by Chinalco to banks for the loans borrowed by the Group. Subsequent to the Reorganization, these guarantees are covered by the Guarantee of Debts Contract entered into between the Company and Chinalco.

Besides, prior to the Reorganization, guarantees were granted by the Group to banks and other enterprises for the loans borrowed by fellow subsidiaries and other related parties. Subsequent to the Reorganization, these guarantees are retained by Chinalco.

(ii) Prior to the Reorganization, the right to use trademarks were provided to Chinalco free of charge. Subsequent to the Reorganization, the Company granted to Chinalco a non-exclusive right to use two trademarks for a period for ten years at no cost pursuant to the Tradwmark 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.

22 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 involve differences in methods for measuring the amounts shown in the financial statements prepared in accordance with accounting principles generally accepted in the United States ("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.

(b) Revaluation of fixed assets

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

(c) Revaluation of mining rights

As part of the 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 cash consideration of approximately RMB285 million. 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 the Group as the transfer was a transaction under common control.

22 SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN HONG KONG AND IN THE UNITED STATES *(continued)*

(d) Goodwill

Under HK GAAP, goodwill is recognized as an asset and amortized by equal annual installments over its estimated useful economic life of not more than 20 years. Under U.S. GAAP, effective January 1, 2002, goodwill is no longer subject to amortization and only subject to impairment test.

The net effects on net income and basic net income per share of the Group for the six months ended June 30, 2002 and equity as of June 30, 2002, after taking account of the above differences and related income tax effect, are an increase in net income of approximately RMB102 million (six months ended June 30, 2001: RMB16 million), an increase in basic net income per share of approximately RMB0.01 Yuan (six months ended June 30, 2001: RMB0.01 Yuan) and a decrease in equity of approximately RMB3.7 billion (December 31, 2001: RMB3.8 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.