

The Board of Directors of Aluminum Corporation of China Limited (the "Company") is pleased to announce the unaudited interim results of operations of the Company, its subsidiaries, and jointly controlled entities (the "Group") for the six months ended June 30, 2005, and would like to express our gratitude to our shareholders and the staff for their support for the Company.

RESULTS

The consolidated turnover of the Group for the six months ended June 30, 2005 amounted to RMB17,849million, representing an increase of 25.65% over the same period last year. The consolidated net profit attributable to shareholders of the Company for the six months ended June 30, 2005 amounted to RMB3,554million, representing an increase of 1.78% over the same period last year. The basic earnings per share was RMB0.32 for the six months ended June 30, 2005.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEET

AS OF JUNE 30, 2005

		Unaudited As of June 30, 2005 RMB'000	As restated Audited As of December 31, 2004 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	4	37,024,146	34,026,233
Land use rights	4	15,898	16,048
Intangible assets	4	760,231	729,153
Interest in jointly controlled entities		65,783	66,877
Interest in associated companies	5	866,685	45,000
Investments in securities		—	10,800
Available for sale financial assets		10,305	—
Deferred tax assets		298,318	307,370
Other long-term receivables		107,797	—
		<u>39,149,163</u>	<u>35,201,481</u>
Current assets			
Inventories		5,858,429	5,231,907
Accounts receivable, net	6	2,142,981	1,965,127
Held-to-maturity investments		11,035	10,860
Other current assets		889,742	924,932
Cash and cash equivalents		5,348,628	6,223,763
		<u>14,250,815</u>	<u>14,356,589</u>
Total assets		<u><u>53,399,978</u></u>	<u><u>49,558,070</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

AS OF JUNE 30, 2005

	Note	Unaudited As of June 30, 2005 RMB'000	As restated Audited As of December 31, 2004 RMB'000
Equity			
Share capital and reserves			
Share capital		11,049,876	11,049,876
Reserves		8,696,143	8,696,143
Retained earnings			
Proposed dividend		—	1,944,778
Unappropriated retained earnings		9,429,815	5,875,998
		<u>29,175,834</u>	<u>27,566,795</u>
Minority interests		1,386,183	1,239,083
Share capital and reserves	7	<u>30,562,017</u>	<u>28,805,878</u>
Liabilities			
Non-current liabilities			
Long-term deposits payable		399,028	—
Long-term loans	8	8,283,382	7,391,663
Deferred tax liabilities		171,850	167,054
		<u>8,854,260</u>	<u>7,558,717</u>
Current liabilities			
Accounts payable	9	2,011,258	2,047,831
Other payables and accruals		4,784,517	5,544,568
Taxation payable		701,815	1,078,508
Current portion of long-term loans	8	1,374,525	1,073,658
Short-term bonds	10	1,945,567	—
Unsecured short-term loans		3,166,019	3,448,910
		<u>13,983,701</u>	<u>13,193,475</u>
Total liabilities		<u>22,837,961</u>	<u>20,752,192</u>
Share capital, reserves and total liabilities		<u>53,399,978</u>	<u>49,558,070</u>
Net current assets		<u>267,114</u>	<u>1,163,114</u>
Total assets less current liabilities		<u>39,416,277</u>	<u>36,364,595</u>

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS ENDED JUNE 30, 2005

	Note	Unaudited	
		Six months ended June 30, 2005 RMB'000	As restated Six months ended June 30, 2004 RMB'000
Turnover	11	17,848,749	14,205,165
Cost of goods sold		(11,771,655)	(8,579,287)
Gross profit		6,077,094	5,625,878
Other gains, net	11	93,222	22,484
Selling and distribution expenses	12	(319,495)	(298,060)
General and administrative expenses	13	(606,816)	(523,925)
Research and development expenses		(52,413)	(58,090)
Operating profit		5,191,592	4,768,287
Finance costs	14	(181,370)	(32,890)
Operating profit after finance costs		5,010,222	4,735,397
Share of profit of an associated company		7,798	—
Share of loss of jointly controlled entities		(1,094)	(695)
Profit before income taxes		5,016,926	4,734,702
Income taxes	17	(1,334,374)	(1,077,784)
Profit for the period		3,682,552	3,656,918
Attributable to:			
Shareholders of the Company		3,553,817	3,492,322
Minority interests		128,735	164,596
		3,682,552	3,656,918
Basic earnings per share for profit attributable to shareholders of the Company	18	RMB 0.32	RMB 0.32

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2005

	Unaudited						Total equity RMB'000
	Six months ended June 30, 2005						
	Attributable to shareholders of the Company					Minority interests	
Share capital RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Retained earnings RMB'000	RMB'000		
As of January 1, 2005, as previously reported	11,049,876	6,204,045	1,277,789	1,214,309	7,410,124	—	27,156,143
As of January 1, 2005, as previously separately reported as minority interests	—	—	—	—	—	1,239,083	1,239,083
Effect after adopting HKAS23	—	—	—	—	410,652	—	410,652
As of January 1, 2005, as restated	11,049,876	6,204,045	1,277,789	1,214,309	7,820,776	1,239,083	28,805,878
Profit for the period	—	—	—	—	3,553,817	128,735	3,682,552
Capital contributions	—	—	—	—	—	99,000	99,000
Dividend paid	—	—	—	—	(1,944,778)	(80,635)	(2,025,413)
As of June 30, 2005	11,049,876	6,204,045	1,277,789	1,214,309	9,429,815	1,386,183	30,562,017

	Unaudited						Total equity RMB'000
	Six months ended June 30, 2004						
	Attributable to shareholders of the Company					Minority interests	
Share capital RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Retained earnings RMB'000	RMB'000		
As of January 1, 2004, as previously reported	10,499,900	3,493,594	592,682	563,017	3,593,148	—	18,742,341
As of January 1, 2004, as previously separately reported as minority interests	—	—	—	—	—	651,928	651,928
Effect after adopting HKAS23	—	—	—	—	232,456	—	232,456
As of January 1, 2004, as restated	10,499,900	3,493,594	592,682	563,017	3,825,604	651,928	19,626,725
Profit for the period	—	—	—	—	3,492,322	164,596	3,656,918
Dividend paid	—	—	—	—	(1,060,788)	—	(1,060,788)
Issue of new shares at premium	549,976	2,750,672	—	—	—	—	3,300,648
Share issue expenses	—	(49,998)	—	—	—	—	(49,998)
As of June 30, 2004	11,049,876	6,194,268	592,682	563,017	6,257,138	816,524	25,473,505

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED JUNE 30, 2005

	Unaudited	
	Six months ended June 30, 2005	2004
	RMB'000	RMB'000
Net cash inflow from operating activities	<u>3,061,002</u>	<u>2,788,844</u>
Net cash used in investing activities	<u>(4,864,986)</u>	<u>(3,808,094)</u>
Net cash inflow from financing activities	<u>928,849</u>	<u>2,763,132</u>
(Decrease) / increase in cash and cash equivalents	<u>(875,135)</u>	<u>1,743,882</u>
Cash and cash equivalents at beginning of the period	<u>6,223,763</u>	<u>2,596,440</u>
Cash and cash equivalents at end of the period	<u>5,348,628</u>	<u>4,340,322</u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash, not pledged	<u>5,348,628</u>	<u>4,423,088</u>
Less: term deposits with initial term of over three months	<u>—</u>	<u>(82,766)</u>
Bank balances and cash	<u>5,348,628</u>	<u>4,340,322</u>

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed interim consolidated financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34: "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

These condensed interim consolidated financial statements should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim consolidated financial statements are consistent with those used in the annual financial statements for the year ended December 31, 2004 except that the Group has changed certain of its accounting policies following its adoption of new / revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after January 1, 2005.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 2 below.

2 CHANGES IN ACCOUNTING POLICIES

(a) Effect of adopting new HKFRS

In 2005, the Group adopted the new HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS-Int 12	Scope of HKAS – Int 12 Consolidation — Special Purpose Entities
HKAS-Int 15	Operating Leases — Incentives
HKFRS 3	Business Combinations

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2 CHANGES IN ACCOUNTING POLICIES (*CONTINUED*)

(a) Effect of adopting new HKFRS (*continued*)

The adoption of new / revised HKASs 1, 2, 7, 8, 10, 16, 21, 24, 27, 28, 31, 33, HKAS-Int 12 and HKAS-Int 15 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and jointly controlled entities and other disclosures.
- HKASs 2, 7, 8, 10, 16, 27, 28, 31, 33, HKAS-Int 12 and HKAS-Int 15 had no material effect on the Group's accounting policies.
- HKAS 21 had no material effect on the Group's accounting policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency (Renminbi ("RMB")) as the presentation currency for respective entity financial statements.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

HKAS17 has affected the property, plant and equipment and land use rights disclosures. Land use rights and property, plant and equipment are separately disclosed under the new requirement. The up-front prepayments made for the land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease. In prior years, land use rights were stated at cost less accumulated amortization and accumulated impairment loss.

The adoption of HKAS 23 has resulted in a change in accounting policy relating to the capitalization of borrowings costs. Borrowing costs capitalized are those costs that would have been avoided if the expenditure on the qualifying asset had not been made, which are either the actual costs incurred on a specific borrowing or an amount calculated using the weighted average method, considering all the general borrowings outstanding. In prior years, borrowing costs were capitalized to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until December 31, 2004, goodwill was:

- Amortized on a straight line basis over a period not more than 20 years; and
- Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

- The Group ceased amortization of goodwill from January 1, 2005;
- Accumulated amortization has been eliminated against cost as of December 31, 2004;
- From the year ending December 31, 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment. Any impairment loss will be charged to the profit and loss account directly.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) Effect of adopting new HKFRS (continued)

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- HKFRS 3 and HKAS 38 — prospectively after the adoption date.
- HKAS 39 — does not permit to recognize, derecognize and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Statement of Standard Accounting Practices No. 24 ("SSAP 24") "Accounting for investments in securities" to investments in securities for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognized at January 1, 2005.

(i) The adoption of HKFRS 3 and HKAS 38 resulted in:

	As of June 30, 2005
	RMB'000
Increase in intangible assets	12,324
Increase in retained earnings	12,324

	Six months ended
	June 30, 2005
	RMB'000
Decrease in general and administrative expenses	(12,324)
Increase in basic earnings per share	RMB0.001

(ii) The adoption of HKAS 17 resulted in:

	As of	As of
	June 30,	December 31,
	2005	2004
	RMB'000	RMB'000
Increase in land use rights	15,898	16,048
Decrease in property, plant and equipment	(15,898)	(16,048)

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) Effect of adopting new HKFRS (continued)

(iii) The adoption of HKAS 23 resulted in:

	As of June 30, 2005 RMB'000	As of December 31, 2004 RMB'000	As of January 1, 2004 RMB'000
Increase in property, plant and equipment	592,212	577,706	317,962
Increase in deferred tax liabilities	171,850	167,054	85,506
Increase in retained earnings	420,362	410,652	232,456

	For the year ended December 31, 2004 RMB'000	Six months ended June 30, 2005 RMB'000	2004 RMB'000
Decrease in finance costs	(288,192)	(33,161)	(145,720)
Increase in depreciation of property, plant and equipment	28,448	18,655	12,443
Increase in income tax	81,548	4,796	42,305
Increase in basic earnings per share	RMB0.02	RMB0.001	RMB0.01

(iv) The adoption of HKAS 39 resulted in:

	As of June 30, 2005 RMB'000
Increase in available for sale financial assets	10,305
Decrease in non-trading securities	(10,305)

The adoption of HKAS 31 and HKAS 39 did not have any effect on the basic earnings per share.

The adoption of HKFRS 3 and HKAS 38 did not affect the unappropriated retained earnings as at January 1, 2004.

No early adoption of the following new Standards or Interpretations that have been issued but are not yet effective. It is expected that the adoption of such Standards or Interpretations will not expect to be resulted in substantial changes to the Group's accounting policies.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 3	Emission Rights
HKFRS-Int 4	Determining whether an Arrangement contains A Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds



NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2 CHANGES IN ACCOUNTING POLICIES (*CONTINUED*)

(b) New accounting policies

The accounting policies used for the condensed interim consolidated financial statements for the six months ended June 30, 2005 are the same as those set out in 2004 annual financial statements except for the following:

2.1 Acquisition of subsidiaries and associated companies

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the profit and loss account.

An investment in an associate is accounted for using the equity method from the date on which it becomes an associate. On acquisition of the investment, the measurement and recognition of goodwill is same as that of goodwill arising from the acquisition of subsidiaries. Goodwill relating to an associate is included in the carrying amount of the investment. Appropriate adjustments to the investor's share of the profits or losses after acquisition are made to account based on their fair values at the date of acquisition.

2.2 Property, plant and equipment

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

2.3 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary / associate / jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and jointly controlled entities is included in investments in associates and jointly controlled entities. The Group ceased amortization of goodwill from January 1, 2005. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2 CHANGES IN ACCOUNTING POLICIES (*CONTINUED*)

(b) New accounting policies (*continued*)

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) Group companies

The Company's subsidiaries, jointly-controlled entities and associated companies are located in the People's Republic of China ("PRC"). Its functional and presentation currencies are in RMB.

2.5 Impairment of assets

Assets that have an indefinite useful life are not subject to amortization, which are at least tested annually for impairment or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortization are reviewed for impairment or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).



NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2 CHANGES IN ACCOUNTING POLICIES (*CONTINUED*)

(b) New accounting policies (*continued*)

2.6 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Borrowing costs capitalized are those costs that would have been avoided if the expenditure on the qualifying asset had not been made, which are either the actual costs incurred on a specific borrowing or an amount calculated using the weighted average method, considering all the general borrowings outstanding.

Other borrowing costs are expensed as incurred.

2.7 Investments

From January 1, 2004 to December 31, 2004:

The Group classified its investments in securities, other than subsidiaries, associates and jointly controlled entities, as investment securities, trading securities, held-to-maturity securities and futures contracts.

(i) Investment securities

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

(ii) Trading securities

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

(iii) Held-to-maturity securities

Held-to-maturity securities are stated in the balance sheet at cost less/plus any discount/premium amortised to date. The discount or premium is amortised over the period to maturity and included as interest expense/income in the profit and loss account. Provision is made when there is a diminution in value other than temporary.

The carrying amounts of individual held-to-maturity securities or holdings of the same securities are reviewed at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised in the profit and loss account as an expense immediately.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2 CHANGES IN ACCOUNTING POLICIES (*CONTINUED*)

(b) New accounting policies (*continued*)

2.7 Investments (*continued*)

(iv) Futures contracts

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

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

From January 1, 2005 onwards:

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.



NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2 CHANGES IN ACCOUNTING POLICIES (*CONTINUED*)

(b) New accounting policies (*continued*)

2.7 Investments (*continued*)

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognized on trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are included in the profit and loss account in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognized in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer’s specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the profit and loss account — is removed from equity and recognized in the profit and loss account. Impairment losses recognized in the profit and loss account on equity instruments are not reversed through the profit and loss account.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2 CHANGES IN ACCOUNTING POLICIES (*CONTINUED*)

(b) New accounting policies (*continued*)

2.8 Accounts receivable and other receivables

Accounts receivable and other receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of accounts receivable and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the profit and loss account.

2.9 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.10 Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized either as cash is collected or on a cost—recovery basis as conditions warrant.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.3. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

Income tax

The Group is subject to income taxes in various regions within the PRC. As a result of certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimate and judgment based on currently enacted tax laws, regulations and other related polices are required in determining the provision of income taxes to be made. Where the final tax outcome of these matters are different from the amounts originally recorded, the differences will impact the income tax and tax provisions in the period in which the differences realize.

4 CAPITAL EXPENDITURE

	Intangible assets			Property, plant and equipment RMB'000	Land use rights RMB'000
	Goodwill RMB'000	Mining rights RMB'000	Total RMB'000		
Audited, net book amount as of January 1, 2005, as previously reported	406,686	322,467	729,153	33,464,575	—
Effect after adopting HKAS 17	—	—	—	(16,048)	16,048
Effect after adopting HKAS 23	—	—	—	577,706	—
Net book amount as of January 1, 2005, as restated	406,686	322,467	729,153	34,026,233	16,048
Unaudited					
Additions	—	52,573	52,573	4,216,304	—
Disposals	—	—	—	(2,629)	—
Amortization/depreciation charge for the period	—	(21,495)	(21,495)	(1,211,537)	(150)
Impairment losses	—	—	—	(4,225)	—
Net book amount as of June 30, 2005	406,686	353,545	760,231	37,024,146	15,898

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

5 ACQUISITION OF LANZHOU ALUMINUM

On March 28, 2005, the Group acquired 28% of the share capital of Lanzhou Aluminum Corporation Limited ("Lanzhou Aluminum"), a company with its A Shares listed on Shanghai Stock Exchange in the People's Republic of China ("PRC"). The principal activities of Lanzhou Aluminum are the manufacturing and selling of primary aluminum in the PRC.

6 ACCOUNTS RECEIVABLE, NET

	Unaudited As of June 30, 2005 RMB'000	Audited As of December 31, 2004 RMB'000
Gross trade receivables	878,012	921,263
Less: Provision for impairment of receivables	(487,712)	(480,331)
Trade receivables, net (Note (a))	390,300	440,932
Bills receivables (Note (b))	1,752,681	1,524,195
	2,142,981	1,965,127

- (a) 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. In respect of sales to large or long-established customers, subject to negotiation, a credit period for up to one year may be granted.

As of June 30, 2005, the aging analysis of trade receivables, net, was as follows:

	Unaudited As of June 30, 2005 RMB'000	Audited As of December 31, 2004 RMB'000
Within 1 month	182,439	218,258
Between 2 and 6 months	72,261	41,191
Between 7 and 12 months	43,005	26,848
Between 1 and 2 years	23,604	81,260
Over 2 years	68,991	73,375
	390,300	440,932

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

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

7 SHARE CAPITAL AND RESERVES

(a) Share capital

At the annual general meeting of the Company held on June 9, 2005, the Company was approved to submit applications to China Securities Regulatory Commission for the issue of up to 1,500,000,000 A shares to the PRC public, and to the Shanghai Stock Exchange for a listing of its A shares thereon. The amount raised is expected to be not more than RMB8,000million. Currently, preparation of the said application is currently in progress.

(b) Appropriations of profit

For the six months ended June 30, 2005, 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.

8 LONG-TERM LOANS

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

	Unaudited As of June 30, 2005 RMB'000	Audited As of December 31, 2004 <i>RMB'000</i>
Loans — unsecured	9,657,907	8,465,321
Current portion of long-term loans	(1,374,525)	(1,073,658)
	8,283,382	7,391,663

As of June 30, 2005, the Group's bank loans and loans from other financial institutions were repayable as follows:

	Bank loans	
	Unaudited As of June 30, 2005 RMB'000	Audited As of December 31, 2004 <i>RMB'000</i>
Within one year	1,355,525	1,054,658
In the second year	1,790,525	1,621,658
In the third to fifth year	3,653,734	4,419,635
After the fifth year	2,839,123	1,350,370
	9,638,907	8,446,321

	Loans from other financial institutions	
	Unaudited As of June 30, 2005 RMB'000	Audited As of December 31, 2004 <i>RMB'000</i>
Within one year	19,000	19,000

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

8 LONG-TERM LOANS (CONTINUED)

	Unaudited	Total
	As of	Audited
	June 30,	As of
	2005	December 31,
	RMB'000	2004
		RMB'000
Within one year	1,374,525	1,073,658
In the second year	1,790,525	1,621,658
In the third to fifth year	3,653,734	4,419,635
After the fifth year	2,839,123	1,350,370
	9,657,907	8,465,321

As of June 30, 2005, the annual interest rate of long-term bank loans and loans from other financial institutions ranged from 0.3% to 6.12% (2004: 0.3% to 5.9%) and 5.31% (2004: 5.31%), respectively.

9 ACCOUNTS PAYABLE

	Unaudited	Audited
	As of	As of
	June 30,	December 31,
	2005	2004
	RMB'000	RMB'000
Trade payables (Note (a))	2,000,181	1,998,738
Bills payable (Note (b))	11,077	49,093
	2,011,258	2,047,831

(a) Trade payables

As of June 30, 2005, the aging analysis of trade payables was as follows:

	Unaudited	Audited
	As of	As of
	June 30,	December 31,
	2005	2004
	RMB'000	RMB'000
Within 1 month	1,163,135	1,345,461
Between 2 and 6 months	645,101	491,386
Between 7 and 12 months	113,092	72,982
Between 1 and 2 years	31,723	22,763
Between 2 and 3 years	6,927	9,916
Over 3 years	40,203	56,230
	2,000,181	1,998,738

(b) Bills payable are repayable within six months.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

10 SHORT-TERM BONDS

On June 15, 2005, the Company issued short-term zero-coupon bonds with total face value of RMB2billion (face value of RMB100 per unit) and maturity of 1 year. The effective interest rates of these bonds were 3.33% per annum.

11 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,	
	2005	2004
	RMB'000	RMB'000
Turnover		
Sales of goods, net of value-added tax	17,848,749	14,205,165
Other revenues		
Sale of scrap and other materials	98,474	98,798
Supply of electricity, heat, gas and water	147,601	135,956
Rendering of services (Note(a))	25,516	30,915
Total other revenues	271,591	265,669
Expenses related to other revenues (Note(b))	(258,410)	(241,789)
	13,181	23,880
Interest income	45,593	28,929
Income from unlisted investments	4,550	176
Government subsidies	1,678	2,248
Gain on disposal of fixed assets		
— non production facilities	—	2,556
Unrealised fair value gain on interest swaps contracts	2,437	—
Fair value gain on long-term deposits payable	26,472	—
Fair value loss on short-term investments (realized and unrealized)	(166)	(1,846)
Fair value gain (loss) on futures contracts (realized and unrealized)	16,040	(33,247)
Fair value loss on amounts due from related parties	(16,500)	—
Others	(63)	(212)
Other gains, net	93,222	22,484

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

Note (b): 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.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

11 TURNOVER, REVENUE AND SEGMENT INFORMATION (CONTINUED)

Primary reporting format - business segments

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

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

Activities of the headquarters and other operations of the Group, comprising research and development related to alumina 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	As restated
	June 30,	Six months ended
	2005	June 30,
	RMB'000	2004
		RMB'000
Segment results		
Turnover		
Alumina		
External sales	11,108,418	9,353,870
Inter-segment sales	2,298,870	2,002,180
	13,407,288	11,356,050
Primary aluminum-external sales	6,682,044	4,806,011
Corporate and other services-external sales	58,287	45,284
Inter-segment elimination	(2,298,870)	(2,002,180)
Total turnover	17,848,749	14,205,165
Cost of goods sold		
Alumina	(7,682,569)	(6,086,611)
Primary aluminum	(6,290,321)	(4,422,008)
Corporate and other services	(53,763)	(33,054)
Inter-segment elimination	2,254,998	1,962,386
Total cost of goods sold	(11,771,655)	(8,579,287)

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

11 TURNOVER, REVENUE AND SEGMENT INFORMATION (CONTINUED)

Primary reporting format - business segments (continued)

	Unaudited	
	Six months ended June 30, 2005 RMB'000	As restated Six months ended June 30, 2004 RMB'000
Segment results (continued)		
Gross profit		
Alumina	5,724,719	5,269,439
Primary aluminum	391,723	384,003
Corporate and other services	4,524	12,230
Inter-segment elimination	(43,872)	(39,794)
Total gross profit	<u>6,077,094</u>	<u>5,625,878</u>
Other costs, net of other gains, net		
Alumina	(501,795)	(423,746)
Primary aluminum	(221,454)	(258,826)
Corporate and other services	(46,396)	(33,271)
Unallocated	(115,857)	(141,748)
Total other costs, net of other gains, net	<u>(885,502)</u>	<u>(857,591)</u>
Segment operating profit (loss)		
Alumina	5,222,924	4,845,693
Primary aluminum	170,269	125,177
Corporate and other services	(41,872)	(21,041)
Unallocated	(115,857)	(141,748)
Inter-segment elimination	(43,872)	(39,794)
Total operating profit	<u>5,191,592</u>	<u>4,768,287</u>
Finance costs	(181,370)	(32,890)
Operating profit after finance costs	<u>5,010,222</u>	<u>4,735,397</u>
Share of profit of an associated company-primary aluminum	7,798	—
Share of loss of jointly controlled entities-primary aluminum	(1,094)	(695)
Profit before income taxes	<u>5,016,926</u>	<u>4,734,702</u>
Income taxes	(1,334,374)	(1,077,784)
Profit for the period	<u>3,682,552</u>	<u>3,656,918</u>

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

11 TURNOVER, REVENUE AND SEGMENT INFORMATION (CONTINUED)

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.

12 SELLING AND DISTRIBUTION EXPENSES

	Unaudited	
	Six months ended June 30,	
	2005	2004
	RMB'000	RMB'000
Transportation and loading	180,623	171,658
Packaging expenses	74,051	62,690
Miscellaneous port expenses	16,327	19,802
Salaries and welfare expenses	14,362	12,249
Sales commission and other handling fee	14,281	3,886
Others	19,851	27,775
	319,495	298,060

13 GENERAL AND ADMINISTRATIVE EXPENSES

	Unaudited	
	Six months ended June 30,	
	2005	2004
	RMB'000	RMB'000
Salaries and welfare expenses	217,186	211,328
Taxes other than income taxes (Note)	194,753	167,233
Rental expenses	41,938	5,668
Depreciation of property, plant and equipment — non production	37,953	36,296
Traveling and entertainment	31,967	28,991
Utilities and office supplies	22,263	21,423
Insurance	20,694	15,315
Provision for impairment of receivables and bad debts written off (recovery of bad debts written off), net	9,131	(2,722)
Repairs and maintenance	7,747	8,746
Amortization of goodwill	—	12,324
Others	23,184	19,323
	606,816	523,925

Note: 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 consumption tax, value-added tax and business tax which are actually paid.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

14 FINANCE COSTS

	Unaudited	
	Six months ended June 30, 2005 RMB'000	As restated Six months ended June 30, 2004 RMB'000
Interest expenses	330,794	218,668
Less: amount capitalized in construction in progress	(148,446)	(172,204)
Exchange gain, net	182,348 (978)	46,464 (13,574)
	181,370	32,890

15 STAFF COSTS

	Unaudited	
	Six months ended June 30, 2005 RMB'000	2004 RMB'000
Wages, salaries and bonus	993,355	1,070,267
Housing subsidies	75,883	92,001
Contributions to the retirement schemes (Note (a))	199,607	203,274
Welfare and other expenses (Note (b))	256,259	271,466
	1,525,104	1,637,008

Note (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 approximately 20% of the employees' basic wages / salaries 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.

Note (b) Welfare and other expenses included welfare, staff committee expenses, education expenses, unemployment insurance expenses. Among them, welfare was accrued based on 14% of the wages / salaries and recognized in the profit and loss account.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

16 EXPENSES CHARGED (CREDITED) TO THE PROFIT AND LOSS ACCOUNT

	Unaudited	
	Six months ended June 30,	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation	1,188,924	1,006,394
Operating lease rentals in respect of land and buildings	180,228	79,597
Amortization of mining rights	21,495	17,303
(Gain) loss on disposal of fixed assets	(464)	6,943
Provision for obsolete inventories	109	33,400

17 TAXATION

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

	Unaudited	
	Six months ended	As restated
	June 30, 2005	Six months ended June 30, 2004
	<i>RMB'000</i>	<i>RMB'000</i>
Current taxation:		
PRC income tax	1,327,114	1,158,288
Over provision in prior period	(6,588)	(23,787)
Deferred tax	13,848	(56,717)
	<u>1,334,374</u>	<u>1,077,784</u>

(b) The current PRC income taxes of the Group have been provided on the estimated assessable profit and the appropriate tax rates for the period. Certain branches of the Group located in specified regions or provinces of PRC, were granted a tax concession to pay PRC income tax at a preferential rate of 15% for a period of ten years, exempted PRC income tax for the first 5 years from the commencement of operation, or exempted PRC income tax for the first year and half for the following two years. Moreover, the Group also enjoys tax credit given by the relevant tax authorities in respect of production plant and equipment purchased in the domestic market. For the six months ended June 30, 2005, the Group's weighted average effective tax rate was appropriately 26.7% (For the six months ended June 30, 2004: 22.8%)

Share of an associated company's taxation for the six months ended June 30, 2005 amounted RMB1,596,000 (2004:Nil), were included in the unaudited condensed interim consolidated profit and loss account as share of profit of an associated company.

No share of jointly controlled entities' taxation for the six months ended June 30, 2005 (2004: RMB31,000) were included in the unaudited condensed interim consolidated profit and loss account as share of loss of jointly controlled entities.

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

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

18 EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended June 30, 2005 is based on the shareholders' profit for the six months ended June 30, 2005 of RMB3,553,817,000 (For the six months ended June 30, 2004 as restated: RMB3,492,322,000) and the outstanding number of 11,049,876,153 shares in issue (six months ended June 30, 2004: 11,034,683,446 shares) during the period.

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

19 CONTINGENT LIABILITIES

- (a) As of June 30, 2005, 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\$7.5million (approximately RMB62.1million) 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 made, including the preparation of the drafts 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 China State Development and Reform Commission.

Both parties are actively working on the pre-joint venture preparations according to the agreed schedule.

20 COMMITMENTS

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

	Unaudited As of June 30, 2005 RMB'000	Audited As of December 31, 2004 RMB'000
Contracted but not provided for	1,965,030	3,024,071
Authorized but not contracted for	6,596,450	5,672,804
	8,561,480	8,696,875

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

20 COMMITMENTS (CONTINUED)

(b) Capital contribution to a jointly controlled entity

Pursuant to the resolution on June 19, 2005, of the board of directors of Guangxi Huayin Aluminum Co., Ltd. ("Guangxi Huayin"), a jointly controlled entity of the Company, it was resolved that the total investment in Guangxi Huayin be increased from RMB10 million to approximately RMB8,491.26 million. Pursuant to relevant PRC regulations, 25% of such total investment, i.e. an aggregate of approximately RMB2,133 million, have to be contributed by the shareholders in proportion to their equity interests in Guangxi Huayin as registered capital, which has agreed to be made by the shareholders in three instalments in each of 2005, 2006 and 2007.

On July 31, 2005, the shareholders of Guangxi Huayin (including the Company) entered into a supplemental agreement (the "Supplemental Agreement") to amend the Shareholders' Capital Contribution Agreement dated February 15, 2003, which further sets out the plan to increase the total investment and registered capital as required by Guangxi Huayin to carry out its initial alumina project (estimated initial annual production capacity of 1,600,000 tonnes).

According to the Supplemental Agreement, the Company will contribute an aggregate of approximately RMB701 million to the registered capital of the Guangxi Huayin. Up to the date of this report, the Company had made RMB169.65 million as capital contribution to Guangxi Huayin.

(c) 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:

	Unaudited As of June 30, 2005 RMB'000	Audited As of December 31, 2004 RMB'000
Not later than one year	317,464	245,984
Later than one year and not later than five years	1,146,560	983,934
Later than five years (Note)	10,005,413	9,529,497
	11,469,437	10,759,415

Note: They mainly represent commitments under operating leases in relation to land later than five years but not later than forty-eight years.

21 RELATED PARTY BALANCES AND 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 governments 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 Aluminum Corporation of China ("Chinalco"), its subsidiaries, associated companies and jointly controlled entities (collectively "Chinalco Group") in the ordinary course of business. In accordance with the revised HKAS 24, "Related Party Disclosures", state-owned enterprises and their subsidiaries, other than entities under Chinalco (also a state-owned enterprise), directly or indirectly controlled by the PRC government are also defined as related parties of the Group. Neither Chinalco nor the PRC government has published financial statements.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

21 RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

The related parties that had transactions with the Group were as follows:

Name of related parties		Relationship with the Company
Chinalco	(中鋁公司)	The holding company of the Company
Shandong Aluminum Co.	(山東鋁業公司)	A branch of Chinalco
Qinghai Aluminum Co. Ltd.	(青海鋁業有限責任公司)	A branch of Chinalco
The Great Wall Aluminum Co.	(中國長城鋁業公司)	A branch of Chinalco
Shanxi Aluminum Plant	(山西鋁廠)	A branch of Chinalco
Pingguo Aluminum Co.	(平果鋁業公司)	A branch of Chinalco
Guizhou Aluminum Plant	(貴州鋁廠)	A branch of Chinalco
Zhongzhou Aluminum Plant	(中州鋁廠)	A branch of Chinalco
Zhengzhou Institute of Light Metal Research	(鄭州輕金屬研究院)	A branch of Chinalco
Shanxi Charcoal Plant	(山西碳素廠)	A branch of Chinalco
Luoyang Institute of Non-Ferrous Metal Research	(洛陽有色金屬加工設計院)	A branch of Chinalco
The Sixth Metallurgy Construction Co. of China Non-Ferrous Metal Industry	(中國有色金屬工業第六冶金建設公司)	A branch of Chinalco
The twelfth Metallurgical Construction Co. of China Non-Ferrous Metal Industry	(中國有色金屬第十二冶金建設公司)	A branch of Chinalco
The South-western Aluminum Group Co. Ltd	(西南鋁業集團有限責任公司)	A branch of Chinalco
China Aluminum International Engineer Co. Ltd.	(中鋁國際工程有限責任公司)	A branch of Chinalco
Shenyang Institute of Aluminum and Magnesium Design and Research	(瀋陽鋁鎂設計院)	A branch of Chinalco
Guiyang Institute of Aluminum and Magnesium Design and Research	(貴陽鋁鎂設計院)	A branch of Chinalco
China Aluminum South-western Aluminum Slab Band Co. Ltd.	(中鋁西南鋁板帶有限公司)	A branch of Chinalco
Chongqing South-western Aluminum Minsheng Industry Co.	(重慶西南鋁民生實業公司)	A branch of Chinalco
China Aluminum Zhiye Development Co. Ltd	(中鋁置業發展有限責任公司)	A branch of Chinalco
China Aluminum Ruimin Slab Band Co. Ltd.	(中鋁瑞閩鋁板帶有限責任公司)	A branch of Chinalco
Henan Changxing Industry Co. Ltd.	(河南長興實業有限公司)	A subsidiary of Chinalco
Zuhai Enterprise Development Co. Ltd.	(珠海企業發展有限公司)	A subsidiary of Chinalco

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

21 RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

The related parties that had transactions with the Group were as follows (continued):

Name of related parties	Relationship with the Company
Henan the Great Wall Development Co. Ltd.	(河南長城發展有限總公司) A subsidiary of Chinalco
Zhengfengtai Decoration Material Co. Ltd.	(鄭豐泰裝飾材料有限公司) A subsidiary of Chinalco
Beijing Ludong Trading Co. Ltd. of Shandong Aluminum	(北京山鋁魯東物資貿易公司) A subsidiary of Chinalco
Guiyang Institute of Aluminum and Magnesium Design and Research Engineer Co.	(貴陽鋁鎂設計研究院工程承包公司) A subsidiary of Chinalco
China Non-Ferrous Technique Co. Ltd.	(中色科技股份有限公司) A subsidiary of Chinalco
Suzhou Institute of Non-Ferrous Machining	(蘇州有色金屬加工研究院) A subsidiary of Chinalco
Luoyang Non-Ferrous Institute Industry Co.	(洛陽有色院實業公司) A subsidiary of Chinalco
Luoyang Fuyang Decoration Engineering Co.	(洛陽佛陽裝飾工程公司) A subsidiary of Chinalco
Luoyang Jincheng Construction Supervise Co. Ltd.	(洛陽金城建設監理有限公司) A subsidiary of Chinalco
Shenzhen Jinlu Machinery Co. Ltd.	(深圳金陸機械有限公司) A subsidiary of Chinalco
Shanxi Construction Engineering Co. Ltd.	(山西建設工程有限公司) A subsidiary of Chinalco
Shenyang Institute of Aluminum and Magnesium Design and Research Zhengzhou Branch	(瀋陽鋁鎂設計研究院鄭州分院) A subsidiary of Chinalco
Shenyang Beiding Property Management Co. Ltd.	(瀋陽北鼎物業管理有限責任公司) A subsidiary of Chinalco
Exploration Co. of Shenyang Institute of Aluminum and Magnesium Design and Research	(瀋陽鋁鎂設計研究院勘察公司) A subsidiary of Chinalco
Automation Branch of Shenyang Institute of Aluminum and Magnesium Design and Research	(瀋陽鋁鎂設計研究院自動化所) A subsidiary of Chinalco
Electronic Control Technique Branch of Shenyang Institute of Aluminum and Magnesium Design and Research	(瀋陽鋁鎂設計研究院電控技術研究所) A subsidiary of Chinalco
Construction Supervise Co. of Shenyang Institute of Aluminum and Magnesium Design and Research	(瀋陽鋁鎂設計研究院建設監理公司) A subsidiary of Chinalco
Industrial Equipment Plant of Shenyang Institute of Aluminum and Magnesium Design and Research	(瀋陽鋁鎂設計研究院工業設備廠) A subsidiary of Chinalco

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

21 RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

The related parties that had transactions with the Group were as follows (continued):

Name of related parties	Relationship with the Company
The Great Wall New Technique Development Co. of Shenyang Institute of Aluminum and Magnesium Design and Research	(瀋陽鋁鎂設計院長城新技術開發公司) A subsidiary of Chinalco
Shenyang Institute of Aluminum and Magnesium Design and Research Engineer Co.	(瀋陽鋁鎂設計研究院工程承包公司) A subsidiary of Chinalco
Shenyang Aluminum and Magnesium Design and Wenyin Co. Ltd.	(瀋陽鋁鎂文印有限責任公司) A subsidiary of Chinalco
Kangjialu Construction Design Institute of Shenyang Institute of Aluminum and Magnesium Design and Research	(瀋陽鋁鎂設計院康加陸建築設計事務所) A subsidiary of Chinalco
Shenyang Boyu Aluminum and Magnesium Design and Equipment Production Co. Ltd.	(瀋陽博宇鋁鎂設備製造有限公司) A subsidiary of Chinalco
Jintong Equipment Co. Ltd. Of Luoyang Non-Ferrous Institute	(洛陽有色院金通設備有限公司) A subsidiary of Chinalco
Guiyang Xinyu Construction Supervise Co.	(貴陽新宇建設監理公司) A subsidiary of Chinalco
Guiyang Zhenxing Aluminum and Magnesium Technical Industry Development Co. Ltd.	(貴陽振興鋁鎂科技產業發展有限公司) A subsidiary of Chinalco
Chongqing South-western Aluminum Equipment Installation and Inspection Co. Ltd.	(重慶西南鋁設備安裝檢修有限公司) A subsidiary of Chinalco
Chongqing South-western Aluminum Transportation Co.	(重慶西南鋁運輸公司) A subsidiary of Chinalco
Zibo Dadi Real Estate Development Co. Ltd.	(淄博大地房地產開發有限責任公司) A subsidiary of Chinalco
Yantai Ludong Trading Co. Ltd. of Shandong Aluminum	(煙臺山鋁經貿有限責任公司) A subsidiary of Chinalco
Institute of Equipment Inspection of Shandong Aluminum	(山東鋁業公司設備檢測中心) A subsidiary of Chinalco
Jinan Ludong Trading Co. Ltd. of Shandong Aluminum.	(山東鋁業公司濟南魯東貿易公司) A subsidiary of Chinalco
Haikou Ludong Technical Trading Co. Ltd.	(海口魯東技術工貿開發公司) A subsidiary of Chinalco
Qingdao Boxin Aluminum Co.	(青島博信鋁業公司) A subsidiary of Chinalco
Qingdao Ludong Non-Ferrous Metal Supplying Co.	(青島魯東有色金屬供銷公司) A subsidiary of Chinalco

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

21 RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

The related parties that had transactions with the Group were as follows (continued):

Name of related parties	Relationship with the Company
Shanghai Ludong Trading Co. Ltd. of Shandong Aluminum	(上海山鋁經貿有限公司) A subsidiary of Chinalco
Guizhou Aluminum Plant Business Industry Co.	(貴州鋁廠工貿實業總公司) A subsidiary of Chinalco
Guizhou Aluminum Huaguang Aluminum Co. Ltd.	(貴州貴鋁華光鋁業有限公司) A subsidiary of Chinalco
Shandong Aluminum Import and Export Co. Ltd.	(山東鋁業進出口有限公司) A subsidiary of Chinalco
Shandong Aluminum Engineering Co. Ltd.	(山東鋁業工程有限公司) A subsidiary of Chinalco
Zhengzhou the Great Wall Machining Co. Ltd.	(鄭州長城鋁業加工有限公司) A subsidiary of Chinalco
Henan the Great Wall Chemistry Engineering Co. Ltd.	(河南長城化學工業有限公司) A subsidiary of Chinalco
Zhengzhou the Great Wall Import and Export Co. Ltd.	(鄭州長城鋁業進出口有限公司) A subsidiary of Chinalco
Zhengzhou New Great Wall Real Estate Co. Ltd.	(鄭州新長城房地產有限公司) A subsidiary of Chinalco
Henan New Great Wall Industry Co. Ltd.	(河南新長城實業有限公司) A subsidiary of Chinalco
Henan Aluminum the Great Wall Information Technique Co. Ltd.	(河南長城信息技術有限公司) A subsidiary of Chinalco
Zhengzhou the Great Wall Property Management Co. Ltd.	(鄭州市長鋁物業管理有限公司) A subsidiary of Chinalco
Henan the Great Wall Electronic Technique Co. Ltd.	(河南長城電子科技有限公司) A subsidiary of Chinalco
Zhengzhou New Century Advertisement Co. Ltd.	(鄭州新世紀廣告信息有限公司) A subsidiary of Chinalco
Zhengzhou Yindu Technical Business Co. Ltd.	(鄭州銀都科工貿有限公司) A subsidiary of Chinalco
Guizhou Aluminum Plant Construction Co.	(貴州鋁廠建築工程公司) A subsidiary of Chinalco
Guizhou Aluminum Huamei Decoration Engineer Co. Ltd.	(貴鋁華美裝潢裝飾工程有限公司) A subsidiary of Chinalco
Guizhou Aluminum Huaxin new Material Co. Ltd.	(貴鋁華新新材料有限責任公司) A subsidiary of Chinalco
Guizhou Aluminum Huayang Charcoal Co. Ltd.	(貴州貴鋁華陽碳素有限責任公司) A subsidiary of Chinalco
Shanxi Aluminum Charcoal Plant	(山西鋁廠碳素廠) A subsidiary of Chinalco
Jinlv Construction Co.	(晉鋁建設公司) A subsidiary of Chinalco
Jinlv Installation Co.	(晉鋁安裝公司) A subsidiary of Chinalco
Pingguo Xinda Industry Co. Ltd.	(平果新達實業有限公司) A subsidiary of Chinalco
Xinxiang Zhongxin Chemistry Engineering Co. Ltd.	(新鄉中新化工有限責任公司) A subsidiary of Chinalco

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

21 RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

The related parties that had transactions with the Group were as follows (continued):

Name of related parties	Relationship with the Company
Xinxiang Sanzhong Industry Co. Ltd.	(新鄉三眾實業有限公司) A subsidiary of Chinalco
Xinxiang Hengxin Weaving Co. Ltd.	(新鄉市恆信織衣有限責任公司) A subsidiary of Chinalco
Qinghai Aluminum Huatong Charcoal Co. Ltd.	(青海鋁業華通炭素有限責任公司) A subsidiary of Chinalco
Technical Service Branch of Guiyang Institute of Aluminum and Magnesium Design and Research	(貴陽鋁鎂設計研究院技協服務部) A subsidiary of Chinalco
Technical Consulting Co. of Guiyang Institute of Aluminum and Magnesium Design and Research	(貴陽鋁鎂設計研究院科技工程諮詢公司) A subsidiary of Chinalco
Chongqing South-western Aluminum Equipment Production Co. Ltd.	(重慶西南鋁設備製造有限公司) A subsidiary of Chinalco
Chongqing South-western Aluminum Decoration Construction Co. Ltd.	(重慶西南鋁裝飾工程有限公司) A subsidiary of Chinalco
Chongqing South-western Aluminum Special Model Material Co. Ltd.	(重慶西南鋁特種型材有限公司) A subsidiary of Chinalco
Yuzhou Environment Protection Equipment Plant of South-western Aluminum	(西南鋁業有限公司渝州環保設備廠) A subsidiary of Chinalco
Chongqing Yuhuan Non-Ferrous Metal Casting Plant.	(重慶渝環有色壓鑄廠) A subsidiary of Chinalco
Chongqing South-western Aluminum Precision Casting Co. Ltd.	(重慶西鋁精密壓鑄有限責任公司) A subsidiary of Chinalco
Chongqing South-western Aluminum Welding Plant	(重慶西南鋁焊管廠) A subsidiary of Chinalco
Chongqing South-western Aluminum Pull - tab Cans Plant	(重慶西南鋁易拉蓋廠) A subsidiary of Chinalco
Chongqing South-western Aluminum Institute of Alloy Machining Research	(重慶西南鋁合金加工研究所) A subsidiary of Chinalco
Chongqing South-western Aluminum Import and Export Co. Ltd.	(重慶西南鋁進出口有限責任公司) A subsidiary of Chinalco
Chongqing South-western Aluminum Trading Co.	(重慶西南鋁銷售有限責任公司) A subsidiary of Chinalco
Hong Kong Western Aluminum Co. Ltd.	(香港西鋁有限公司) A subsidiary of Chinalco
Qingdao Ruimin Aluminum Co. Ltd.	(青島瑞閩鋁業有限公司) A subsidiary of Chinalco
Jiaozuo Yincheng Construction and Installation Co. Ltd.	(焦作市銀城建築安裝有限公司) A subsidiary of Chinalco
Jiaozuo Yitao Construction Material Co. Ltd.	(焦作市益陶建材有限公司) A subsidiary of Chinalco
Henan Business Co. Ltd. of China Aluminum	(河南中鋁工貿有限公司) A subsidiary of Chinalco
Zhuhai Yaqi Paper Material Co. Ltd.	(珠海亞奇紙塑製品有限公司) An associated company of Chinalco
Guiyang Baiyun Fluoride Co. Ltd.	(貴陽白雲氟化鹽有限責任公司) An associated company of Chinalco

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

21 RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

The related parties that had transactions with the Group were as follows (continued):

Name of related parties	Relationship with the Company
Beijing Jiya Semi-conductor Co. Ltd.	(北京吉亞半導體有限公司) An associated company of Chinalco
Jinlv Heat-resisting Material Co. Ltd.	(晉鋁耐火材料有限公司) An associated company of Chinalco
Xiaoyi Bauxite Mines Industry Co. Shanxi Aluminum Plant	(山西鋁廠孝義鋁礦實業公司) An associated company of Chinalco
Zhengzhou the Great Wall Charcoal Co. Ltd.	(鄭州長城鋁業炭素股份有限公司) An associated company of Chinalco
Henan Zhongxin Industry Co. Ltd.	(河南眾鑫實業有限公司) An associated company of Chinalco
Qingdao Meite Container Co. Ltd.	(青島美特容器有限公司) An associated company of Chinalco
Guizhou Jiyin Mine Smelting Co. Ltd.	(貴州集黔礦產冶煉有限公司) An associated company of Chinalco
Yuanping Jinlu Aluminum Co. Ltd.	(原平晉魯鋁業有限責任公司) An associated company of Chinalco
Qingdao Luhua Aluminum Door and Window Co. Ltd.	(青島魯華鋁門窗有限公司) An associated company of Chinalco
Henan Wanfeng Industry Co. Ltd.	(河南萬豐實業有限公司) An associated company of Chinalco
Guangxi Aluminum Investment and Development Co. Ltd.	(廣西鋁業投資開發有限公司) A holding company of the Company
Non-Ferrous Metal Co. Ltd. Of Guangxi Investment Group	(廣西投資集團有色金屬有限公司) An associated company of a founder
China Cinda Asset Management Co.	(中國信達資產管理公司) A shareholder
Guangxi Investment (Group) Co. Ltd.	(廣西投資集團有限公司) A founder of the Company
Guizhou Provincial Materials Development and Investment Corporation	(貴州省物資開發投資公司) A founder of the Company
Shanxi Jinxin Aluminum Co. Ltd.	(山西晉信鋁業有限公司) A jointly controlled entity of the Company
Guangxi Guixi Huayin Aluminum Co. Ltd.	(廣西桂西華銀鋁業有限公司) A jointly controlled entity of the Company
Xinxiang Energy Co. Ltd. of Jiaozuo Coal Group	(焦作煤業集團新鄉(趙固) 能源有限責任公司) An associated company of the Company
Lanzhou Aluminum Corporation Limited	(蘭州鋁業股份有限公司) An associated company of the Company
Other stated-owned enterprises	其他國有企業 Related parties of the Company

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

21 RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

(a) Related party balances with Chinalco Group

(i) Due from Chinalco Group

As of June 30, 2005, included in other long-term receivables, accounts receivable and other current assets, were amounts due from Chinalco Group as follows:

	Unaudited As of June 30, 2005 RMB'000	Audited As of December 31, 2004 RMB'000
Trading in nature	183,586	178,305
Other receivables	179,300	204,737
	362,886	383,042

Other receivables from Chinalco Group are unsecured, non-interest bearing and are repayable on demand.

On March 28, 2005, the Group and the Chinalco Group have mutually agreed that all the balances aged over one year as of December 31, 2004 will be settled within five years.

(ii) Due to Chinalco Group

As of June 30, 2005, included in accounts payable and other payables were amounts due to Chinalco Group as follows:

	Unaudited As of June 30, 2005 RMB'000	Audited As of December 31, 2004 RMB'000
Trading in nature	49,859	79,408
Other payables	567,722	556,807
	617,581	636,215

Other payables to Chinalco Group are unsecured, non-interest bearing and are repayable on demand.

(b) Other related party balances

As of June 30, 2005, included in other current assets, was amount due from Guizhou Provincial Materials Development and Investment Corporation of approximately RMB55,616,000 (as of December 31, 2004: RMB55,616,000).

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

21 RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

- (c) Related party balances with other state-owned enterprises

Included in the condensed interim consolidated balance sheet, were balances with other state-owned enterprises as follows:

	Unaudited As of June 30, 2005 RMB'000	Audited As of December 31, 2004 <i>RMB'000</i>
Current assets		
Accounts receivable, net	1,783,286	1,557,981
Cash and cash equivalents	5,348,628	6,223,763
Other receivables and current assets, net	161,674	104,631
Non-current liabilities		
Long-term bank loans	8,283,382	7,391,663
Current liabilities		
Accounts payable and other liabilities	1,629,143	1,407,630
Short-term bonds	1,945,567	—
Short-term loans	3,166,019	3,448,910
Current portion of long-term bank loans	1,355,525	1,054,658
Current portion of other long-term loans	19,000	19,000

Except for cash at banks, loans and available-for-sale investments stated above, all the balances of assets and liabilities are unsecured, non-interest bearing and receivable or repayable within one year.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

21 RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

- (d) Related party transactions with Chinalco Group and other related parties

Save as disclosed elsewhere in the condensed interim consolidated 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	
		Six months ended June 30, 2005 RMB'000	2004 RMB'000
Sales of materials and finished goods to:	(I)		
Chinalco Group		1,288,762	767,307
Jointly controlled entity		53,062	9,009
Associated company		340,845	—
Guangxi Investment (Group) Co. Ltd.		42,388	—
		<u>1,725,057</u>	<u>776,316</u>
Provision of utility services to Chinalco Group	(II)	<u>248,997</u>	<u>169,020</u>
Provision of engineering, construction and supervisory services by Chinalco Group	(III)	<u>945,681</u>	<u>319,662</u>
Purchases of key and auxiliary materials from Chinalco Group	(IV)	<u>327,825</u>	<u>185,264</u>
Provision of social services and logistics services Chinalco Group	(V)	<u>457,105</u>	<u>449,200</u>
Land and building rental charged by Chinalco Group	(VI)(i)	<u>126,615</u>	<u>85,663</u>
Headquarter's office rental charged by Chinalco Group	(VI)(ii)	<u>18,915</u>	<u>—</u>

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

21 RELATED PARTY BALANCES AND TRANSACTIONS (*CONTINUED*)

- (d) Related party transactions with Chinalco Group and other related parties (*continued*)
- (I) Materials and finished goods sold to Chinalco Group during both periods mainly comprised sales of alumina, primary aluminum and scrap materials. Transactions entered into during the periods are as 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:
- (i) Adoption of the price prescribed by the PRC government (“Stated-prescribed price”);
 - (ii) If there is no State-prescribed price then adoption of State-guidance price;
 - (iii) 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
 - (iv) 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) Utility services, including electricity, gas, heat and water, are supplied at the pricing policy as set out in (I)(i) above.
- (III) Engineering, project construction and supervisory services were provided by Chinalco Group to the Company mainly for construction projects during the period. Provisions 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) (I)(ii) is adopted for pricing purposes.
- (IV) Purchases of key and auxiliary materials (including bauxite, limestone, carbon, cement, coal) from Chinalco Group are covered by the General Agreement on Mutual Provision of Production Supplies and Ancillary Services and Mineral Supply Agreement. The pricing policy is the same as that set out in (I)(i) above.
- (V) Social services and logistics services were provided by Chinalco Group 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. Provisions of these services are covered by the Comprehensive Social and Logistics Services Agreement entered into between the Company and Chinalco Group. 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 CONSOLIDATED FINANCIAL STATEMENTS

21 RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

(d) Related party transactions with Chinalco Group and other related parties (continued)

(VI) Rental fee is payable to Chinalco Group for

- (i) Use of land, inclusive of land for industrial or commercial purposes, occupied and used by the Company during the period covered by the Land Use Rights Leasing Agreement entered into between the Company and Chinalco Group. The annual rent payable is approximately RMB240 million.

Occupancy of the land and buildings by a subsidiary of the Company, Shanxi Huatai Charcoal Co. Ltd's (山西華泰) for production and office use according to the rental agreement signed by Shanxi Huatai Coal Co. Ltd and Chinalco Group. The annual rent payable is about RMB11 million.

- (ii) Use of property as office premises according to the rental agreement signed in March 2005. The annual rent payable is about RMB62 million.

As of June 30, 2005, there existed the following arrangements between the Group and Chinalco Group 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.
- (e) Related party transactions with other state-owned enterprises:

	Unaudited	
	Six months ended June 30,	
	2005	2004
	RMB'000	RMB'000
Purchases of electricity	1,973,554	1,649,594
Sale of alumina	6,488,785	5,440,091
Sale of primary aluminum	406,995	373,994
Purchases of raw materials	1,066,696	727,111
Construction in progress and construction materials	503,489	232,467
Long-term loans borrowed	1,590,652	1,217,000
Short-term loans borrowed	1,757,842	1,961,482
Interest income	45,593	28,929
Bank charges	338,934	218,668

Related party transactions with other state-owned enterprises were conducted in the normal course of business at normal commercial terms.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

22 FINANCIAL RISK MANAGEMENT

The Group is subjected to the following market risk:

(i) Credit risk

The carrying amount of accounts receivable included in the balance sheet represents 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 uncollectible accounts receivable has been made in the financial statements.

None of the Group's major customers exceed 10% of total revenue and do not individually present a material risk to the Group's sales.

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 and London Metal Exchange to hedge against adverse fluctuations in aluminum price. The futures contracts are marked to market at balance sheet date and corresponding unrealized holding (losses) gains are recorded in the profit and loss account for the year. The unrealized holding gains and (losses) for the six months ended June 30, 2004 and year ended June 30, 2005 were RMB205,000 and RMB1,306,000, respectively.

(ii) Interest rate risk

The Group is exposed to changes in interest rates due to its long-term debt obligations which are disclosed in Note 8 to the condensed interim consolidated financial statements. The Group enters into debt obligations to support general corporate purposes including capital expenditures and working capital needs. Except for the disclosure regarding exchange rate swaps contract in Note 22(v)(e) to the condensed interim consolidated financial statements, the Group does not use any derivative instruments to reduce its economic exposure to changes in interest/exchange rates.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

22 FINANCIAL RISK MANAGEMENT (CONTINUED)

(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 except interest / exchange rate swap contract described in Note 22(v)(e) to the condensed interim consolidated financial statements. As of June 30, 2005 and December 31, 2004, the Group had the following foreign currency denominated short-term deposits:

	Unaudited As of June 30, 2005 RMB'000	Audited As of December 31, 2004 RMB'000
Short-term deposits:		
U.S. Dollar denominated	14,004	459,744
Hong Kong Dollar denominated	—	264
Euro denominated	—	2

The Group also had foreign currency denominated accounts receivable as of June 30, 2005 and December 31, 2004:

	Unaudited As of June 30, 2005 RMB'000	Audited As of December 31, 2004 RMB'000
Accounts receivables:		
U.S. Dollar denominated	—	23,742

The Group also had short-term and long-term foreign currency denominated loans as of June 30, 2005 and December 31, 2004:

	Unaudited As of June 30, 2005 RMB'000	Audited As of December 31, 2004 RMB'000
Short-term loans		
U.S. Dollar denominated	1,499,879	1,052,770
Long-term loans		
Danish Krone denominated	10,246	12,161

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

22 FINANCIAL RISK MANAGEMENT (CONTINUED)

(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, bills receivable and other receivables and financial liabilities, including trade accounts payable, bills payable, short-term debts, amounts due to related parties and other payables, approximate their fair values due to their short maturity. 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 on the balance sheet:

(a) Futures contracts

	Unaudited			Audited		
	As of June 30, 2005			As of December 31, 2004		
	Contract value	Market value	Fair value	Contract value	Market value	Fair value
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Futures contracts — purchase contracts	71,737	69,833	(1,904)	—	—	—
Futures contracts — sales contracts	43,537	42,939	598	220,961	225,933	(4,972)

The fair values of futures contracts are based on quoted market prices. As of June 30, 2005, the Group held purchase futures contracts covering 5,000 tonnes of aluminum matching in the period from August to September of 2005. As of June 30, 2005 and December 31, 2004, the Group held sales futures contracts covering 2,600 tones and 13,845 tonnes of aluminum maturing during the period from July to September of 2005 and in the first 3 months of 2005, respectively. As of June 30, 2005, the market price of these aluminum purchase futures contract outstanding was approximately RMB13,967 per tonne. Market prices of these aluminum futures contracts outstanding as of June 30, 2005 and December 31, 2004 ranged from RMB16,490 to RMB16,620 per tonne and from RMB16,214 to RMB16,430 per tonne, respectively.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

22 FINANCIAL RISK MANAGEMENT (CONTINUED)

(v) Fair values (continued)

(b) Long-term deposits payable

	Unaudited		Audited	
	As of June 30, 2005		As of December 31, 2004	
	Book value	Fair value	Book value	Fair value
	RMB'000	RMB'000	RMB'000	RMB'000
Long term deposits payable	399,028	399,028	—	—

The above fair values were based on cash flows discounted using a rate based on the weighted average annual deposit rate of 1.54% as of June 30, 2005.

(c) Amount due from Chinalco Group

	Unaudited		Audited	
	As of June 30, 2005		As of December 31, 2004	
	Book value	Fair value	Book value	Fair value
	RMB'000	RMB'000	RMB'000	RMB'000
Amount due from Chinalco Group	362,886	362,886	—	—
Less: non-current portion	(107,797)	(107,797)	—	—
	255,089	255,089	—	—

The above fair values were based on cash flow discounted using a rate based on the weighted average annual borrowing interest rate of 4.94% as of June 30, 2005.

(d) Long-term loans

	As of June 30, 2005		As of December 31, 2004	
	Book value	Fair value	Book value	Fair value
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans	9,638,907	9,637,102	8,446,321	8,443,798
Other financial institutions loans	19,000	19,000	19,000	19,000

The fair values of long-term loans are based on discounted cash flows using applicable discount rates from the prevailing market interest rates offered to the Group for debts with substantially the same characteristics and maturity dates. The discount rates as at June 30, 2005 and December 31, 2004 were 4.0%.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

22 FINANCIAL RISK MANAGEMENT (CONTINUED)

(v) Fair values (continued)

(e) Interest rate / exchange rate swaps contract

As of June 30, 2005, the nominal principal value of the interest swap contracts amounted to RMB 827,650,000. Such swaps contract made use of the change in interest rate to hedge the change in exchange rate. (As of December 31, 2004: Nil). For the six months ended June 30, 2005, gain from the changes in fair value since initial recognition from interest swap contracts of RMB 2,437,000 (For the year ended December 31, 2004: Nil), was included in the other current assets. Since the hedging transactions did not fully comply with all the conditions for hedge accounting in accordance with HKAS 39, those gain from the interest swap contract was recognized immediately in the profit and loss account.

(f) Investment in unlisted securities

Investments in unlisted equity securities are unquoted equity interests in which no quoted market prices for such investments are available in the PRC. Accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs and the amounts are not material to the Group's financial statements.

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

These condensed interim consolidated financial statements have made respective adjustments according to the adoption of the new standards of HKFRS. These condensed interim consolidated 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").

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

(a) Revaluation of fixed assets

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

(b) Amortization of goodwill

Until December 31, 2004, 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 of not more than 20 years. Under U.S. GAAP, annual amortization of this amount ceased effective from January 1, 2002. Goodwill is subject to annual impairment testing and is written down if carrying value exceeds fair value. In accordance with the provisions of HKFRS 3 effective from January 1, 2005, the Group ceased amortization of goodwill and goodwill is subject to annual impairment testing. Accordingly, except for the differences recognized in prior years, there is no difference between HK GAAP and U.S. GAAP in relation to amortization of goodwill.



NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

(c) 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 amortization and 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.

(d) Income tax effect of U.S. GAAP adjustments

Under U.S. GAAP, deferred tax assets relating to the reversal of the fixed assets revaluation, goodwill amortization and mining rights are recognized.

(e) Minority interests

Consistent with disclosure requirement of HKFRS1— Presentation of Financial Statements, minority interests in the consolidated net assets and consolidated net profit under HK GAAP for prior year should be included as a portion of total equity and total profit attributable to shareholders respectively.

The net effects on net income and basic net income per share of the Group for the six months ended June 30, 2005 and equity as of June 30, 2005, after taking account of the above differences and related income tax effect, are a decrease in net income of approximately RMB25million (six months ended June 30, 2004, as restated: RMB50million), a decrease in basic net income per share of approximately RMB0.002 (as of the six months ended June 30, 2004, as restated: RMB0.005) and a decrease in equity of approximately RMB3.421billion (as of December 31, 2004, as restated: RMB3.377billion), 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.

24. COMPARATIVE FIGURES

The comparative figures presented in these condensed interim consolidated financial statements are prepared by the Group and have been adjusted for the impact of the relevant new HKFRSs as set out in note 2 to these condensed interim consolidated financial statements.