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 2002 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, 2002, except that the Group adopted SSAP 12 (revised) "Income Taxes" ("SSAP 12") issued by the HKSA which is effective for accounting periods commencing on or after January 1, 2003. The changes to the Group's accounting policies upon the adoption of SSAP 12 (revised) are set out in the paragraphs below. In addition, the Group adopted SSAP 35 "Government Grants and Disclosure of Government Assistance" ("SSAP 35") issued by the HKSA which is effective for accounting periods commencing on or after July 1, 2002. The adoption of SSAP 35 has no significant effect on the Group's prior year financial statements.

Deferred taxation

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

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

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

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

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

2 TURNOVER, REVENUE AND SEGMENT INFORMATION

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

	Unaudited Six months ended June 30,	
	2003 RMB'000	2002 RMB'000
Turnover		
Sales of goods, net of value-added tax	**10,339,514**	7,994,753
Other revenues		
Sale of scrap and other materials	**80,819**	130,976
Supply of electricity, heat, gas and water	**124,757**	84,351
Rendering of services	**6,985**	12,306
Interest income	**13,739**	23,252
Income from investment securities	**356**	—
Total other revenues	**226,656**	250,885
Total revenues	**10,566,170**	8,245,638

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 — 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 the conduction of 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.

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, 2003 RMB'000	2002 RMB'000
Segment results		
Turnover		
Alumina		
External sales	5,650,957	3,520,110
Inter-segment sales	1,473,464	1,257,699
	7,124,421	4,777,809
Primary aluminum		
External sales	4,656,512	4,446,359
Corporate and other services		
External sales	32,045	28,284
Inter-segment elimination	(1,473,464)	(1,257,699)
Total turnover	10,339,514	7,994,753
Cost of goods sold		
Alumina	4,694,020	3,800,416
Primary aluminum	3,944,234	3,725,345
Corporate and other services	25,568	24,463
Inter-segment elimination	(1,467,017)	(1,226,699)
Total cost of goods sold	7,196,805	6,323,525
Gross profit		
Alumina	2,430,401	977,393
Primary aluminum	712,278	721,014
Corporate and other services	6,477	3,821
Inter-segment elimination	(6,447)	(31,000)
Total gross profit	3,142,709	1,671,228

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, 2003 RMB'000	2002 RMB'000
Segment results *(continued)*		
Other costs, net of other revenues and other income		
Alumina	269,694	283,858
Primary aluminum	228,393	84,591
Corporate and other services	114,775	25,485
Unallocated	196,681	226,164
Total other costs, net of other revenues and other income	809,543	620,098
Segment operating profit (loss)		
Alumina	2,160,707	693,535
Primary aluminum	483,885	636,423
Corporate and other services	(108,298)	(21,664)
Unallocated	(196,681)	(226,164)
Inter-segment elimination	(6,447)	(31,000)
Total operating profit	2,333,166	1,051,130
Finance costs	227,618	272,290
Operating profit after finance costs	2,105,548	778,840
Share of profit (loss) of jointly controlled entities	1,073	(168)
Profit before income taxes	2,106,621	778,672
Income taxes	463,125	187,681
Profit after income taxes	1,643,496	590,991
Minority interests	68,477	18,641
Profit for the period	1,575,019	572,350

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.

4 SELLING AND DISTRIBUTION EXPENSES

	Unaudited Six months ended June 30,	
	2003 *RMB'000*	2002 *RMB'000*
Advertising expenses	426	164
Packaging expenses	50,060	71,959
Salaries and welfare expenses	11,671	6,744
Transportation and loading	149,604	150,794
Others	29,820	18,890
	241,581	248,551

5 GENERAL AND ADMINISTRATIVE EXPENSES

	Unaudited Six months ended June 30,	
	2003 *RMB'000*	2002 *RMB'000*
Depreciation	38,193	38,655
Impairment loss on fixed assets	94,180	—
Loss on disposal of fixed assets	5,267	1,890
Provision (write-back of provision) for obsolete inventories	38,703	(15,626)
Provision (write-back of provision) for doubtful debts and bad debts written off, net	6,778	(71,865)
Repairs and maintenance	7,450	6,261
Insurance	11,126	6,419
Salaries and welfare expenses	151,674	131,267
Taxes other than income taxes	110,875	82,513
Travelling and entertainment	18,652	17,007
Utilities and office supplies	17,722	23,038
Amortization of goodwill	12,324	12,324
Amortization of mining rights	9,715	4,755
Others	27,714	92,956
	550,373	329,594

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

6 OTHER (INCOME) EXPENSES, NET

	Unaudited Six months ended June 30, 2003 RMB'000	2002 RMB'000
Government subsidies	(4,297)	—
Interest waived (Note (a))	(44,476)	—
Net exchange loss	7,009	18,622
Penalties, fines and compensations	(25)	411
Loss (gain) on short-term investments		
- realized	—	(114)
- unrealized	86	—
Loss on futures contracts		
- realized	35,266	—
- unrealized	2,384	—
	(4,053)	18,919

(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 period.

7 STAFF COSTS

	Unaudited Six months ended June 30, 2003 RMB'000	2002 RMB'000
Wages and salaries	807,605	743,316
Housing subsidies	67,403	57,939
Contributions to the retirement schemes	157,171	154,470
Welfare and other expenses	187,364	148,625
	1,219,543	1,104,350

8 EXPENSES CHARGED TO THE PROFIT AND LOSS ACCOUNT

	Unaudited Six months ended June 30, 2003 RMB'000	2002 RMB'000
Depreciation	936,903	926,086
Operating lease rentals in respect of land and buildings	67,473	70,508

9 TAXATION

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

	Unaudited Six months ended June 30, 2003 RMB'000	2002 RMB'000
Current taxation:		
PRC income tax	**575,392**	165,393
Overprovision in prior period	**(34,430)**	—
Deferred tax	**(78,191)**	22,288
	462,771	187,681
Share of income tax attributable to jointly controlled entities	**354**	—
	463,125	187,681

(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 periods, 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 of the Company located in the western region of China (namely Guangxi branch, Qinghai branch and Guizhou branch) 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 the relevant branches continue to engage in qualified operations in their respective regions.

(ii) A subsidiary in the Shandong province is taxed at a preferential rate of 15% as it is classified as a "high-tech" enterprise in its province for tax purposes.

(c) Prior to the group reorganization which took place in 2001, 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. Given the restrictions on the utilization of such tax losses for periods subsequent to the group reorganization, the Company is awaiting final agreement by the relevant tax authorities regarding the use of such tax losses. The resulting deferred tax benefit arising from these tax losses of approximately RMB203 million (December 31, 2002: RMB220 million) has not been recognized in the financial statements.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

10 EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended June 30, 2003 is based on the Group's profit for the period of RMB1,575,019,000 (six months ended June 30, 2002:RMB572,350,000) and the outstanding number of 10,499,900,153 shares in issue (six months ended June 30, 2002: weighted average number of 10,491,735,811 shares) during the period.

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

11 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, 2002	455,982	280,955	736,937	22,563,565
Unaudited				
Additions	—	—	—	2,130,840
Disposals	—	—	—	(34,731)
Amortization/depreciation charge for the period	(12,324)	(9,715)	(22,039)	(1,020,300)
Impairment losses	—	—	—	(94,180)
Net book amount as of June 30, 2003	443,658	271,240	714,898	23,545,194

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

12 ACCOUNTS RECEIVABLE, NET

	Unaudited As of June 30, 2003 RMB'000	Audited As of December 31, 2002 RMB'000
Trade receivables (Note (a))	466,260	847,792
Bills receivables (Note (b))	829,019	1,068,056
	1,295,279	1,915,848

	Unaudited As of June 30, 2003 RMB'000	Audited As of December 31, 2002 RMB'000
(a) Trade receivables		
Gross trade receivables	795,296	1,174,559
Less: Provision for doubtful accounts	(329,036)	(326,767)
	466,260	847,792

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

	Unaudited As of June 30, 2003 RMB'000	Audited As of December 31, 2002 RMB'000
Within 1 month	200,303	284,834
Between 2 and 6 months	84,978	269,880
Between 7 and 12 months	116,416	115,900
Between 1 and 2 years	42,743	165,022
Between 2 and 3 years	21,820	12,156
	466,260	847,792

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

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

13 DUE FROM/TO RELATED PARTIES

(a) Due from related parties

As of June 30, 2003, the aging analysis of amounts due from related parties, which are trading in nature, was as follows:

	Unaudited As of June 30, 2003 *RMB'000*	Audited As of December 31, 2002 *RMB'000*
Within 1 month	**7,136**	10,476
Between 2 and 6 months	**5,500**	12,277
Between 7 and 12 months	**6,502**	7,966
Between 1 and 2 years	**112,416**	122,659
	131,554	153,378

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

	Unaudited As of June 30, 2003 *RMB'000*	Audited As of December 31, 2002 *RMB'000*
Within 1 month	**33,119**	47,142
Between 2 and 6 months	**3,578**	56,130
Between 7 and 12 months	**3,974**	1,273
Over 1 year	**—**	559
	40,671	105,104

Other payables to holding company, 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

	Unaudited As of June 30, 2003 *RMB'000*	Audited As of December 31, 2002 *RMB'000*
Purchase deposits to suppliers	**291,141**	269,474
Other deposits and prepayments	**203,810**	161,554
Value-added tax recoverable	**5,635**	9,877
Short-term listed investments, at fair value	**5,148**	4,859
Others (Note (a))	**113,097**	124,744
	618,831	570,508

(a) As of June 30, 2003, the balances were stated net of provision for doubtful receivables of RMB174,481,000 (As of December 31, 2002: RMB148,542,000).

15 ACCOUNTS PAYABLE

	Unaudited As of June 30, 2003 *RMB'000*	Audited As of December 31, 2002 *RMB'000*
Trade payables (Note (a))	**1,260,172**	1,348,816
Bills payable (Note (b))	**637,006**	622,693
	1,897,178	1,971,509

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

15 ACCOUNTS PAYABLE *(continued)*

(a) Trade payables

As of June 30, 2003, the aging analysis of trade payables was as follows:

	Unaudited As of June 30, 2003 *RMB'000*	Audited As of December 31, 2002 *RMB'000*
Within 1 month	**603,653**	768,637
Between 2 and 6 months	**474,157**	387,728
Between 7 and 12 months	**92,601**	74,221
Between 1 and 2 years	**67,205**	60,817
Between 2 and 3 years	**6,409**	3,420
Over 3 years	**16,147**	53,993
	1,260,172	1,348,816

(b) Bills payable are repayable within six months.

16 ISSUED CAPITAL AND RESERVES

(a) Share capital

	Unaudited As of June 30, 2003 *RMB'000*	Audited As of December 31, 2002 *RMB'000*
Registered, issued and fully paid: 10,499,900,153 (2002: 10,499,900,153) shares of RMB1.00 each	**10,499,900**	10,499,900

As of January 1, 2002, the Company's registered, issued and fully paid share capital amounted to RMB10,352,942,000. In January 2002, the registered, issued and fully paid capital of the Company were both 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"). As part of this exercise, a total number of 14,695,815 domestic shares in issue owned as to 9,447,940 domestic shares by Aluminum Corporation of China ("Chinalco" or the "holding company") and as to 5,247,875 domestic shares in total by the three minority shareholders were converted to H shares and sold to the public. As of June 30, 2003 and December 31, 2002, total domestic shares and H shares were 7,750,010,185 shares and 2,749,889,968 shares, respectively.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

16 ISSUED CAPITAL AND RESERVES *(continued)*

(b) Reserves

(i) Capital reserve

	Unaudited As of June 30, 2003 *RMB'000*	Audited As of December 31, 2002 *RMB'000*
Capital reserve represents:		
Premium on issue of shares upon group reorganization	**2,403,804**	2,403,804
Premium on subsequent issue of shares to the public	**803,454**	803,454
Gain on waiver of interest	**147,476**	103,000
	3,354,734	3,310,258

Capital reserve can only be used to increase share capital. The increase during the period is due to the gain on waiver of interest as set out in Note 6(a). Pursuant to PRC accounting standards 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 of the same amount has been made from retained earnings to reflect its non-distributable nature.

(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.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

16 ISSUED CAPITAL AND RESERVES *(continued)*

(b) Reserves *(continued)*

(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.

17 LONG-TERM LOANS

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

	Unaudited As of June 30, 2003 *RMB'000*	Audited As of December 31, 2002 *RMB'000*
Loans - unsecured	6,048,213	6,003,282
Current portion of long-term loans	(948,916)	(1,053,984)
	5,099,297	4,949,298

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

17 LONG-TERM LOANS *(continued)*

As of June 30, 2003, the Group's bank loans and other borrowings were repayable as follows:

	Bank loans	
	Unaudited As of June 30, 2003 ***RMB'000***	Audited As of December 31, 2002 *RMB'000*
Within one year	**869,938**	841,131
In the second year	**719,704**	889,399
In the third to fifth year	**3,573,360**	2,761,494
After the fifth year	**600,813**	942,985
	5,763,815	5,435,009

	Other loans	
	Unaudited As of June 30, 2003 ***RMB'000***	Audited As of December 31, 2002 *RMB'000*
Within one year	**78,978**	212,853
In the second year	**105,420**	105,420
In the third to fifth year	**100,000**	250,000
	284,398	568,273

	Total	
	Unaudited As of June 30, 2003 ***RMB'000***	Audited As of December 31, 2002 *RMB'000*
Within one year	**948,916**	1,053,984
In the second year	**825,124**	994,819
In the third to fifth year	**3,673,360**	3,011,494
After the fifth year	**600,813**	942,985
	6,048,213	6,003,282

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

18 LITIGATION AND CONTINGENT LIABILITIES

(a) Litigation

As of June 30, 2003, the Group has no significant pending litigation.

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

Pursuant to a memorandum of understanding dated November 12, 2001 (the "MOU") signed between the Company and Alcoa International (Asia) Limited ("Alcoa"), the two parties have agreed to form a 50/50 equity joint venture which will own and operate the alumina and primary aluminum production facilities owned by 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 (approximately RMB62.1M) 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.

On December 17, 2002 a joint announcement was made by the Company and Alcoa regarding the revised timetable in formalizing the Pingguo JV. According to this joint announcement, both parties were satisfied with the progress of preparations and up to now, the parties are actively pushing forward the formation of the joint venture. 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.

19 COMMITMENTS

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

	Unaudited As of June 30, 2003 ***RMB'000***	Audited As of December 31, 2002 *RMB'000*
Contracted but not provided for	**1,786,549**	2,449,333
Authorized but not contracted for	**5,689,530**	5,477,890
	7,476,079	7,927,223

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

19 COMMITMENTS *(continued)*

(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, 2003 *RMB'000*	Audited As of December 31, 2002 *RMB'000*
Not later than one year	141,995	141,995
Later than one year and not later than five years	567,980	567,980
Later than five years	5,875,218	5,946,215
	6,585,193	6,656,190

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 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.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

20 RELATED PARTY TRANSACTIONS *(continued)*

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 Six months ended June 30, 2003 RMB'000	2002 RMB'000
Sales of materials and finished goods to:	(a)		
Holding company and fellow subsidiaries		**488,921**	97,162
Jointly controlled entity		**15,501**	10,211
Other related parties		**12,657**	95,051
		517,079	202,424
Provision of utility services to holding company and fellow subsidiaries	(b)	**109,532**	77,453
Provision of engineering, construction and supervisory services by the holding company and fellow subsidiaries	(c)	**234,359**	148,964
Purchases of key and auxiliary materials from:	(d)		
Holding company and fellow subsidiaries		**110,062**	105,958
Other related parties		**38,319**	30,876
		148,381	136,834
Provision of social services and logistics services by the holding company	(e)	**323,929**	221,532
Land and building rentals charged by the holding company	(f)	**70,872**	70,956

(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 during the periods are as covered by the following agreements:

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

20 RELATED PARTY TRANSACTIONS *(continued)*

(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, 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 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 is payable to Chinalco for the use of land, inclusive of land for industrial or 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 of June 30, 2003, there existed the following arrangements between the Group and Chinalco, fellow subsidiaries and other related parties:

(i) Guarantees provided 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 policies which conform 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.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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

(b) Depreciation of fixed assets stated at fair value

Under HK GAAP, fixed assets transferred from Chinalco to the Group were accounted for under the acquisition accounting method. As a result, the Group's fixed assets were stated 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.

(c) Goodwill

Under HK GAAP, goodwill resulting from acquisitions under purchase accounting is recognized as an asset and amortized on a straight-line basis over its estimated useful economic life for not more than 20 years. Under US 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

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 no 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 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, 2003 and equity as of June 30, 2003, after taking account of the above differences and related income tax effect, are an increase in net income of approximately RMB133 million (six months ended June 30, 2002: RMB102 million), an increase in basic net income per share of approximately RMB0.01 (six months ended June 30, 2002: RMB0.01) and a decrease in equity of approximately RMB3.4 billion (December 31, 2002: RMB3.5 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.