## 1. Basis of preparation

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements of Aluminum Corporation of China Limited (中國鋁業股份有限公司) ("the Company") and its subsidiaries (together "the Group") have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention except that financial assets at fair value through profit or loss, available-for-sale financial assets and futures contracts are stated at fair value and held-to-maturity securities are stated at amortized cost.

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 ("HKFRSs") 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(a) below.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

## 2. Summary of significant policies

### (a) Effect of adopting new / revised HKFRSs

In 2005, the Group adopted the following new / revised standards and interpretations of HKFRSs, which are relevant to its operations. The 2004 comparatives have been reclassified / restated 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 |
| HKFRS 4 | Insurance Contracts |
| HKFRS Int-1 | Changes in Existing Decommissioning, Restoration and Similar Liabilities |

The adoption of new / revised HKASs 1, 2, 7, 8, 10, 16, 21, 24, 27, 28, 31, 33, HKAS-Int 12, HKAS-Int 15, HKFRS 4 and HKFRS-Int 1 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, HKAS-Int 15, HKFRS 4 and HKFRS-Int 1 had no material effect on the Group's accounting policies.

## 2. Summary of significant policies *(Continued)*

### (a) Effect of adopting new / revised HKFRSs *(Continued)*

— 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 (Chinese 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.

HKAS 17 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 borrowing 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 specially 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 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 January 1, 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 consolidated profit and loss account directly.

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.

## 2. Summary of significant policies *(Continued)*

### (a) Effect of adopting new / revised HKFRSs *(Continued)*

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 transitional 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 has resulted in:

| | Group | Company |
|---|---|---|
| | **As of December 31, 2005** | **As of December 31, 2005** |
| | ***RMB'000*** | ***RMB'000*** |
| Increase in intangible assets | 24,648 | 24,648 |
| Increase in retained earnings | 24,648 | 24,648 |

| | **For the year ended December 31, 2005** | **For the year ended December 31, 2005** |
|---|---|---|
| | ***RMB'000*** | ***RMB'000*** |
| Decrease in general and administrative expenses | (24,648) | (24,648) |
| Increase in basic earnings per share for profit attributable to the equity holders of the Company | RMB0.002 | RMB0.002 |

## 2. Summary of significant policies *(Continued)*

### (a) Effect of adopting new / revised HKFRSs *(Continued)*

(ii) The adoption of HKAS 17 has resulted in:

| | Group | | Company | |
|---|---|---|---|---|
| | **As of December 31, 2005** | As of December 31, 2004 | **As of December 31, 2005** | As of December 31, 2004 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Increase in land use rights | **62,275** | 16,048 | **56,849** | 10,621 |
| Decrease in property, plant and equipment | **(62,275)** | (16,048) | **(56,849)** | (10,621) |

(iii) The adoption of HKAS 23 has resulted in:

| | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | **As of December 31, 2005** | As of December 31, 2004 | As of January 1, 2004 | **As of December 31, 2005** | As of December 31, 2004 | As of January 1, 2004 |
| | ***RMB'000*** | *RMB'000* | *RMB'000* | ***RMB'000*** | *RMB'000* | *RMB'000* |
| Increase in property, plant and equipment | **609,412** | 577,706 | 328,575 | **633,238** | 577,706 | 328,575 |
| Increase in deferred tax liabilities | **176,991** | 167,054 | 85,506 | **184,854** | 167,054 | 85,506 |
| Increase in retained earnings | **432,421** | 410,652 | 243,069 | **448,384** | 410,652 | 243,069 |

| | Group | | Company | |
|---|---|---|---|---|
| | **For the year ended December 31, 2005** | For the year ended December 31, 2004 | **For the year ended December 31, 2005** | For the year ended December 31, 2004 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Decrease in finance costs | **(70,904)** | (288,192) | **(95,984)** | (288,192) |
| Increase in depreciation of property, plant and equipment | **39,198** | 39,061 | **40,452** | 39,061 |
| Increase in income tax | **9,938** | 81,548 | **7,880** | 81,548 |
| Increase in basic earnings per share for profit attributable to the equity holders of the Company | **RMB0.004** | RMB0.02 | **RMB0.004** | RMB0.02 |

## 2. Summary of significant policies *(Continued)*

### (a) Effect of adopting new / revised HKFRSs *(Continued)*

(iv) The adoption of HKAS 39 resulted in:

| | Group | Company |
|---|---|---|
| | As of December 31, 2005 | As of December 31, 2005 |
| | *RMB'000* | *RMB'000* |
| Increase in available-for-sale financial assets | **10,200** | — |
| Decrease in non-trading securities | **(10,200)** | — |

The adoption of HKAS 32 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.

The Group has not early adopted the following new Standards or Interpretations which are relevant to the operations of the Group that have been issued but are not yet effective. It is expected that the adoption of such Standards or Interpretations will not expect to result in substantial changes to the Group's accounting policies.

| | |
|---|---|
| HKAS 19 (Amendment) | Actuarial Gains and Losses, Group Plans and Disclosures |
| HKAS 39 (Amendment) | Transition and Initial Recognition of Financial Assets and Financial Liabilities |
| HKFRS 6 | Exploration for and Evaluation of Mineral Resources |
| HKFRS 7 | Financial Instruments: Disclosures |
| HKFRS-Int 4 | Determining whether an Arrangement contains A Lease |
| HKFRS-Int 5 | Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds |

## 2. Summary of significant policies *(Continued)*

### (b) Group accounting

(i) Consolidated financial statements

The consolidated financial statements included the results of the Company and its subsidiaries made up to December 31.

Subsidiaries are enterprises in which the Group controls the composition of the Board of Directors, controls more than half of the voting power, holds more than 50 percent of the issued share capital or has power to exercise control over the financial and operating policies. Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

The results of operations of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate, and the share attributable to minority interests is deducted from the net results. Intercompany transactions, balances and unrealized gains on transactions within the Group are eliminated on consolidation.

In the Company's balance sheet, the investments in subsidiaries are stated at cost to the Company less provision for impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the profit and loss account. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

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 (Note 2(c)(i)). If the cost of acquisition is less than the Group's share of the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated profit and loss account.

## 2. Summary of significant policies *(Continued)*

### (b) Group accounting *(Continued)*

(ii) Jointly controlled entities

A jointly controlled entity is the result of contractual arrangements whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognized in the profit and loss account, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

Unrealized gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision for impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

(iii) Associated companies

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognized in the profit and loss account, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

## 2. Summary of significant policies *(Continued)*

### (b) Group accounting *(Continued)*

(iii) Associated companies *(Continued)*

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

### (c) Intangibles assets

(i) 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. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. 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. The allocation is made to those cash-generating units or groups of cash-generating that we expected to benefit from the business combination in which the goodwill arose.

(ii) Mining rights

Mining rights acquired, including exploration costs, are capitalized and stated at cost to the Group less accumulated amortization and accumulated impairment losses, if any. Amortization of mining rights is calculated to write off their cost less accumulated impairment losses on a straight-line basis over their estimated useful lives of no longer than 30 years.

## 2. Summary of significant policies *(Continued)*

### (c) Intangibles assets *(Continued)*

(iii) Research and development expenses

Expenditure on research and development are expensed as incurred, except for expenditure on development where the technical feasibilities of the product under development have been demonstrated, expenditure are identifiable and a market exists for the product such that it is probable that it will be profitable. Such expenditures on development are recognized as an asset and amortized on a straight-line basis over the estimated economic useful period to reflect the pattern in which the related economic benefits are recognized.

No expenditure on development was recognized as assets by the Group.

(iv) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount (Note 2(t)).

### (d) Property, plant and equipment

(i) Tangible property, plant and equipment are stated at cost to the Group less accumulated depreciation and accumulated impairment losses.

Tangible property, plant and equipment are depreciated at rates sufficient to write off their cost less accumulated impairment losses to their estimated residual value over their estimated useful lives on a straight-line basis. The estimated useful lives of the respective categories of property, plant and equipment are as follows:

| | |
|---|---|
| Buildings | 15 to 40 years |
| Plant and machinery - electricity transmission equipment | 32 years |
| Plant and machinery - others | 10 to 20 years |
| Motor vehicles and transportation facilities | 6 to 12 years |
| Office and other equipment | 5 to 10 years |

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

Costs incurred in maintaining property, plant and equipment in their normal working conditions are charged to the profit and loss account. Improvements are capitalized and depreciated over their expected useful lives to the Group.

## 2. Summary of significant policies *(Continued)*

### (d) Property, plant and equipment *(Continued)*

(ii) An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(t)).

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognized in the profit and loss account.

### (e) Construction in progress

Construction in progress represents buildings, various plant and equipment under construction and pending installation, and is stated at cost. Cost comprises direct costs of construction as well as capitalized finance costs related to funds borrowed specifically for the purpose of obtaining a qualifying asset less any accumulated impairment losses.

Capitalization of these borrowing costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

### (f) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain by the lessor are accounted for as operating leases. Payments made under operating leases net of any incentives received from the lessor are charged to the profit and loss account on a straight-line basis over the lease periods.

The Group did not have any assets under finance leases.

### (g) 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.

## 2. Summary of significant policies *(Continued)*

### (g) Investments *(Continued)*

(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 amortized to date. The discount or premium is amortized 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 recognized in the profit and loss account as an expense immediately.

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

## 2. Summary of significant policies *(Continued)*

### (g) Investments *(Continued)*

(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 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 classified as 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. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets.

(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.

Regular 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. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the profit and loss account. 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.

## 2. Summary of significant policies *(Continued)*

### (g) Investments *(Continued)*

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. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the profit and loss account as gains or losses from investment securities. Interest on available-for-sale securities calculated using the effective interest method is recognized in the profit and loss account. Dividends on available-for-sale equity instruments are recognized in the profit and loss account when the Group's right to receive payments is established.

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, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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 an indicator that 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. Impairment testing of accounts receivable and other receivables is described in Note 2(u).

### (h) Inventories

Inventories comprise raw materials, work-in-progress, finished goods and production supplies are stated at the lower of cost to the Group and net realizable value. Work-in-progress and finished goods, calculated on the weighted average method, comprises materials, direct labor and an appropriate proportion of all production overhead expenditure. Net realizable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### (i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with an original maturity of within three months and bank overdrafts.

## 2. Summary of significant policies (Continued)

### (j) Foreign currency translation

(i) 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.

(ii) Transaction and balances

Foreign currency translations 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 financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Group companies

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

### (k) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

### (l) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

## 2. Summary of significant policies *(Continued)*

### (l) Contingent liabilities and contingent assets *(Continued)*

A contingent liability is not recognized but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow becomes probable, it will then be recognized as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognized but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognized.

### (m) Taxation

Income tax charged to the results comprises current and deferred tax. Current income tax is calculated based on the taxable income at the prevailing applicable tax rates.

Deferred tax 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. Tax 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 tax 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.

### (n) Revenue recognition

Revenue from the sale of goods is recognized on the transfer of risks and rewards of ownership, which occurs at the time when the goods are delivered to customers and title has passed. No amount of revenue is recorded when the amount of revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

Revenue from the provision of services is recognized when the services are rendered.

Interest income is recognized on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognized when the right to receive payment is established.

## 2. Summary of significant policies *(Continued)*

### (o) Employee benefits

(i) Profit sharing and bonus plans

The expected cost of profit sharing and bonus payments are recognized as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(ii) Retirement benefit obligations

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organized by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired employees payable under these plans. Contributions to these plans are expensed as incurred.

(iii) Housing fund

The Group provides housing fund based on certain percentage of the wages and with no more than the upper limit of the requirement. The housing fund is paid to social security organization, corresponding expenses are expensed or included in the cost of sales for the current year.

### (p) 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 assets 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 borrowing costs incurred on general borrowings outstanding.

Other borrowing costs are expensed as incurred.

### (q) Environmental expenditures

Environmental expenditures mainly include expenditures necessary to complete remediation efforts and expenses related to the handling of waste water, gas and materials. Environmental expenditures that relate to current ongoing operations or to conditions caused by past operations are expensed as incurred.

## 2. Summary of significant policies *(Continued)*

### (q) Environmental expenditures *(Continued)*

Under the PRC law, the Company is required to remediate the area that it mines. The government of the province in which the mine is located prescribes the remediation requirements on the basis of the future intended use of the land and monitors the Company's remediation efforts. Such activities are typically performed concurrently with production. However, remediation efforts at certain mines are expected to commence after 2007 and the Company has established a liability sufficient to meet its remediation obligations. The expenditures necessary to complete remediation efforts are not expected to be material to cash flows or results of operations in any period.

### (r) Government subsidies

A government subsidy is initially recognized as deferred income, when there is reasonable assurance that the Group will comply with the conditions attaching with it and that the subsidy will be received.

Government subsidies relating to income are recognized as other income in the profit and loss account on a systematic basis to match with the related costs which they are intended to compensate. Subsidies relating to assets are recognized in the financial statements, on a systematic basis over the useful lives of the related assets.

Government subsidies relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit and loss account on a straight-line basis over the expected useful lives of the related assets.

### (s) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format. The Group's operations are principally carried out in the PRC and the related assets are located there. Accordingly, no geographical segments are presented.

Segment assets consist primarily of intangible assets, property, plant and equipment, inventories, receivables and operating cash, and exclude assets not dedicated to a particular segment (Note 20(b)). Segment liabilities comprise operating liabilities and exclude liabilities not dedicated to a particular segment (Note 20(c)). Capital expenditure comprises additions to intangible assets and property, plant and equipment, including additions resulting from acquisitions through purchases of subsidiaries, investments in jointly controlled entities and associated companies.

## 2. Summary of significant policies *(Continued)*

### (t) 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 or depreciation 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).

### (u) Accounts receivable and other receivables

Accounts receivable and other receivables are recognized initially at fair value and subsequently measured at amortized 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivables are impaired. 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.

### (v) 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 amortized 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 contractual right to pay or an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### (w) 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 when cash is collected or on a cost-recovery basis as conditions warrant.

## 3. Financial risk management

The Group is subject to the following market risk:

### (a) Credit risk

The carrying amount of receivables 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 receivables have 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 fluctuations in aluminum price. The futures contracts are marked to market at balance sheet date and corresponding unrealized holding losses are recorded in the profit and loss account for the year. The unrealized holding losses for the years ended December 31, 2005 and December 31, 2004 were RMB8,360,000 and RMB4,972,000, respectively.

### (b) Interest rate risk

The Group is exposed to changes in interest rates due to its long-term debt obligations which are disclosed in Note 18 to the consolidated financial statements. The Group enters into debt obligations to support general corporate purposes including capital expenditures and working capital needs. The Group does not use any derivative instruments to reduce its economic exposure to changes in interest rates.

## 3. Financial risk management *(Continued)*

### (c) 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. As of December 31, 2005 and December 31, 2004, the Group had the following foreign currency denominated short-term deposits:

| | As of December 31, | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Short-term deposits: | | |
| U.S. Dollar denominated | **57,976** | 459,744 |
| Hong Kong Dollar denominated | **2,745** | 264 |
| Euro denominated | **900** | 2 |
| | **61,621** | 460,010 |

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

| | As of December 31, | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Accounts receivable: | | |
| U.S. Dollar denominated | **685** | 23,742 |

## 3. Financial risk management *(Continued)*

### (c) Foreign currency risk *(Continued)*

The Group also had foreign currency denominated loans as of December 31, 2005 and December 31, 2004:

| | As of December 31, | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Short-term loans | | |
| U.S. Dollar denominated | **1,542,858** | 1,052,770 |
| Long-term loans | | |
| Danish Krone denominated | **9,313** | 12,161 |
| | **1,552,171** | 1,064,931 |

### (d) 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.

### (e) 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 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:

## 3. Financial risk management *(Continued)*

### (e) Fair values *(Continued)*

(i) Futures contracts

| | As of December 31, 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 - sales contracts | **83,651** | **92,011** | **(8,360)** | 220,961 | 225,933 | (4,972) |

The fair values of futures contracts are based on quoted market prices. As of December 31, 2005 and December 31, 2004, the Group held sales futures contracts covering 5,000 tonnes and 13,845 tonnes of aluminum maturing during the period from February to April of 2006 and in the first 3 months of 2005, respectively. Market prices of these aluminum futures contracts outstanding as of December 31, 2005 and December 31, 2004 ranged from RMB18,353 to RMB18,419 per tonne and from RMB16,214 to RMB16,430 per tonne, respectively.

(ii) Long-term loans

| | As of December 31, 2005 | | As of December 31, 2004 | |
|---|---|---|---|---|
| | **Book value** | **Fair value** | Book value | Fair value |
| | ***RMB'000*** | ***RMB'000*** | *RMB'000* | *RMB'000* |
| Bank loans | **11,044,473** | **11,042,620** | 8,446,321 | 8,443,798 |
| Other financial institute loans | **—** | **—** | 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 December 31, 2005 and December 31, 2004 were 4.0% for both years.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are unquoted equity securities in which no quoted market prices for such financial assets are available in the PRC. They are stated at cost as a reasonable estimate of fair value could not be made without incurring excessive costs and they are not material to the Group's consolidated financial statements.

## 4. Critical accounting estimates and judgments

Estimates and judgments 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.

### (a) Useful lives and impairment of property and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, and will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

The impairment loss for property, plant and equipment is recognized for the amount by which the carrying amount exceeds its recoverable amount in accordance with the accounting policy stated in Note 2(t) of this section. The recoverable amounts have been determined based on fair value less costs to sell, which are based on the best information available to reflect the amount that obtainable at each of the balance sheet date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs to disposal.

### (b) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2(t). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates and assumptions.

### (c) Income tax

The Group is subject to income taxes in various regions within the PRC. As a result of the fact that 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 policies 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.

### (d) Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. Management reassesses the estimation on each of the balance sheet date.

## 4. Critical accounting estimates and judgments *(Continued)*

### (e) Impairment of receivables

The Group's management determines the provision for impairment of receivables. This estimate is based on the credit history of its customers and the current market condition. Management reassesses the estimation on each of the balance sheet date.

## 5. Intangible assets

| | Group and Company | | |
|---|---|---|---|
| | **Goodwill** | **Mining rights** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Year ended December 31, 2005 | | | |
| As of January 1, 2005 (Note 2(a)) | 406,686 | 322,467 | 729,153 |
| Additions | — | 28,722 | 28,722 |
| Amortization charge for the year (Note 25) | — | (36,396) | (36,396) |
| As of December 31, 2005 | **406,686** | **314,793** | **721,479** |
| As of December 31, 2005 | | | |
| Cost (Note) | 406,686 | 433,051 | 839,737 |
| Accumulated amortization | — | (118,258) | (118,258) |
| Net book amount | **406,686** | **314,793** | **721,479** |
| Year ended December 31, 2004 | | | |
| As of January 1, 2004 | 431,334 | 274,681 | 706,015 |
| Additions | — | 81,606 | 81,606 |
| Amortization charge for the year (Note 25) | (24,648) | (33,820) | (58,468) |
| As of December 31, 2004 | 406,686 | 322,467 | 729,153 |
| As of December 31, 2004 | | | |
| Cost | 492,954 | 404,329 | 897,283 |
| Accumulated amortization | (86,268) | (81,862) | (168,130) |
| Net book amount | 406,686 | 322,467 | 729,153 |

Note: Pursuant to the adoption of HKFRS 3 as set out in Note 2(a) to the consolidated financial statements, accumulated amortization of goodwill of RMB86,268,000 has been eliminated against cost as of December 31, 2004.

## 6. Property, plant and equipment

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Construction in progress | Buildings | Plant and machinery | Motor vehicles and transportation facilities | Office and other equipment | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Cost | | | | | | |
| As of January 1, 2005, as previously reported | 10,625,611 | 13,648,085 | 26,387,189 | 1,051,722 | 274,430 | 51,987,037 |
| Effect of adopting HKAS 17 | — | (17,739) | — | — | — | (17,739) |
| Effect of adopting HKAS 23 | — | 235,226 | 455,140 | 18,157 | 4,527 | 713,050 |
| As of January 1, 2005, as restated | 10,625,611 | 13,865,572 | 26,842,329 | 1,069,879 | 278,957 | 52,682,348 |
| Additions | 8,174,422 | 54,504 | 77,409 | 6,835 | 19,142 | 8,332,312 |
| Transfers/reclassification | (12,333,012) | 2,751,603 | 9,194,038 | 400,499 | (13,128) | — |
| Disposals | — | (74,138) | (348,736) | (119,790) | (5,292) | (547,956) |
| **As of December 31, 2005** | **6,467,021** | **16,597,541** | **35,765,040** | **1,357,423** | **279,679** | **60,466,704** |
| Accumulated depreciation and impairment | | | | | | |
| As of January 1, 2005, as previously reported | 21,322 | 4,678,209 | 13,103,652 | 586,210 | 133,069 | 18,522,462 |
| Effect of adopting HKAS 17 | — | (1,691) | — | — | — | (1,691) |
| Effect of adopting HKAS 23 | — | 34,329 | 95,777 | 4,292 | 946 | 135,344 |
| As of January 1, 2005, as restated | 21,322 | 4,710,847 | 13,199,429 | 590,502 | 134,015 | 18,656,115 |
| Charge for the year | — | 522,206 | 1,668,296 | 283,828 | 33,673 | 2,508,003 |
| Impairment loss | 4,225 | — | — | — | — | 4,225 |
| Transfers/reclassification | — | (14,660) | 22,365 | 9,800 | (17,505) | — |
| Disposals | (8,671) | (55,933) | (294,519) | (111,276) | (4,847) | (475,246) |
| **As of December 31, 2005** | **16,876** | **5,162,460** | **14,595,571** | **772,854** | **145,336** | **20,693,097** |
| Net book value | | | | | | |
| **As of December 31, 2005** | **6,450,145** | **11,435,081** | **21,169,469** | **584,569** | **134,343** | **39,773,607** |
| As of December 31, 2004, as restated | 10,604,289 | 9,154,725 | 13,642,900 | 479,377 | 144,942 | 34,026,233 |

## 6. Property, plant and equipment *(Continued)*

| | Company | | | | | |
|---|---|---|---|---|---|---|
| | Construction in progress | Buildings | Plant and machinery | Motor vehicles and other transportation facilities | Office and other equipment | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Cost | | | | | | |
| As of January 1, 2005, as previously reported | 6,391,167 | 12,624,086 | 23,847,596 | 1,015,180 | 241,715 | 44,119,744 |
| Effect of adopting HKAS 17 | — | (11,800) | — | — | — | (11,800) |
| Effect of adopting HKAS 23 | — | 238,658 | 450,817 | 19,210 | 4,365 | 713,050 |
| As of January 1, 2005, as restated | 6,391,167 | 12,850,944 | 24,298,413 | 1,034,390 | 246,080 | 44,820,994 |
| Additions | 6,592,121 | 120,406 | 189,117 | 11,921 | 22,130 | 6,935,695 |
| Transfers/reclassification | (7,458,120) | 1,411,917 | 5,672,733 | 377,292 | (3,822) | — |
| Disposals | — | (68,641) | (326,646) | (119,376) | (4,967) | (519,630) |
| **As of December 31, 2005** | **5,525,168** | **14,314,626** | **29,833,617** | **1,304,227** | **259,421** | **51,237,059** |
| Accumulated depreciation and impairment | | | | | | |
| As of January 1, 2005, as previously reported | 21,322 | 4,405,757 | 12,161,805 | 573,862 | 121,467 | 17,284,213 |
| Effect of adopting HKAS 17 | — | (1,179) | — | — | — | (1,179) |
| Effect of adopting HKAS 23 | — | 34,676 | 95,245 | 4,499 | 924 | 135,344 |
| As of January 1, 2005, as restated | 21,322 | 4,439,254 | 12,257,050 | 578,361 | 122,391 | 17,418,378 |
| Charge for the year | — | 479,676 | 1,505,555 | 282,429 | 32,810 | 2,300,470 |
| Impairment loss | 4,225 | — | — | — | — | 4,225 |
| Transfers/reclassification | — | (4,097) | 9,032 | 8,389 | (13,324) | — |
| Disposals | (8,671) | (46,023) | (280,948) | (110,975) | (4,537) | (451,154) |
| **As of December 31, 2005** | **16,876** | **4,868,810** | **13,490,689** | **758,204** | **137,340** | **19,271,919** |
| Net book value | | | | | | |
| **As of December 31, 2005** | **5,508,292** | **9,445,816** | **16,342,928** | **546,023** | **122,081** | **31,965,140** |
| As of December 31, 2004, as restated | 6,369,845 | 8,411,690 | 12,041,363 | 456,029 | 123,689 | 27,402,616 |

All the buildings of the Group and of the Company are located in the PRC. As of December 31, 2004 and 2005, no property, plant and equipment were pledged as security.

## 7. Land use rights

Interests in land use rights of the Group and of the Company represent prepaid operating lease payments in the PRC held on leases of between 10 to 50 years and their net book values are analyzed as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Net book value | | | | |
| As of January 1, as previously reported | **—** | — | **—** | — |
| Effect after adopting HKAS 17 | **16,048** | 16,938 | **10,621** | 11,407 |
| As of January 1, as restated | **16,048** | 16,938 | **10,621** | 11,407 |
| Additions | **56,898** | — | **56,794** | — |
| Amortization for the year | **(10,671)** | (890) | **(10,566)** | (786) |
| As of December 31 | **62,275** | 16,048 | **56,849** | 10,621 |

All land use rights of the Group and of the Company are with remaining operating lease period of 45 years from Aluminum Corporation of China ("Chinalco") (Notes 33(c) and 34(d)(VII)(i)).

No land use rights were pledged as security.

## 8. Investments in subsidiaries

| | Company | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Investments at cost: | | |
| Listed securities in the PRC | **965,196** | 965,196 |
| Unlisted securities | **1,177,636** | 897,200 |
| | **2,142,832** | 1,862,396 |

Listed securities in the PRC represent shares in Shandong Aluminum Industry Co., Ltd. (山東鋁業股份有限公司). The total market value of such listed shares as of December 31, 2005 was approximately RMB5,280,000,000 (2004: RMB5,044,800,000).

## 8. Investments in subsidiaries *(Continued)*

The following is a list of the principal subsidiaries as of December 31, 2005:

| Name | Place of incorporation and operation | Legal status | Particulars of issued capital | Equity interest held | Principal activities |
|---|---|---|---|---|---|
| Shandong Aluminum Industry Co., Ltd. (山東鋁業股份有限公司) | PRC | Joint stock company with limited liability listed on the Shanghai Stock Exchange | 672,000,000 A shares of RMB1 each | 71.43% | Manufacture and distribution of alumina and primary aluminum |
| Shanxi Longmen Aluminum Co., Ltd. (山西龍門鋁業有限公司) | PRC | Company with limited liability | Paid up capital of RMB35,978,000 | 55% | Manufacture and distribution of primary aluminum |
| The Design Institute of Shandong Aluminum Corporation (山東鋁業公司設計院) | PRC | * (Note) | Paid up capital of RMB3,000,000 | 100% | Design of production process and provision of technical consulting services |
| Zibo Wancheng Industrial Trading Co., Ltd. (淄博萬成工貿有限公司) | PRC | Company with limited liability | Paid up capital of RMB13,830,000 | 100% | Provision of repair and maintenance services for electrical plant and machinery |
| Zhengzhou Hicer Hitech Ceramics Co., Ltd. (鄭州海賽高科技陶瓷有限責任公司) | PRC | Company with limited liability | Paid up capital of RMB5,000,000 | 80% | Manufacture and distribution of ceramic products |
| Shanxi Aluminum Factory Carbon Plant (山西鋁廠碳素廠) | PRC | **(Note) | Paid up capital of RMB11,820,000 | 72.57% | Manufacture and distribution of electrode |
| China Aluminum International Trading Co., Ltd. (中鋁國際貿易有限公司) | PRC | Company with limited liability | Paid up capital of RMB200,000,000 | 90.5% | Import and export activities |
| Shandong Aluminum Electronic Technology Co., Ltd. (山東山鋁電子技術有限公司) | PRC | Company with limited liability | Paid up capital of RMB20,000,000 | 53.57% | Manufacture and distribution of electronic products |

## 8. Investments in subsidiaries *(Continued)*

| Name | Place of incorporation and operation | Legal status | Particulars of issued capital | Equity interest held | Principal activities |
|---|---|---|---|---|---|
| Research & Design Institute of China Great Wall Aluminum Corporation (中國長城鋁業公司設計院) | PRC | * (Note) | Paid up capital of RMB2,000,000 | 100% | Design and provision of technical consulting services |
| Shanxi Huaze Aluminum and Power Co., Ltd. (山西華澤鋁電有限公司) | PRC | Company with limited liability | Paid up capital of RMB1,500,000,000 | 60% | Maufacture and trading of primary aluminum products, and the generation of electricity |
| Aluminum Corporation of China Hong Kong Ltd. (中國鋁業香港有限公司) | Hong Kong | Company with limited liability | Paid up capital of HKD7,000,000 | 100% | Foreign investment and alumina import and export activities |
| China Aluminum Qinghai International Trading Corp., Ltd. (中鋁青海國際貿易有限公司) | PRC | Company with limited liability | Paid up capital of RMB6,000,000 | 81.45% | Import and export activities |
| Chalco Foshan Trading Co., Ltd. (中鋁佛山貿易有限公司) | PRC | Company with limited liability | Paid up capital of RMB10,000,000 | 89.60% | Trading of alumina and primary aluminum products |
| Chalco Chongqing Trading Co., Ltd. (中鋁重慶銷售有限公司) | PRC | Company with limited liability | Paid up capital of RMB3,000,000 | 90.05% | Trading of alumina and primary aluminum products |
| China Alumimun International Shipping and Forwarding (Beijing) Corp., Ltd. (中鋁國貿(北京)貨運有限公司) | PRC | Company with limited liability | Paid up capital of RMB6,000,000 | 88.69% | Transportation services |
| Chalco Kelin Aluminum of Shanghai Co., Ltd. (上海中鋁凱林鋁業有限公司) | PRC | Company with limited liability | Paid up capital of RMB3,000,000 | 89.60% | Trading of alumina and primary aluminum products |

## 8. Investments in subsidiaries *(Continued)*

| Name | Place of incorporation and operation | Legal status | Particulars of issued capital | Equity interest held | Principal activities |
|---|---|---|---|---|---|
| Chalco Western Qinghai Int'l Trading Co., Ltd. (中鋁青海西部國際貿易有限公司) | PRC | Company with limited liability | Paid up capital of RMB15,000,000 | 81.45% | Import and export activities |
| Shanxi Huatai Coal Co., Ltd. (山西華泰炭素有限責任公司) | PRC | Company with limited liability | Paid up capital of RMB42,000,000 | 97.84% | Production and distribution of coal related products |
| Chalco Shandong International Trading Co. Ltd. (中鋁山東國際貿易有限公司) | PRC | Company with limited liability | Paid up capital of RMB10,000,000 | 81.90% | Import and export activities |
| Chalco Henan International Trading Co. Ltd. (中鋁河南國際貿易有限公司) | PRC | Company with limited liability | Paid up capital of RMB 3,000,000 | 81.90% | Import and export activities |

Note: As of December 31, 2005, the legal status of these subsidiaries was either "state-owned enterprise (marked with *)" or "collectively-owned enterprise (marked with **)", respectively. The Company is in the process of rectifying the legal status of these subsidiaries which have been consolidated into the Group's financial statements as the Directors are of the opinion that these enterprises meet the criteria of being a subsidiary.

The English names of the above subsidiaries are direct translations of their names in Chinese.

## 9. Interests/investments in jointly controlled entities/associated companies

### (a) Interests/investments in jointly controlled entities

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Unlisted equity investment, at cost | **—** | — | **187,819** | 70,669 |
| Share of net assets | **184,399** | 66,877 | **—** | — |
| | **184,399** | 66,877 | **187,819** | 70,669 |

## 9. Interests/investments in jointly controlled entities/associated companies *(Continued)*

### (a) Interests/investments in jointly controlled entities *(Continued)*

Movements in interests in jointly controlled entities are as follows:

| | Group | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| As of January 1 | **66,877** | 21,330 |
| Additions for the year | **117,150** | 49,500 |
| | **184,027** | 70,830 |
| Share of jointly controlled entities' results | | |
| Profit before taxation | **372** | (3,953) |
| As of December 31 | **184,399** | 66,877 |

As of December 31, 2005, jointly controlled entities of the Group are as follow:

| Name | Place of incorporation and operation | Legal status | Particulars of issued capital | Equity interest held | Principal Activities |
|---|---|---|---|---|---|
| Shanxi JinXin Aluminum Co., Ltd. (山西晉信鋁業有限公司) | PRC | Company with limited liability | Paid up capital of RMB20,000,000 | 50% | Production and distribution of primary aluminum |
| Guangxi Huayin Aluminum Co. Ltd. (廣西華銀鋁業有限公司) (Note 33(b)(i)) | PRC | Company with limited liability | Paid up capital of RMB515,000,000 | 33% | Production and distribution of alumina |

## 9. Interests/investments in jointly controlled entities/associated companies *(Continued)*

### (a) Interests/investments in jointly controlled entities *(Continued)*

The Group's share of interests in its jointly controlled entities is as follows:

| | **2005** | 2004 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Assets: | | |
| Non-current assets | **157,963** | 40,393 |
| Current assets | **198,617** | 99,315 |
| | **356,580** | 139,708 |
| Liabilities: | | |
| Non-current liabilities | **17,618** | 17,618 |
| Current liabilities | **154,563** | 55,213 |
| | **172,181** | 72,831 |
| Net assets | **184,399** | 66,877 |
| Income | **50,720** | 41,117 |
| Expenses | **(50,348)** | (45,070) |
| Profit after income tax | **372** | (3,953) |

As of December 31, 2005, the Group's proportionate interest in jointly controlled entities' capital commitments is approximately RMB2,116,552,000 (2004: Nil).

There are no material contingent liabilities relating to the Group's interest in the jointly controlled entities, and no material contingent liabilities of the jointly controlled entities themselves.

## 9. Interests/investments in jointly controlled entities/associated companies *(Continued)*

### (b) Interests/investments in associated companies

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Investment at cost: | | | | |
| Unlisted securities (Note (i)) | **—** | — | **75,600** | 45,000 |
| Listed securities in PRC (Note (ii)) | **—** | — | **768,438** | — |
| Share of net assets | **886,375** | 45,000 | **—** | — |
| | **886,375** | 45,000 | **844,038** | 45,000 |

Movements in interests in associated companies are as follows:

| | Group | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| As of January 1, | **45,000** | 45,000 |
| Additions for the year | **814,428** | — |
| | **859,428** | 45,000 |
| Share of associates' results | | |
| Profit before taxation | **31,113** | — |
| Taxation | **(4,166)** | — |
| | **26,947** | — |
| As of December 31, | **886,375** | 45,000 |

## 9. Interests/investments in jointly controlled entities/associated companies *(Continued)*

### (b) Interests/investments in associated companies *(Continued)*

The Group's share of interests in its associates is as follows:

| Name | Assets | Liabilities | Revenues | Profit | % Interest held |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | |
| 2004 | | | | | |
| Jiaozuo Coal Group Xinxiang (Zhaogu) Energy Corporation Co. Ltd. | 52,071 | 7,071 | — | — | 30% |
| 2005 | | | | | |
| Jiaozuo Coal Group Xinxiang (Zhaogu) Energy Corporation Co. Ltd. | 95,118 | 19,518 | — | — | 30% |
| Lanzhou Aluminum Corporation Ltd. | 1,247,867 | 437,092 | 586,178 | 26,947 | 28% |
| | 1,342,985 | 456,610 | 586,178 | 26,947 | |

Notes:

(i) Unlisted securities represent investment in Jiaozuo Coal Group Xinxiang (Zhaogu) Energy Corporation Co. Ltd. (焦作煤業集團新鄉 (趙固) 能源有限責任公司), which was set up between the Company and Jiaozuo Coal (Group) Co., Ltd. (焦作煤業 (集團) 有限責任公司). The Company has invested RMB 75,600,000 and has a 30% equity interest in this associated company. The principal activity of the associated company is coal production in Henan. As of December 31, 2005, this associated company was still at the development stage.

(ii) On March 20, 2005, the Group acquired 28% share capital of Lanzhou Aluminum Corporation Limited ("Lanzhou Aluminum" (蘭州鋁業股份有限公司)), a company with it's A shares listed on Shanghai Stock Exchange in the PRC. The principal activities of Lanzhou Aluminum are the manufacturing and selling of primary aluminium in the PRC. The market value of such listed shares as of December 31, 2005 was approximately RMB744,072,000.

## 10. Investments in securities/available-for-sale financial assets

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Unlisted | | | | |
| Investment in securities | **—** | 10,800 | **—** | — |
| Available-for-sale financial assets | **10,200** | — | **—** | — |
| | **10,200** | 10,800 | **—** | — |

Investments in securities are investments in shares of fellow subsidiaries. Pursuant to the adoption of HKAS 32 and HKAS 39, these investments in securities were reclassified to available-for-sale financial assets. (Note 2(a)(iv))

## 11. Inventories

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Costs | **7,272,955** | 5,305,415 | **5,322,901** | 4,330,220 |
| Less: Provision for obsolete inventories | **(38,224)** | (73,508) | **(34,399)** | (68,061) |
| | **7,234,731** | 5,231,907 | **5,288,502** | 4,262,159 |

As of December 31, 2005, carrying amount of inventories was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Raw materials | **3,016,770** | 2,161,964 | **2,448,928** | 1,904,806 |
| Work in progress | **2,144,369** | 1,578,971 | **1,639,186** | 1,359,986 |
| Finished goods | **1,489,061** | 987,603 | **635,268** | 497,173 |
| Production supplies | **584,531** | 503,369 | **565,120** | 500,194 |
| | **7,234,731** | 5,231,907 | **5,288,502** | 4,262,159 |

The cost of inventories recognized as expenses and included in cost of goods sold amounted to RMB24,822,109,000 (2004: RMB21,503,250,000).

## 12. Accounts receivable, net

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Trade receivables | **457,556** | 567,864 | **341,300** | 437,241 |
| Less: Provision for impairment of receivables | **(278,395)** | (305,237) | **(225,837)** | (245,572) |
| | **179,161** | 262,627 | **115,463** | 191,669 |
| Trade receivables from related parties (Note 34) | **246,919** | 353,392 | **608,836** | 667,951 |
| Less: Provision for impairment of receivables | **(176,458)** | (175,087) | **(176,458)** | (175,087) |
| | **70,461** | 178,305 | **432,378** | 492,864 |
| | **249,622** | 440,932 | **547,841** | 684,533 |
| Bills receivable (Note (a)) | **711,569** | 1,524,195 | **494,943** | 1,110,911 |
| | **961,191** | 1,965,127 | **1,042,784** | 1,795,444 |

The Group performs periodic credit evaluation on its customers and different credit policies are adopted for individual customers accordingly. The fair value of trade receivables approximates the book value.

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.

## 12. Accounts receivable, net *(Continued)*

As of December 31, 2005, the aging analysis of trade receivables, net, was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Within 1 month | **112,013** | 218,258 | **453,815** | 481,241 |
| Between 2 and 6 months | **55,670** | 41,191 | **19,828** | 23,767 |
| Between 7 and 12 months (Note (b)) | **39,973** | 26,848 | **39,214** | 23,310 |
| Between 1 and 2 years (Note (b)) | **21,530** | 81,260 | **17,645** | 85,572 |
| Over 2 years (Note (b)) | **20,436** | 73,375 | **17,339** | 70,643 |
| | **249,622** | 440,932 | **547,841** | 684,533 |

Notes:

(a) Bills receivable are bills of exchange with maturity dates within six months.

(b) Trade receivables aged over 6 months are principally due from related parties.

## 13. Other current assets

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Purchase deposits to suppliers | **652,225** | 353,777 | **194,165** | 138,649 |
| Other deposits and prepayments | **225,758** | 118,462 | **121,322** | 58,397 |
| Value-added tax recoverable | **277** | 6,595 | **—** | 1,366 |
| Short-term listed investments (Note (a)) | **—** | 41,530 | **—** | — |
| Financial assets at fair value through profit or loss (Note (a)) | **5,540** | — | **5,040** | — |
| Held-to-maturity investments (Note (b)) | **—** | 10,860 | **—** | 10,860 |
| Other receivables (Note (c)) | **36,955** | 144,215 | **26,705** | 100,214 |
| | **920,755** | 675,439 | **347,232** | 309,486 |
| Receivables from related parties (Note 34) | **248,266** | 260,352 | **259,355** | 452,983 |
| | **1,169,021** | 935,791 | **606,587** | 762,469 |

Notes:

(a) Short-term listed investments primarily represented PRC treasury bonds held at fair value. Pursuant to the adoption of HKAS 32 and HKAS 39, these short-term listed investments were reclassified to financial assets at fair value through profit or loss.

(b) Held-to-maturity investments are stated in the balance sheet at cost less/plus any discount/premium amortized to date. The investments matured on July 23, 2005.

(c) As of December 31, 2005, the balances of the Group and of the Company were stated net of provision for doubtful receivables of RMB162,363,000 (2004: RMB164,523,000) and RMB161,337,000 (2004: RMB164,077,000), respectively.

The fair value of other current assets approximates the book value.

## 14. Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Renminbi (Note) | **7,536,106** | 5,763,753 | **6,173,535** | 4,900,076 |
| Other foreign currency deposits (Note 3(c)) | **61,621** | 460,010 | **484** | 460,010 |
| | **7,597,727** | 6,223,763 | **6,174,019** | 5,360,086 |

Note: Renminbi is not a freely convertible currency. The restrictions on foreign exchange imposed by the PRC government may result in material difference between future exchange rate and the current exchange rate or historical exchange rate. The Group believes that it is able to obtain sufficient foreign exchange for the performance of its relevant obligations.

The effective interest rate on short-term bank deposits was 1.29% (2004: 1.4%); these deposits have an average maturity of 7 days.

## 15. Accounts payable

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Trade payables | **2,584,557** | 1,919,330 | **1,991,259** | 1,672,667 |
| Trade payables to related parties (Note 34) | **54,526** | 79,408 | **87,469** | 108,676 |
| | **2,639,083** | 1,998,738 | **2,078,728** | 1,781,343 |
| Bills payable (Note (a)) | **10,166** | 49,093 | **—** | 12,000 |
| | **2,649,249** | 2,047,831 | **2,078,728** | 1,793,343 |

## 15. Accounts payable *(Continued)*

As of December 31, 2005, the aging analysis of trade payables was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Within 1 month | **1,804,096** | 1,345,461 | **1,418,098** | 1,181,220 |
| Between 2 and 6 months | **639,520** | 491,386 | **486,718** | 455,290 |
| Between 7 and 12 months | **131,596** | 72,982 | **126,701** | 64,377 |
| Between 1 and 2 years (Note (b)) | **22,806** | 22,763 | **10,158** | 19,874 |
| Between 2 and 3 years (Note (b)) | **7,279** | 9,916 | **6,380** | 7,844 |
| Over 3 years (Note (b)) | **33,786** | 56,230 | **30,673** | 52,738 |
| | **2,639,083** | 1,998,738 | **2,078,728** | 1,781,343 |

Notes:

(a) Bills payable are repayable within six months.

(b) Trade payables aged over 1 year are principally due from related parties.

## 16. Other payables and accruals

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Accrued construction costs | **1,629,934** | 1,587,818 | **1,232,748** | 901,613 |
| Sales deposits from customers | **1,571,884** | 1,507,443 | **1,143,621** | 1,135,061 |
| Accrued payroll and bonus | **934,869** | 745,200 | **875,081** | 692,910 |
| Taxes other than income taxes payable (Note) | **256,990** | 517,148 | **363,286** | 496,290 |
| Staff welfare payable | **221,898** | 287,396 | **199,530** | 268,024 |
| Accrued contributions to retirement schemes | **12,174** | 31,006 | **8,497** | 27,527 |
| Interest payable | **468** | 20,651 | **468** | 17,318 |
| Other accruals | **301,273** | 291,099 | **263,822** | 252,159 |
| | **4,929,490** | 4,987,761 | **4,087,053** | 3,790,902 |
| Amount due to related parties (Note 34) | **655,827** | 556,806 | **1,459,150** | 1,329,578 |
| | **5,585,317** | 5,544,567 | **5,546,203** | 5,120,480 |

Note: Taxes other than income taxes payable mainly comprise accrual for value-added tax, land use tax and city construction tax.

## 17. Issued capital and reserves

### (a) Share capital

| | Company | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Registered, issued and fully paid: | | |
| 11,049,876,153 (2004: 11,049,876,153) shares of RMB1.00 each | **11,049,876** | 11,049,876 |

As of December 31, 2005 and 2004 the registered, issued and fully paid share capital of the Company were RMB11,049,876,153, divided into 11,049,876,153 shares of RMB1.00 each, comprising 7,750,010,185 domestic shares and 3,299,865,968 H shares.

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 RMB8,000 million. Preparation of the said application is currently in progress.

## 17. Issued capital and reserves *(Continued)*

### (b) Reserves

For the year ended December 31, 2005

| | Company | | | | |
|---|---|---|---|---|---|
| | Capital reserve (Note (b)(i)) *RMB'000* | Statutory surplus reserve (Note (b)(ii)) *RMB'000* | Statutory public welfare fund (Note (b)(iii)) *RMB'000* | Retained earnings (Note (b)(iv)) *RMB'000* | Total *RMB'000* |
| As of January 1, 2005, as previously reported | 6,204,045 | 1,125,557 | 1,125,557 | 6,422,985 | 14,878,144 |
| Effect of adopting HKAS 23 | — | — | — | 410,652 | 410,652 |
| As of January 1, 2005, as restated | 6,204,045 | 1,125,557 | 1,125,557 | 6,833,637 | 15,288,796 |
| Profit for the year | — | — | — | 6,772,745 | 6,772,745 |
| Transfer to | | | | | |
| - capital reserve | 14,711 | — | — | (14,711) | — |
| - statutory surplus reserve | — | 688,619 | — | (688,619) | — |
| - statutory public welfare fund | — | — | 688,619 | (688,619) | — |
| Dividends paid | — | — | — | (1,944,778) | (1,944,778) |
| As of December 31, 2005 | 6,218,756 | 1,814,176 | 1,814,176 | 10,269,655 | 20,116,763 |
| Retained earnings represented by: | | | | | |
| 2005 final dividend proposed | | | | 2,364,673 | |
| Unappropriated retained earnings | | | | 7,904,982 | |
| Retained earnings as of December 31, 2005 | | | | 10,269,655 | |

## 17. Issued capital and reserves *(Continued)*

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

For the year ended December 31, 2004

| | Company | | | | |
|---|---|---|---|---|---|
| | Capital reserve (Note (b)(i)) *RMB'000* | Statutory surplus reserve (Note (b)(ii)) *RMB'000* | Statutory public welfare fund (Note (b)(iii)) *RMB'000* | Retained earnings (Note (b)(iv)) *RMB'000* | Total *RMB'000* |
| As of January 1, 2004 | | | | | |
| as previously reported | 3,493,594 | 518,921 | 518,921 | 3,146,709 | 7,678,145 |
| Effect of adopting HKAS 23 | — | — | — | 243,069 | 243,069 |
| As of January 1, 2004, as restated | 3,493,594 | 518,921 | 518,921 | 3,389,778 | 7,921,214 |
| Issue of shares | 2,750,672 | — | — | — | 2,750,672 |
| Share issue expenses | (49,998) | — | — | — | (49,998) |
| Profit for the year | — | — | — | 5,727,696 | 5,727,696 |
| Transfer to | | | | | |
| - capital reserve | 9,777 | — | — | (9,777) | — |
| - statutory surplus reserve | — | 606,636 | — | (606,636) | — |
| - statutory public welfare fund | — | — | 606,636 | (606,636) | — |
| Dividends paid | — | — | — | (1,060,788) | (1,060,788) |
| As of December 31, 2004 | 6,204,045 | 1,125,557 | 1,125,557 | 6,833,637 | 15,288,796 |
| Retained earnings represented by: | | | | | |
| 2004 final dividend proposed | | | | 1,944,778 | |
| Unappropriated retained earnings | | | | 4,888,859 | |
| Retained earnings as of December 31, 2004 | | | | 6,833,637 | |

## 17. Issued capital and reserves *(Continued)*

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

(i) Capital reserve

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Capital reserve represents: | | | | |
| Premium on issue of shares upon group reorganization | **2,403,804** | 2,403,804 | **2,403,804** | 2,403,804 |
| Premium on subsequent issue of shares to the public | **3,504,128** | 3,504,128 | **3,504,128** | 3,504,128 |
| Gain on waiver of interest | **171,964** | 157,253 | **171,964** | 157,253 |
| Other reserve | **138,860** | 138,860 | **138,860** | 138,860 |
| | **6,218,756** | 6,204,045 | **6,218,756** | 6,204,045 |

Capital reserve can only be used to increase share capital. Pursuant to the 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 has been made from retained earnings to reflect its non-distributable nature.

Other reserve represents contributions from Chinalco in respect of subsidies received by Chinalco from the Ministry of Finance of the PRC to support certain technical improvement projects of the Group. Pursuant to relevant PRC regulations, these subsidies should be treated as the equity interest of Chinalco; therefore can only be used to increase Chinalco's shares in the Company in the event that new issuance of shares is made in the future.

(ii) Statutory surplus reserve

In accordance with 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. Statutory surplus reserve balance should not fall below 25% of the registered capital after the placing.

## 17. Issued capital and reserves *(Continued)*

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

(iii) Statutory public welfare fund

In accordance with 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 any 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.

The Company decided to make a 10% transfer as statutory public welfare fund for the years ended December 31, 2005 and December 31, 2004.

(iv) Retained earnings (accumulated losses)

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Company and subsidiaries | **10,919,032** | 7,582,762 | **9,859,003** | 6,590,568 |
| Effect of adopting HKAS23 | **410,652** | 243,069 | **410,652** | 243,069 |
| Jointly controlled entities | **(4,683)** | (5,055) | **—** | — |
| Associated companies | **26,947** | — | **—** | — |
| | **11,351,948** | 7,820,776 | **10,269,655** | 6,833,637 |

## 18. Borrowings

### (a) Long-term loans

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Unsecured bank loans | | | | |
| Wholly repayable within five years | **5,556,000** | 3,365,000 | **4,856,000** | 3,255,000 |
| Not wholly repayable within five years | **5,488,473** | 5,081,321 | **2,118,473** | 2,801,321 |
| | **11,044,473** | 8,446,321 | **6,974,473** | 6,056,321 |
| Loans from other financial institutions | | | | |
| Wholly repayable within five years | **—** | 19,000 | **—** | 19,000 |
| | **11,044,473** | 8,465,321 | **6,974,473** | 6,075,321 |
| Current portion of long-term loans | **(1,353,980)** | (1,073,658) | **(1,353,980)** | (963,658) |
| | **9,690,493** | 7,391,663 | **5,620,493** | 5,111,663 |

The maturity of total long-term loans is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Within one year | **1,353,980** | 1,073,658 | **1,353,980** | 963,658 |
| In the second year | **1,929,140** | 1,621,658 | **1,929,140** | 1,621,658 |
| In the third to fifth year | **4,866,941** | 4,419,635 | **3,686,941** | 3,339,635 |
| After the fifth year | **2,894,412** | 1,350,370 | **4,412** | 150,370 |
| | **11,044,473** | 8,465,321 | **6,974,473** | 6,075,321 |

## 18. Borrowings *(Continued)*

### (a) Long-term loans *(Continued)*

As of December 31, 2005, bank loans of the Group and of the Company of RMB494,000,000 (2004: RMB1,485,161,000) and RMB494,000,000 (2004: RMB1,375,161,000), respectively, were guaranteed by Chinalco.

As of December 31, 2005, bank loans of subsidiaries are guaranteed by the Company amounted to RMB1,100,000,000 (2004: RMB1,100,000,000).

The characteristics of the Group's long-term loans as of December 31, 2005 are analyzed as follows:

| Loan | Interest rate and final maturity | 2005 RMB'000 | 2004 RMB'000 |
|---|---|---|---|
| Bank loans: | | | |
| Renminbi-denominated loans: | | | |
| Development of production facilities | Variable interest rates ranging from 4.9% to 6.1% per annum as of December 31, 2005 with maturity dates through 2010 (2004: 4.9% to 5.9% per annum with maturity date through 2009) | **10,021,160** | 5,104,000 |
| Working capital | Variable interest rates ranging from 3.6% to 5.2% per annum as of December 31, 2005 with maturity dates through 2009 (2004: 4.9% to 5.5% per annum with maturity dates through 2012) | **1,014,000** | 3,330,160 |
| Danish Krone-denominated loans: | | | |
| Development of production facilities | Fixed interest rate at 0.3% per annum as of December 31, 2005 with maturity dates through 2015 (2004: fixed interest rates 0.3% per annum with maturity dates through 2015) | **9,313** | 12,161 |
| | | **11,044,473** | 8,446,321 |
| Loans from other financial institutions: | | | |
| Renminbi-denominated loans: | | | |
| Working capital | There was no loan from other financial institutions as at December 31, 2005 (2004: fixed interest rate at 5.3% per annum with maturity dates through 2006) | **—** | 19,000 |

## 18. Borrowings *(Continued)*

### (b) Unsecured short-term bank loans

The carrying amount of the short-term bank loans are dominated in following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Renminbi | **836,140** | 2,396,140 | **580,000** | 2,230,000 |
| U.S. Dollar | **1,542,858** | 1,052,770 | **—** | — |
| | **2,378,998** | 3,448,910 | **580,000** | 2,230,000 |

The effective interest rates as of December 31, 2005 are 3.33% to 5.58% (2004: 2.567% to 5.022%).

As of December 31, 2005, short-term bank loans of subsidiaries amounted to RMB12,000,000 and US$191,180,000 (equivalent to RMB1,542,858,000)(2004: US$127,197,000 (equivalent to RMB1,052,770,000)) are guaranteed by the Company.

As of December 31, 2004, short-term bank loans of a subsidiary amounted to RMB12,000,000 was guaranteed by Chinalco.

### (c) Banking facilities

As of December 31, 2005, the Group had total banking facilities of approximately RMB37,672 million, (2004: RMB33,894 million), inclusive of long-term facilities of approximately RMB13,963 million (2004: RMB13,963 million) and other facilities of approximately RMB23,709 million (2004: RMB19,931 million). Out of the total banking facilities granted, amounts totaling RMB13,423 million have been utilized as of December 31, 2005 (2004: RMB11,895 million). Banking facilities of approximately RMB33,328 million require renewal during 2006. The Directors of the Company are confident that such banking facilities can be renewed upon expiration.

## 19. Short-term bonds

On June 15, 2005, the Company issued short-term bonds with a total face value of RMB2 billion (face value of RMB100 per unit) and maturity of 1 year for working capital. The effective interest rates of these bonds were 3.33% per annum. As of December 31, 2005, the short-term bonds were stated at net of discounts of RMB29,160,000.

## 20. Turnover, revenue and segment information

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

| | For the year ended December 31, | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Turnover | | |
| Sales of goods, net of value-added tax | **37,110,319** | 32,313,076 |
| Other revenues | | |
| Sales of scrap and other materials | **303,200** | 339,585 |
| Supply of electricity, heat, gas and water (Note 34(d)) | **298,756** | 273,537 |
| Rendering of services (Note (a)) | **114,211** | 33,145 |
| Interest income | **89,363** | 61,540 |
| Income from held-to-maturity investments | **193** | 351 |
| Total other revenues | **805,723** | 708,158 |
| Expenses related to other revenues (Note (b)) | **(720,446)** | (592,630) |
| | **85,277** | 115,528 |
| Interest waived (Note (c)) | **14,711** | 9,777 |
| Government subsidies | **5,440** | 4,512 |
| Realized and unrealized gain (loss) on futures contracts | **5,760** | (25,492) |
| Penalties, fines and compensations | **(329)** | (2,518) |
| Gain (loss) on financial assets at fair value through profit or loss | **5,582** | (514) |
| Other gains, net | **116,441** | 101,293 |

Notes:

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

(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 (Note 34(d)).

(c) In 2005, the gain was related to an interest waiver agreement made between the Company and a financial institution for full settlement of the outstanding loans of RMB19 million and the related interest payable was waived. In 2004, the gain was related to an interest waiver arrangement made between the Company and a financial institution for full settlement of the outstanding loans of RMB15.95 million and the related interest payable was waived.

## 20. 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.

In addition, the Group also provides other services.

Activities of the headquarters and other operations of the Group, comprising research and development related to alumina and primary aluminum business carried out by Zhengzhou Research Institute 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.

## 20. Turnover, revenue and segment information *(Continued)*

Primary reporting format - business segments *(Continued)*

| | For the year ended December 31, 2005 RMB'000 | 2004 RMB'000 |
|---|---|---|
| Segment results | | |
| Turnover | | |
| Alumina | | |
| External sales | **22,853,792** | 20,497,545 |
| Inter-segment sales | **5,191,749** | 4,226,150 |
| | **28,045,541** | 24,723,695 |
| Primary aluminum - External sales | **14,128,496** | 11,720,415 |
| Corporate and other services - External sales (Note (a)) | **128,031** | 95,116 |
| Inter-segment elimination | **(5,191,749)** | (4,226,150) |
| Total turnover | **37,110,319** | 32,313,076 |
| Cost of goods sold | | |
| Alumina | **16,552,182** | 14,386,807 |
| Primary aluminum | **13,280,526** | 11,239,784 |
| Corporate and other services | **73,182** | 81,718 |
| Inter-segment elimination | **(5,083,781)** | (4,205,059) |
| Total cost of goods sold | **24,822,109** | 21,503,250 |
| Gross profit | | |
| Alumina | **11,493,359** | 10,336,888 |
| Primary aluminum | **847,970** | 480,631 |
| Corporate and other services | **54,849** | 13,398 |
| Inter-segment elimination | **(107,968)** | (21,091) |
| Total gross profit | **12,288,210** | 10,809,826 |

## 20. Turnover, revenue and segment information *(Continued)*

Primary reporting format - business segments *(Continued)*

| | For the year ended December 31, | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Segment results *(Continued)* | | |
| Other costs, net of other revenues and other income | | |
| Alumina | **1,181,053** | 1,003,535 |
| Primary aluminum | **616,030** | 524,506 |
| Corporate and other services | **103,287** | 90,304 |
| Unallocated | **306,604** | 281,431 |
| Total other costs, net of other revenues and other income | **2,206,974** | 1,899,776 |
| Segment operating profit (loss) | | |
| Alumina | **10,312,306** | 9,333,353 |
| Primary aluminum | **231,940** | (43,875) |
| Corporate and other services | **(48,438)** | (76,906) |
| Unallocated | **(306,604)** | (281,431) |
| Inter-segment elimination | **(107,968)** | (21,091) |
| Total operating profit | **10,081,236** | 8,910,050 |
| Finance costs | **366,908** | 109,948 |
| Operating profit after finance costs | **9,714,328** | 8,800,102 |
| Share of profit of an associated company | **26,947** | — |
| Share of profit (loss) of jointly controlled entities | **372** | (3,953) |
| Profit before income taxes | **9,741,647** | 8,796,149 |
| Income taxes | **2,495,213** | 2,161,086 |
| Profit after income taxes | **7,246,434** | 6,635,063 |

## 20. Turnover, revenue and segment information *(Continued)*

Primary reporting format - business segments *(Continued)*

| | For the year ended December 31, | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Capital expenditure | | |
| Alumina | **5,369,606** | 5,398,997 |
| Primary aluminum | **2,793,892** | 5,257,407 |
| Corporate and other services | **124,811** | 76,841 |
| Unallocated | **129,623** | 208,411 |
| Total capital expenditure | **8,417,932** | 10,941,656 |
| Depreciation and amortization charged to the profit and loss account | | |
| Alumina | **1,713,281** | 1,651,211 |
| Primary aluminum | **743,264** | 701,764 |
| Corporate and other services | **41,177** | 30,764 |
| Unallocated | **27,222** | 26,330 |
| Total | **2,524,944** | 2,410,069 |
| Impairment losses charged to the profit and loss account | | |
| Alumina | **4,225** | 10,902 |
| Primary aluminum | **—** | 9,325 |
| Total | **4,225** | 20,227 |

## 20. Turnover, revenue and segment information *(Continued)*

Primary reporting format - business segments *(Continued)*

| | As of December 31, | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Segment assets | | |
| Alumina | **35,445,213** | 29,688,156 |
| Primary aluminum | **16,563,819** | 15,849,283 |
| Corporate and other services | **6,153,200** | 4,317,420 |
| Unallocated (Note (b)) | **1,491,514** | 452,571 |
| | **59,653,746** | 50,307,430 |
| Inter-segment elimination | **(643,867)** | (749,361) |
| Total assets | **59,009,879** | 49,558,069 |
| Segment liabilities | | |
| Alumina | **9,373,274** | 10,213,143 |
| Primary aluminum | **6,332,311** | 6,077,356 |
| Corporate and other services | **4,767,800** | 718,356 |
| Unallocated (Note (c)) | **4,975,467** | 4,492,697 |
| | **25,448,852** | 21,501,552 |
| Inter-segment elimination | **(643,867)** | (749,361) |
| Total liabilities | **24,804,985** | 20,752,191 |

Notes:

(a) Sales of corporate and other services mainly represent the sale of alumina by Zhengzhou Research Institute.

(b) Unallocated assets, which represent assets not dedicated to a particular segment, consist primarily of cash and cash equivalents except operating cash, investments, deferred tax assets, other receivables and non-operating property, plant and equipment.

(c) Unallocated liabilities, which represent liabilities not dedicated to a particular segment, consist primarily of short-term and long-term loans, taxation payable and other liabilities.

## 21. Selling and distribution expenses

| | For the year ended December 31, 2005 RMB'000 | 2004 RMB'000 |
|---|---|---|
| Transportation and loading | **350,730** | 313,692 |
| Packaging expenses | **203,492** | 193,968 |
| Miscellaneous port expenses | **32,197** | 38,321 |
| Salaries and welfare expenses | **30,939** | 27,179 |
| Sales commission and other handling fee | **23,206** | 15,922 |
| Others | **46,153** | 58,450 |
| | **686,717** | 647,532 |

## 22. General and administrative expenses

| | For the year ended December 31, 2005 RMB'000 | 2004 RMB'000 |
|---|---|---|
| Salaries and welfare expenses | **466,196** | 393,777 |
| Taxes other than income taxes (Note) | **383,925** | 327,978 |
| Depreciation - non production property, plant and equipment | **73,504** | 71,295 |
| Traveling and entertainment | **84,023** | 68,115 |
| Utilities and office supplies | **47,442** | 43,588 |
| Insurance | **46,539** | 37,096 |
| Rental expenses | **45,217** | — |
| Pre-operation expenses | **42,379** | — |
| Legal and professional fees | **44,971** | 38,122 |
| Marketing and advertising | **33,780** | 24,779 |
| Amortization of goodwill | **—** | 24,648 |
| Auditors' remuneration | | |
| -audit fees | **14,660** | 14,210 |
| -audit related fees | **9,291** | 4,097 |
| -other fees | **978** | 1,197 |
| Repairs and maintenance | **23,209** | 19,431 |
| Others | **207,203** | 152,569 |
| | **1,523,317** | 1,220,902 |

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 payable which are actually paid.

## 23. Directors', Supervisors' and senior management's remuneration

### (a) Directors' and Supervisors' remuneration

The aggregate amounts of remuneration payable to Directors and Supervisors of the Company during the year are as follows:

| | For the year ended December 31, 2005 RMB'000 | 2004 RMB'000 |
|---|---|---|
| Fees | **1,097** | 863 |
| Basic salaries, housing allowances, other allowances and benefits in kind | **2,956** | 3,303 |
| Discretionary bonuses | **2,265** | 2,200 |
| Contributions to the retirement schemes | **80** | 56 |
| | **6,398** | 6,422 |

Pursuant to the requirements under Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited which was effective on January 1, 2005, the remuneration of each Director for the year ended December 31, 2005 is set out below:

| Name of Director | Fees RMB'000 | Salary RMB'000 | Discretionary bonuses RMB'000 | Employer's contribution to retirement schemes RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Xiao Yaqing | — | 762 | 594 | 20 | 1,376 |
| Xiong Weiping | — | 640 | 495 | 20 | 1,155 |
| Luo Jianchuan | — | 566 | 335 | 20 | 921 |
| Chen Jihua | — | 508 | 269 | 20 | 797 |
| Wang Dianzhou | 276 | — | — | — | 276 |
| Kang Yi | 276 | — | — | — | 276 |
| Chiu Chi Cheong, Clifton (Note (a)) | 212 | — | — | — | 212 |
| Joseph C. Muscari | 150 | — | — | — | 150 |
| Chen Xiaozhou (Note (b)) | 38 | — | — | — | 38 |
| Shi Chungui (Note (c)) | 88 | — | — | — | 88 |
| Poon Yiu Kin, Samuel (Note (d)) | 57 | — | — | — | 57 |

Notes:

(a) Resigned on October 14, 2005.

(b) Resigned on March 27, 2005

(c) Appointed on June 9, 2005.

(d) Appointed on October 14, 2005.

## 23. Directors', Supervisors' and senior management's remuneration *(Continued)*

### (a) Directors' and Supervisors' remuneration *(Continued)*

The remuneration of the Directors and Supervisors fell within the following bands:

| | Number of individuals For the year ended December 31, | |
|---|---|---|
| | **2005** | 2004 |
| Nil to RMB1,000,000 | **12** | 16 |
| RMB1,000,001 - RMB1,500,000 | **2** | — |

No Director or Supervisor of the Company waived any remuneration during the respective years.

### (b) Five highest paid individuals

| | Number of individuals For the year ended December 31, | |
|---|---|---|
| | **2005** | 2004 |
| Directors and Supervisors | **3** | 3 |
| Senior management | **2** | 2 |

The five individuals whose remuneration were the highest in the Group for the year include three (2004: three) Directors whose remuneration are reflected in the analysis presented above. The remuneration payable to the remaining two (2004: two) individuals during the year are as follows:

| | For the year ended December 31, | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Basic salaries, housing allowances, other allowances and benefits in kind | **1,046** | 979 |
| Discretionary bonuses | **538** | 393 |
| Contributions to the retirement schemes | **29** | 20 |
| | **1,613** | 1,392 |

## 24. Staff costs

| | For the year ended December 31, | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Wages, salaries and bonuses | **2,317,347** | 2,297,941 |
| Housing fund | **154,977** | 139,532 |
| Contributions to retirement schemes (Note (a)) | **390,713** | 344,391 |
| Welfare and other expenses (Note (b)) | **546,531** | 531,996 |
| | **3,409,568** | 3,313,860 |

Notes:

(a) The employees of the Group participate in various retirement benefit schemes organized by the relevant provincial and municipal governments under which the Group was required to make monthly defined contributions to these plans at rates ranging from 15% to 25% of the employees' basic 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.

(b) Welfare and other expenses, including welfare, staff committee expenses, education expenses, unemployment insurance expenses are accrued based on 14% of the wages and recognized in the profit and loss account.

Staff costs include remuneration payable to Directors, Supervisors and senior management as set out in Note 23.

## 25. Expenses charged to the consolidated profit and loss account

| | For the year ended December 31, | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Depreciation of property, plant and equipment, as restated | **2,477,877** | 2,350,711 |
| Operating lease rentals in respect of land and buildings | **242,619** | 217,151 |
| Loss on disposal of property, plant and equipment | **63,355** | 43,740 |
| Amortization of mining rights (Note 5) | **36,396** | 33,820 |
| Amortization of land use rights (Note 7) | **10,671** | 890 |
| Provision for obsolete inventories | **13,184** | 39,591 |

## 26. Finance costs

| | For the year ended December 31, | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Interest on bank loans | **708,600** | 518,481 |
| Interest on loan from other financial institutions wholly repayable within five years | **—** | 1,436 |
| Total finance costs incurred | **708,600** | 519,917 |
| Less: amount capitalized in construction in progress | **(304,122)** | (399,117) |
| | **404,478** | 120,800 |
| Exchange gain, net (Note) | **(37,570)** | (10,852) |
| | **366,908** | 109,948 |
| Interest rates per annum at which finance costs were capitalized | **4.9% to 6.1%** | 4.9% to 5.8% |

Note: The net exchange gain for the year ended December 31, 2005 was mainly related to foreign currency loans. The net exchange gain for the year ended December 31, 2004 was mainly due to foreign currency deposits.

## 27. Taxation

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

| | For the year ended December 31, | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Current taxation: | | |
| PRC income tax | **2,627,246** | 2,271,195 |
| Over provision in prior years | **(40,466)** | (21,165) |
| Deferred tax | **(91,567)** | (88,944) |
| | **2,495,213** | 2,161,086 |

## 27. Taxation *(Continued)*

**(b)** Pursuant to "Guo Ban Fa 2001 No.73" dated September 29, 2001 issued by the State Council of the PRC and approved by the respective local tax authorities in late 2002, three branches and a subsidiary of the Company located in the western region of China (namely Guangxi branch, Qinghai branch, Guizhou branch and China Aluminum Qinghai International Trading Corp., Ltd. (中鋁青海國際貿易有限公司), were granted a tax concession to pay PRC income tax at a preferential rate of 15%. The preferential tax rate is applicable to qualified operations in specified regions with retroactive effect from January 1, 2001 for a ten-year period to December 31, 2010 as long as these branches and the subsidiary continue to engage in qualified operations in their respective regions.

A subsidiary in Shandong is taxed at a preferential rate of 15% since January 1, 2000 as it is classified as a "high-tech" enterprise in its province for tax purpose. Pursuant to "Guo Shui Han 2004 No. 319" issued by the Shandong Province Tax Bureau of the PRC, this subsidiary is taxed at 33% starting January 1, 2004.

A subsidiary of the Company, Chalco Western Qinghai Int'l Trading Co., Ltd. ("Western Trading"), located in Xining Economic and Technology Developing District had registered and commenced business in October 2003. Pursuant to Qinghai Province Development of Western Region Policy (Qing Zheng 2003 No.35), starting from the commencement of its business, Western Trading was exempted from PRC income tax for the first 5 years and taxed at a preferential rate of 15% for the years after. In November 2005, the exemption of PRC income tax amounting to RMB35,346,000 for the year ended December 31, 2004 was approved by the Qinghai Province Tax Bureau and the whole amount has been written-back in the current year.

Pursuant to the Statement on Supporting Fund for Development of Enterprises issued by the local government of Caolu Town, Pudong New Areas, Shanghai, Chalco Kelin Aluminum of Shanghai Co., Ltd., a subsidiary of the Company, was exempted from PRC income tax for the first year and at a preferential rate of 15% for the two years after. As appointed by the State Tax Bureau and local tax bureau of Shanghai Pudong New Area, this subsidiary was exempted from enterprise income tax for 2003 and was taxed at an income tax rate of 15% at 2004 and 2005.

The current PRC income taxes of the Company, its subsidiaries and jointly controlled entities have been provided at the basic tax rate of 33% on the assessable profits for the respective years, except for those related to the above operations in the Group.

## 27. Taxation *(Continued)*

(c) The tax on the Group's profit before income tax differs from the expected amount that would arise using the basic tax rate in the PRC applicable to the Group as follows:

| | For the year ended December 31, | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Profit before income tax | **9,741,647** | 8,796,149 |
| Tax calculated at a tax rate of 33% | **3,214,744** | 2,902,729 |
| Deferred tax benefit arising from tax losses not recognized | **5,493** | 3,750 |
| Income not subject to tax | **(58,977)** | (24,905) |
| Expenses not deductible for tax purposes | **67,092** | 55,910 |
| Utilization of prior years' unrecognized tax losses (Note (i)) | **(12,307)** | (26,624) |
| Differential tax rates on the profit of certain branches and subsidiaries | **(606,478)** | (519,688) |
| Tax credit for capital expenditure (Note (ii)) | **(73,888)** | (208,921) |
| Over provision in prior years (Note (b)) | **(40,466)** | (21,165) |
| Tax charge | **2,495,213** | 2,161,086 |

Notes:

(i) Prior to the group reorganization of Chinalco, which took place in 2001 for the purposes of the incorporation of the Company ("the group reorganization"), the various assets, liabilities and interests related to the alumina and primary aluminum business transferred from the promoters pursuant to the group reorganization (collectively 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 years which were not recognized as deferred tax assets in prior years' financial statements as the Company was then awaiting the final agreement by the relevant tax authorities regarding the use of such tax losses.

In March 2004, the resulting deferred tax benefit arising from these tax losses of approximately RMB26,624,000 were recognized in the financial statements and utilized as a tax deductible item for the 2004 PRC income tax filing following the approval in 2004 by the State Tax Bureau of the PRC (the "STB") regarding the use of such tax losses. As of December 31, 2005, the unrecognized tax losses resulted from the group reorganization has been fully utilized according to the instruction of "STB".

(ii) This primarily represents incentive in the form of tax credit given by the relevant tax authorities in respect of production plant and equipment purchased in the domestic market.

## 27. Taxation *(Continued)*

(c) *(Continued)*

The Group's weighted average effective tax rate was approximately 25.6% (2004: 24.5%).

Share of associated companies' taxation for the year amounted RMB4,166,000 (2004: Nil), were included in the consolidated profit and loss account as share of profit of associated companies.

No share of jointly controlled entities' taxation for the year (2004: Nil) were included in the consolidated profit and loss account as share of profit of jointly controlled entities.

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

(i) The movements in the deferred tax assets are as follows:

| | Group | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Provision for receivable and inventories | | Impairment of property, plant and equipment | | Accrued wages | | Tax loss | | Others | | Total | |
| | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| As of January 1, | **60,681** | 33,761 | **46,902** | 37,060 | **182,790** | 61,775 | **—** | — | **16,997** | 4,282 | **307,370** | 136,878 |
| Transfer from (to) profit and loss account | **(5,884)** | 26,920 | **(3,750)** | 9,842 | **57,816** | 121,015 | **46,541** | — | **6,781** | 12,715 | **101,504** | 170,492 |
| As of December 31, | **54,797** | 60,681 | **43,152** | 46,902 | **240,606** | 182,790 | **46,541** | — | **23,778** | 16,997 | **408,874** | 307,370 |

## 27. Taxation *(Continued)*

(d) *(Continued)*

(i) The movements in the deferred tax assets are as follows: *(Continued)*

| | Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Provision for receivable and inventories | | Impairment of property, plant and equipment | | Accrued wages | | Others | | Total | |
| | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| As of January 1, | **47,167** | 29,904 | **36,207** | 34,189 | **166,648** | 50,938 | **13,308** | 3,770 | **263,330** | 118,801 |
| Transfer from (to) profit and loss account | **(7,532)** | 17,263 | **(3,604)** | 2,018 | **55,460** | 115,710 | **7,881** | 9,538 | **52,205** | 144,529 |
| As of December 31, | **39,635** | 47,167 | **32,603** | 36,207 | **222,108** | 166,648 | **21,189** | 13,308 | **315,535** | 263,330 |

(ii) The movements in the deferred tax liabilities are as follows:

| | Capitalization of borrowing costs | | | |
|---|---|---|---|---|
| | Group | | Company | |
| | **2005** | 2004 | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| As of January 1, as previously reported | **—** | — | **—** | — |
| Effect of adopting HKAS 23 | **167,054** | 85,506 | **167,054** | 85,506 |
| As of January 1, as restated | **167,054** | 85,506 | **167,054** | 85,506 |
| Transfer from profit and loss account | **9,937** | 81,548 | **17,800** | 81,548 |
| As of December 31, | **176,991** | 167,054 | **184,854** | 167,054 |

## 28. Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB6,772,745,000 (2004: RMB5,727,696,000)

## 29. Dividends

| | For the year ended December 31, | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Final, proposed, of RMB0.214 per share on 11,049,876,153 total outstanding shares as of March 13, 2006 (As of December 31, 2004: RMB0.176 per share on 11,049,876,153 total outstanding as of March 28, 2005) (Note 17(a)) | **2,364,673** | 1,944,778 |

The proposed final dividend for the year ended December 31, 2005 was declared at the Board meeting held on March 13, 2006. This proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of retained earnings for the year ending December 31, 2005.

## 30. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of the Company for the year ended December 31, 2005 of RMB7,022,422,000 (2004: RMB6,391,523,000) and the weighted average number of 11,049,876,153 shares (2004: 11,040,835,452 shares) in issue during the year.

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

## 31. Notes to the consolidated cash flow statement

Analysis of changes in financing during the year are as follows:

| | Issued capital and reserves | | Minority interest | | Loans | |
|---|---|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| As of January 1, | **27,566,795** | 18,985,410 | **1,239,083** | 651,928 | **11,914,231** | 10,029,758 |
| Issue of shares | **—** | 3,300,648 | **—** | — | **—** | — |
| Share issue expenses | **—** | (49,998) | **—** | — | **—** | — |
| Profit for the year | **7,022,422** | 6,391,523 | **—** | — | **—** | — |
| Injection of capital by minority shareholders | **—** | — | **180,938** | 360,500 | **—** | — |
| Minority interest in share of profits | **—** | — | **224,012** | 243,540 | **—** | — |
| Net cash inflows from financing related to loans | **—** | — | **—** | — | **1,509,240** | 1,884,473 |
| Dividend paid to minority shareholders | **—** | — | **(83,636)** | (16,885) | **—** | — |
| Other reserve | **—** | — | **58** | — | **—** | — |
| Dividends paid | **(1,944,778)** | (1,060,788) | **—** | — | **—** | — |
| As of December 31, | **32,644,439** | 27,566,795 | **1,560,455** | 1,239,083 | **13,423,471** | 11,914,231 |

## 32. Litigation and contingent liabilities

(a) Litigation

As of December 31, 2005 and 2004, the Group has no significant pending litigation.

## 32. Litigation and contingent liabilities *(Continued)*

(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 8 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 approximately US$7.5 million (approximately RMB62.1 million) to the other party as compensation.

Although the final joint venture agreement was not executed, pursuant to the Supplementary Agreement of the Strategic Investor Subscription Agreement, the Company continues to work actively and closely with Alcoa to conclude the joint venture agreement consistently with its expressed intentions in the MOU.

With effort contributed by both parties, significant progress was noted, including the finalization of the joint venture agreement, articles of association and electricity supply arrangement. On March 29, 2004, the establishment of the Pingguo JV was approved by the National Development and Reform Commission.

As of December 2005, 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. Based on currently available information, the Directors believe that no provision is necessary.

## 33. Commitments

(a) Capital commitments for property, plant and equipment

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **As of December 31, 2005** | As of December 31, 2004 | **As of December 31, 2005** | As of December 31, 2004 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Contracted but not provided for | **560,600** | 3,024,071 | **555,921** | 1,771,881 |
| Authorized but not contracted for | **8,465,177** | 5,672,804 | **7,898,976** | 4,820,240 |
| | **9,025,777** | 8,696,875 | **8,454,897** | 6,592,121 |

## 33. Commitments *(Continued)*

(b) Commitments for capital contribution

(i) Pursuant to the resolution on June 19, 2005, of the Board of Directors of Guangxi Huayin Aluminum Co., Ltd. ("Guangxi Huayin"), a 33% share interest 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 million. Pursuant to relevant PRC regulations, 25% of such total investment, i.e. an aggregate of approximately RMB2,133 million (of which RMB701 million represent the Company's share of contribution) have to be contributed by the shareholders in proportion to their equity interests in Guangxi Huayin as registered capital, which was 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 approximately RMB170 million as capital contribution to Guangxi Huayin.

(ii) In December 2005, the Company and Shanxi Guanlv Company Ltd. ("Shanxi Guanlv") entered into a joint venture agreement for the establishment of Shanxi Huasheng Aluminum Co., Ltd. (山西華聖鋁業有限公司) ("Shanxi Huasheng"). The total registered capital of Shanxi Huasheng is RMB1 billion, of which the Company will invest RMB510,000,000 in cash and Shanxi Guanlv will contribute by injection of net assets of RMB490,000,000. The Company holds 51% share capital of Shanxi Huasheng, in which the estimated production capacity of primary aluminum amounted to approximately 220,000 tonnes. As at December 31, 2005, the Company has not made any capital contribution.

## 33. Commitments *(Continued)*

(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:

| | Group | | Company | |
|---|---|---|---|---|
| | **As of December 31, 2005** | As of December 31, 2004 | **As of December 31, 2005** | As of December 31, 2004 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Not later than one year | **315,454** | 245,984 | **298,464** | 224,410 |
| Later than one year and not later than five years | **1,138,518** | 983,934 | **1,070,560** | 897,640 |
| Later than five years (Note) | **9,546,886** | 9,529,497 | **9,085,148** | 9,060,493 |
| | **11,000,858** | 10,759,415 | **10,454,172** | 10,182,543 |

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

## 34. Related party balances and transactions

Related parties refer to entities in which Chinalco has the ability, directly or indirectly, to control or jointly 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 and of its holding company, jointly controlled entities and associated companies. 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 Chinalco, its subsidiaries, associated companies and jointly controlled entities (collectively "Chinalco Group") in the ordinary course of business. The management of the Company are of the view that it has provided meaningful disclosures of related party transactions through the disclosure of transactions with Chinalco and entities in which Chinalco has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, or Directors or officers of the Company. 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. In the normal course of its business, the Group may either enter into various transactions with one or more of such state-owned enterprises and their subsidiaries. Neither Chinalco nor the PRC government publishes financial statements for public use.

## 34. Related party balances and transactions *(Continued)*

The related parties of 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) | Under common control of the holding company |
| The Great Wall Aluminum Co. | (中國長城鋁業公司) | Under common control of the holding company |
| Shanxi Aluminum Plant | (山西鋁廠) | Under common control of the holding company |
| Pingguo Aluminum Co. | (平果鋁業公司) | Under common control of the holding company |
| Guizhou Aluminum Plant | (貴州鋁廠) | Under common control of the holding company |
| Zhongzhou Aluminum Plant | (中州鋁廠) | Under common control of the holding company |
| Zhengzhou Institute of Light Metal Research | (鄭州輕金屬研究院) | Under common control of the holding company |
| Shanxi Charcoal Plant | (山西碳素廠) | Under common control of the holding company |
| Luoyang Institute of Non-Ferrous Metal Research | (洛陽有色金屬加工設計研究院) | Under common control of the holding company |
| 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) | Under common control of the holding company |
| The Twelfth Metallurgical Construction Co. of China Non-Ferrous Metal Industry | (中色第十二冶金建設公司) | Under common control of the holding company |
| The South-western Aluminum Group Co. Ltd | (西南鋁業(集團)有限責任公司) | Under common control of the holding company |
| China Aluminum International Engineer Co. Ltd. | (中鋁國際工程有限責任公司) | Under common control of the holding company |
| Shenyang Institute of Aluminum and Magnesium Design and Research | (瀋陽鋁鎂設計研究院) | Under common control of the holding company |
| Guiyang Institute of Aluminum and Magnesium Design and Research | (貴陽鋁鎂設計研究院) | Under common control of the holding company |
| China Aluminum South-western Aluminum Slab Band Co. Ltd. | (中鋁西南鋁板帶有限公司) | Under common control of the holding company |
| Chongqing South-western Aluminum Minsheng Industry Co. | (重慶西南鋁民生實業公司) | Under common control of the holding company |
| Chongqing South-western Aluminum Trading Co. | (重慶西南鋁銷售有限責任公司) | Under common control of the holding company |
| China Aluminum Zhiye Development Co. Ltd. | (中鋁置業發展有限公司) | Under common control of the holding company |
| Shanxi Non-Ferrous Holding Co. Ltd. | (陝西有色金屬控股集團有限責任公司) | Under common control of the holding company |
| Qinghai Aluminum Co. Ltd. | (青海鋁業有限責任公司) | Under common control of the holding company |
| China Aluminum Ruimin Slab Band Co. Ltd. | (中鋁瑞閩鋁板帶有限公司) | Under common control of the holding company |
| China Aluminum Daye Slab Co. Ltd. | (中鋁大冶銅板帶有限公司) | Under common control of the holding company |

## 34. Related party balances and transactions *(Continued)*

The related parties of the Group were as follows: *(Continued)*

| Name of related parties | | Relationship with the Company |
|---|---|---|
| China Aluminum Henan Co. Ltd. | (中鋁河南鋁業有限公司) | Under common control of the holding company |
| Henan Changxing Industry Co. Ltd. | (河南長興實業有限公司) | Under common control of the holding company |
| Henan Great Wall Development Co. Ltd. | (河南長城發展有限總公司) | Under common control of the holding company |
| Zhengfengtai Decoration Material Co. Ltd. | (鄭豐泰裝飾材料有限公司) | Under common control of the holding company |
| Beijing Ludong Trading Co. Ltd. of Shandong Aluminum | (北京山鋁魯東物資貿易公司) | Under common control of the holding company |
| 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) | Under common control of the holding company |
| China Non-Ferrous Technique Co. Ltd. | (中色科技股份有限公司) | Under common control of the holding company |
| Suzhou Institute of Non-Ferrous Machining | (蘇州有色金屬加工研究院) | Under common control of the holding company |
| Luoyang Non-Ferrous Institute Industry Co. | (洛陽有色院實業公司) | Under common control of the holding company |
| Luoyang Fuyang Decoration Engineering Co. | (洛陽佛陽裝飾工程公司) | Under common control of the holding company |
| Luoyang Jincheng Construction Supervise Co. Ltd. | (洛陽金誠建設監理有限公司) | Under common control of the holding company |
| Shenzhen Jinlu Machinery Co. Ltd. | (深圳市金陸機械有限公司) | Under common control of the holding company |
| Shenyang Institute of Aluminum and Magnesium Design and Research Zhengzhou Branch | (瀋陽鋁鎂設計研究院鄭州分院) | Under common control of the holding company |
| Shenyang Beiding Property Management Co. Ltd. | (瀋陽北鼎物業管理有限責任公司) | Under common control of the holding company |
| Exploration Co. of Shenyang Institute of Aluminum and Magnesium Design and Research | (瀋陽鋁鎂設計研究院勘察工程公司) | Under common control of the holding company |
| 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) | Under common control of the holding company |
| 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) | Under common control of the holding company |
| 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) | Under common control of the holding company |
| 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) | Under common control of the holding company |

## 34. Related party balances and transactions *(Continued)*

The related parties of 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) | Under common control of the holding company |
| Technical Contracting Co. of 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) | Under common control of the holding company |
| Shenyang Aluminum and Magnesium Design and Wenyin Co. Ltd. | (瀋陽鋁鎂文印有限責任公司) | Under common control of the holding company |
| Kangjialu Construction Design Institute of Shenyang Institute of Aluminum and Magnesium Design and Research | (瀋陽鋁鎂設計研究院康加陸建築設計事務所) | Under common control of the holding company |
| 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) | Under common control of the holding company |
| Shenyang Aluminum Construction Consultancy Co. Ltd. | (瀋陽瀋鋁建設工程諮詢有限公司) | Under common control of the holding company |
| Jintong Equipment Co. Ltd. of Luoyang Non-Ferrous Institute | (洛陽有色院金通設備有限公司) | Under common control of the holding company |
| Guiyang Xinyu Construction Supervise Co. | (貴陽新宇建設監理公司) | Under common control of the holding company |
| 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) | Under common control of the holding company |
| 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) | Under common control of the holding company |
| Chongqing South-western Aluminum Transportation Co. | (重慶西南鋁運輸公司) | Under common control of the holding company |
| Zibo Dadi Real Estate Development Co. Ltd. | (淄博大地房地產開發有限責任公司) | Under common control of the holding company |
| Yantai Ludong Trading Co. Ltd. of Shandong Aluminum | (煙臺山鋁經貿有限責任公司) | Under common control of the holding company |
| Institute of Equipment Inspection of Shandong Aluminum | (山東鋁業公司設備檢測中心) | Under common control of the holding company |
| Jinan Ludong Trading Co. Ltd. of Shandong Aluminum. | (山東鋁業公司濟南魯東貿易公司) | Under common control of the holding company |
| Haikou Ludong Technical Trading Co. Ltd. | (海口魯東技術工貿開發公司) | Under common control of the holding company |
| Qingdao Boxin Aluminum Co. | (青島博信鋁業公司) | Under common control of the holding company |

## 34. Related party balances and transactions *(Continued)*

The related parties of the Group were as follows: *(Continued)*

| Name of related parties | | Relationship with the Company |
|---|---|---|
| Qingdao Ludong Non-Ferrous Metal Supplying Co. | (青島魯東有色金屬供銷公司) | Under common control of the holding company |
| Shanghai Ludong Trading Co. Ltd. of Shandong Aluminum | (上海山鋁經貿有限公司) | Under common control of the holding company |
| Guizhou Aluminum Plant Business Industry Co. | (貴州鋁廠工貿實業總公司) | Under common control of the holding company |
| Guizhou Aluminum Huaguang Aluminum Co. Ltd. | (貴州貴鋁華光鋁業有限責任公司) | Under common control of the holding company |
| Shandong Aluminum Engineering Co. Ltd. | (山東鋁業工程有限公司) | Under common control of the holding company |
| Zibo Yongcheng Machinary equipment Co. Ltd. | (淄博永誠機電設備有限公司) | Under common control of the holding company |
| Zibo Dongshan Industry Co. Ltd. | (淄博東山實業有限公司) | Under common control of the holding company |
| Fenxi Province Fenbo Minerals Co. Ltd. | (汾西縣汾博礦產有限公司) | Under common control of the holding company |
| Zhengzhou the Great Wall Machining Co. Ltd. | (鄭州長城鋁業鋁加工有限公司) | Under common control of the holding company |
| Henan the Great Wall Chemistry Engineering Co. Ltd. | (河南長城化學工業有限公司) | Under common control of the holding company |
| Zhengzhou New Great Wall Real Estate Co. Ltd. | (鄭州新長城房地產有限公司) | Under common control of the holding company |
| Henan New Great Wall Industry Co. Ltd. | (河南新長城實業有限公司) | Under common control of the holding company |
| Zhengzhou Aluminum Zhuhai Enterprise Development Co. Ltd. | (鄭鋁珠海企業發展有限公司) | Under common control of the holding company |
| Henan Aluminum the Great Wall Information Technique Co. Ltd. | (河南長城信息技術有限公司) | Under common control of the holding company |
| Zhengzhou the Great Wall Property Management Co. Ltd. | (鄭州市長鋁物業管理有限責任公司) | Under common control of the holding company |
| Henan the Great Wall Electronic Technique Co. Ltd. | (河南長城電子科技有限公司) | Under common control of the holding company |
| Zhengzhou Yindu Technical Business Co. Ltd. | (鄭州銀都科工貿有限公司) | Under common control of the holding company |
| Zhengzhou Yinjian Property Co. | (鄭州銀建房地產公司) | Under common control of the holding company |
| Beijing Great Wall Aluminum Science and Trading Development Co. | (北京市長城鋁業科貿發展公司) | Under common control of the holding company |
| Guizhou Aluminum Plant Construction Co. | (貴州鋁廠建築工程公司) | Under common control of the holding company |
| Guizhou Aluminum Huamei Decoration Engineer Co. Ltd. | (貴州貴鋁華美裝潢裝飾工程有限責任公司) | Under common control of the holding company |
| Guizhou Aluminum Huaxin new Material Co. Ltd. | (貴州貴鋁華新新材料有限責任公司) | Under common control of the holding company |

## 34. Related party balances and transactions *(Continued)*

The related parties of the Group were as follows: *(Continued)*

| Name of related parties | | Relationship with the Company |
|---|---|---|
| Guizhou Aluminum Huayang Charcoal Co. Ltd. | (貴州貴鋁華陽碳素有限責任公司) | Under common control of the holding company |
| Guizhou Aluminum Huayi Property Development Co. Ltd. | (貴州貴鋁華頤房地產開發有限責任公司) | Under common control of the holding company |
| Guizhou Aluminum Huaxiang Property Management Co. Ltd. | (貴州貴鋁華祥物業管理有限責任公司) | Under common control of the holding company |
| Jinlv Construction Co. | (晉鋁建設公司) | Under common control of the holding company |
| Jinlv Installation Co. | (晉鋁安裝公司) | Under common control of the holding company |
| Shanxi Aluminum Plant Huanghe Electric Equipment Plant | (山西鋁廠黃河電器設備廠) | Under common control of the holding company |
| Zhuhai Economic Special Zone Huanghe Aluminum Co. | (珠海經濟特區黃河鋁業公司) | Under common control of the holding company |
| Hejin Province Jinzheng Construction Monitoring Co. Ltd. | (河津市晉正建設監理有限責任公司) | Under common control of the holding company |
| Pingguo Xinda Industry Co. Ltd. | (平果新達實業有限公司) | Under common control of the holding company |
| Pingguo Aluminum Construction and Installation Co. Ltd. | (平果鋁建築安裝有限公司) | Under common control of the holding company |
| Xinxiang Zhongxin Chemistry Engineering Co. Ltd. | (新鄉中新化工有限責任公司) | Under common control of the holding company |
| Zhongzhou Aluminum Tainhang Materials Co. | (中州鋁廠太行物資公司) | Under common control of the holding company |
| Jiaozuo Hongrui Chemicals Co. Ltd. | (焦作鴻銳化工有限責任公司) | Under common control of the holding company |
| Qinghai Aluminum Huatong Charcoal Co. Ltd. | (青海鋁業華通炭素有限責任公司) | Under common control of the holding company |
| Qinghai Aluminum Machinery Co. Ltd. | (青海鋁業機械製造有限責任公司) | Under common control of the holding company |
| Hainam Gangping Plant | (海南鋼瓶廠) | Under common control of the holding company |
| The Twelfth Metallurgical Construction Co. Ltd. of Shanxi | (中色十二冶山西建設工程有限公司) | Under common control of the holding company |
| 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) | Under common control of the holding company |
| 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) | Under common control of the holding company |
| Technical Contracting Co. of Guiyang Institute of Aluminum and Magnesium Design and Research | (貴陽鋁鎂設計研究工程承包公司) | Under common control of the holding company |
| Chongqing South-western Aluminum Equipment Production Co. Ltd. | (重慶西南鋁設備製造有限公司) | Under common control of the holding company |

## 34. Related party balances and transactions *(Continued)*

The related parties of the Group were as follows: *(Continued)*

| Name of related parties | | Relationship with the Company |
|---|---|---|
| Chongqing South-western Aluminum Decoration Construction Co. Ltd. | (重慶西南鋁裝飾工程有限公司) | Under common control of the holding company |
| Chongqing South-western Aluminum Special Model Material Co. Ltd. | (重慶西南鋁特種型材有限公司) | Under common control of the holding company |
| Yuzhou Environment Protection Equipment Plant of South-western Aluminum | (西南鋁業有限公司渝州環保設備廠) | Under common control of the holding company |
| Chongqing Yuhuan Non-Ferrous Metal Casting Plant. | (重慶渝環有色壓鑄廠) | Under common control of the holding company |
| Chongqing South-western Aluminum Precision Casting Co. Ltd. | (重慶西鋁精密壓鑄有限責任公司) | Under common control of the holding company |
| Chongqing South-western Aluminum Welding Plant | (重慶西南鋁焊管廠) | Under common control of the holding company |
| Chongqing South-western Aluminum Pull - tab Cans Plant | (重慶西南鋁易拉蓋廠) | Under common control of the holding company |
| Chongqing South-western Aluminum Institute of Alloy Machining Research | (重慶西南鋁合金加工研究所) | Under common control of the holding company |
| Chongqing South-western Aluminum Import and Export Co. Ltd. | (重慶西南鋁進出口有限責任公司) | Under common control of the holding company |
| Jindui City Muye Group Co. Ltd. | (金堆城鉬業集團有限公司) | Under common control of the holding company |
| Botai Group Co. Ltd. | (寶鈦集團有限公司) | Under common control of the holding company |
| Shanxi Tongchuan Xinguang Aluminum Co. Ltd. | (陝西銅川鑫光鋁業有限公司) | Under common control of the holding company |
| Hanzhong Bayi Zinc Industry Co. Ltd. | (漢中八一鋅業有限責任公司) | Under common control of the holding company |
| Shanxi Silver Mine | (陝西銀礦) | Under common control of the holding company |
| Qiantong Mountain Mining Co. | (鉛銅山礦業公司) | Under common control of the holding company |
| Shanxi Non-Ferrous Mines Co. | (陝西有色金屬礦山公司) | Under common control of the holding company |
| Shanxi Huashan Engineering and Machinery Co. Ltd. | (陝西華山工程機械有限公司) | Under common control of the holding company |
| Shanxi Zinc Industry Co. Ltd. | (陝西鋅業有限公司) | Under common control of the holding company |
| Xifang Gold Mine | (四方金礦) | Under common control of the holding company |
| Shanxi Yinmusi Mining Co. Ltd. | (陝西銀母寺礦業有限責任公司) | Under common control of the holding company |
| Shanxi Jianchaling Mining Exploration Co. Ltd. | (陝西煎茶嶺礦業開發有限責任公司) | Under common control of the holding company |
| Shanxi Wuzhou Mining Co. Ltd. | (陝西五洲礦業有限公司) | Under common control of the holding company |
| China Non-Ferrous Metal Trading Co. Ltd. of Shanxi | (中國有色金屬進出口陝西公司) | Under common control of the holding company |
| China Non-Ferrous Metal Supply and Transportation Co. Ltd. of Xian | (中國有色金屬西安供銷運輸公司) | Under common control of the holding company |
| China Non-Ferrous Metal Industry Co. Ltd. of Xian | (中國有色金屬工業西安公司) | Under common control of the holding company |

## 34. Related party balances and transactions *(Continued)*

The related parties of the Group were as follows: *(Continued)*

| Name of related parties | | Relationship with the Company |
|---|---|---|
| Xian Institute Design and Research of China Non-Ferrous Metal Industry | (中國有色金屬工業西安勘察設計研究院) | Under common control of the holding company |
| Xian Institute of Design for Metallurgical of Non-Ferrous Metals | (西安有色冶金設計院) | Under common control of the holding company |
| Xibei Non-Ferrous Geology Examination Department | (西北有色地質勘查局) | Under common control of the holding company |
| Hong Kong Western Aluminum Co. Ltd. | (香港西鋁有限公司) | Under common control of the holding company |
| Qingdao Ruimin Aluminum Co. Ltd. | (青島瑞閩鋁業有限公司) | Under common control of the holding company |
| Luoyang Wanji Processing Co. Ltd. of China Non-Ferrous Metal Industry | (洛陽中色萬基鋁加工有限公司) | Under common control of the holding company |
| Jiaozuo Yincheng Construction and Installation Co. Ltd. | (焦作市銀城建築安裝有限公司) | Under common control of the holding company |
| Jiazuo Yitao Construction Material Co. Ltd. | (焦作市益陶建材有限公司) | Under common control of the holding company |
| Henan Business Co. Ltd. of China Aluminum | (河南中鋁工貿有限公司) | Under common control of the holding company |
| Zhuhai Yaqi Paper Material Co. Ltd. | (珠海亞奇紙塑製品有限公司) | An associated company of the holding company |
| Guiyang Baiyun Fluoride Co. Ltd. | (貴陽白雲氟化鹽有限責任公司) | An associated company of the holding company |
| Beijing Jiya Semi-conductor Co. Ltd. | (北京吉亞半導體有限公司) | An associated company of the holding company |
| Xiaoyi Bauxite Mines Industry Co. Shanxi Aluminum Plant | (山西鋁廠孝義礦實業公司) | An associated company of the holding company |
| Henan Great Wall Zhongxin Industry Co. Ltd. | (河南長城眾鑫實業股份有限公司) | An associated company of the holding company |
| Qingdao Meite Container Co. Ltd. | (青島美特容器有限公司) | An associated company of the holding company |
| Guizhou Jiyin Mine Smelting Co. Ltd. | (貴州集黔礦產冶煉有限公司) | An associated company of the holding company |
| Yuanping Jinlu Aluminum Co. Ltd. | (原平市晉魯鋁業有限責任公司) | An associated company of the holding company |
| Qingdao Luhua Aluminum Door and Window Co. Ltd. | (青島魯華鋁門窗有限公司) | An associated company of the holding company |
| Henan Wanfeng Industry Co. Ltd. | (河南萬豐實業有限公司) | An associated company of the holding company |
| 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 the Company |
| China Cinda Asset Management Co. Ltd. | (中國信達資產管理有限公司) | A shareholder |
| China Construction Bank Corporation | (中國建設銀行股份有限公司) | A shareholder |
| China Eastern Asset Management Co. Ltd. | (中國東方資產管理公司) | A shareholder |
| China Development Bank | (國家開發銀行) | 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 Huayin Aluminum Co. Ltd. | (廣西華銀鋁業有限公司) | A jointly controlled entity of the Company |

## 34. Related party balances and transactions *(Continued)*

The related parties of the Group were as follows: *(Continued)*

| Name of related parties | | Relationship with the Company |
|---|---|---|
| Jiaozuo Coal Group Xinxiang (Zhaogu) Energy Corporation Co. Ltd. | (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 |
| Shanxi Zhangze Electric Co. Ltd. | (山西漳澤電力股份有限公司) | A minority interest of the Company's subsidiary |
| Hejin Qingjian Street Office | (河津市清澗街道辦事處) | A minority interest of the Company's subsidiary |
| Hejin Fancun Town Fancun West | (河津市樊村鎮西樊村) | A minority interest of the Company's subsidiary |
| China Soft Metal Research and Experiment Management Association | (中國輕金屬研究實驗示範基地管理委員會) | A minority interest of the Company's subsidiary |
| Qinghai Xitieshan Mining Exports and Imports Co. Ltd. | (青海錫鐵山礦業進出口有限責任公司) | A minority interest of the Company's subsidiary |
| Hejin Electric and Water Supply Co. Ltd. | (河津電廠供水有限責任公司) | A subsidiary of a minority interest of the Company's subsidiary |
| Other stated-owned enterprises | 其他國有企業 | Related parties of the Company |

The English names above are direct translations of their respective names in Chinese.

(a) Related party balances with Chinalco Group

(i) Due from Chinalco Group

As of December 31, 2005, included in accounts receivable and other current assets, were amounts due from Chinalco Group as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **As of December 31, 2005** | As of December 31, 2004 | **As of December 31, 2005** | As of December 31, 2004 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Trade receivables | **230,609** | 297,228 | **228,291** | 284,473 |
| Other receivables | **317,691** | 332,372 | **292,959** | 328,942 |
| | **548,300** | 629,600 | **521,250** | 613,415 |
| Less: Provision for impairment of receivables | **(263,501)** | (264,732) | **(263,374)** | (264,546) |
| | **284,799** | 364,868 | **257,876** | 348,869 |

## 34. Related party balances and transactions *(Continued)*

(a) Related party balances with Chinalco Group *(Continued)*

(i) Due from Chinalco Group *(Continued)*

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 December 31, 2005, included in accounts payable and other payables, were amounts due to Chinalco Group as follows:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **As of December 31, 2005** | As of December 31, 2004 | **As of December 31, 2005** | As of December 31, 2004 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Trade payables | **52,256** | 79,408 | **43,005** | 67,376 |
| Other payables | **623,994** | 556,203 | **531,021** | 407,295 |
| | **676,250** | 635,611 | **574,026** | 474,671 |

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

## 34. Related party balances and transactions *(Continued)*

(b) Other related party balances

(i) Due from other related parties

As of December 31, 2005, amounts due from other related parties were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **As of December 31, 2005** | As of December 31, 2004 | **As of December 31, 2005** | As of December 31, 2004 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Jointly controlled entities | **17,618** | 17,618 | **17,618** | 17,618 |
| Associated companies | **13,587** | — | **438** | — |
| Subsidiaries | **—** | — | **413,078** | 523,743 |
| Others | **2,723** | 56,171 | **2,723** | 55,617 |
| | **33,928** | 73,789 | **433,857** | 596,978 |

Amount due from other related parties are unsecured, non-interest bearing and are repayable on demand.

(ii) Due to other related parties

As of December 31, 2005, amounts due to other related parties were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **As of December 31, 2005** | As of December 31, 2004 | **As of December 31, 2005** | As of December 31, 2004 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Jointly controlled entities | **1,748** | 603 | **1,748** | 603 |
| Associated companies | **30,085** | — | **26,075** | — |
| Subsidiaries | **—** | — | **942,500** | 962,980 |
| Others | **2,270** | — | **2,270** | — |
| | **34,103** | 603 | **972,593** | 963,583 |

Amount due to other related parties are unsecured, non-interest bearing and are repayable on demand.

## 34. Related party balances and transactions *(Continued)*

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

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

| | **As of December 31, 2005** ***RMB'000*** | As of December 31, 2004 *RMB'000* |
|---|---|---|
| Current assets | | |
| Accounts receivable and other current assets, net | **1,531,743** | 1,662,612 |
| Cash and cash equivalents | **7,597,727** | 6,223,763 |
| Non-current liabilities | | |
| Long-term loans (Notes (a) and 18(a)) | **9,690,493** | 7,391,663 |
| Current liabilities | | |
| Accounts payable and other liabilities | **1,227,076** | 1,407,630 |
| Short-term bank loans (Notes (b) and 18(b)) | **2,378,998** | 3,448,910 |
| Short-term bonds (Note 19) | **1,970,840** | — |
| Current portion of long-term loans (Notes (a) and 18(a)) | **1,353,980** | 1,073,658 |

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

Notes:

(a) As of December 31, 2005, long-term bank loans amounted to RMB4,340,000,000 (2004:RMB3,990,000,000) and RMB825,160,000 (2004: RMB1,084,100,000) are due to China Construction Bank and China Development Bank, shareholders of the Company, respectively.

(b) As of December 31, 2005, short-term bank loans amounted to RMB264,140,000 (2004:RMB724,140,000 and US$9,360,000 (equivalent to RMB77,468,000)) are due to China Construction Bank, a shareholder of the Company.

## 34. Related party balances and transactions *(Continued)*

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

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

| | | For the year ended December 31, | |
|---|---|---|---|
| | | **2005** | 2004 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| Sales of materials and finished goods to: | (I) | | |
| Chinalco Group | | **3,088,968** | 1,700,746 |
| A jointly controlled entity | | **45,480** | 52,424 |
| An associated company | | **570,470** | — |
| Other related party | | **85,509** | — |
| | | **3,790,427** | 1,753,170 |
| Provision of utility services to Chinalco Group | (II) | **310,438** | 219,952 |
| Provision of engineering, construction and supervisory services by Chinalco Group | (III) | **2,176,041** | 830,582 |
| Purchases of property, plant and equipment from Chinalco Group | (IV) | **—** | 115,098 |
| Purchases of key and auxiliary materials from: | (V) | | |
| Chinalco Group | | **700,829** | 633,664 |
| An associated company | | **220,772** | — |
| | | **921,601** | 633,664 |
| Provision of social services and logistics services by Chinalco Group | (VI) | **951,247** | 927,252 |
| Land and building rental charged by Chinalco Group | (VII)(i) | **253,805** | 239,810 |
| Headquarter's office rental charged by Chinalco Group | (VII)(ii) | **44,575** | — |

## 34. 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. Provision of these services are covered by the Provision of Engineering, Construction and Supervisory Services Agreement. The State-guidance price as stated in (I)(ii) or prevailing market price (including tender price where by way of tender) is adopted for pricing purposes.

(IV) In 2004, a subsidiary of the Company, Shandong Aluminum Industry Co., Ltd., purchased two kilns from a fellow subsidiary of the Company. The purchase price is based on an independent valuation report.

(V) 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.

(VI) 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.

## 34. Related party balances and transactions *(Continued)*

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

(VII) 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 Coal 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 December 31, 2005, there existed the following arrangements between the Group and Chinalco, fellow subsidiaries and other related parties:

(i) Guarantees granted by Chinalco to banks for the loans borrowed by the Group are covered by the Guarantee of Debts Contract entered into between the Company and Chinalco.

(ii) The Company granted to Chinalco a non-exclusive right to use two trademarks for a period of ten years from July 1, 2001 to June 30, 2011 at no cost pursuant to the Trademark License Agreement. The Company will be responsible for the payment of a total annual fee of no more than RMB1,000 to maintain effective registration. Under the terms of the agreement, Chinalco may negotiate extension upon terms to be agreed upon.

## 34. Related party balances and transactions *(Continued)*

(e) Related party transactions with other state-owned enterprises:

| | For the year ended December 31, | |
|---|---|---|
| | **2005** | 2004 |
| | ***RMB'000*** | *RMB'000* |
| Purchases of electricity | **5,429,103** | 4,397,107 |
| Sale of alumina | **13,835,273** | 10,568,875 |
| Sale of primary aluminum | **1,930,230** | 2,524,313 |
| Purchases of raw materials | **3,221,041** | 2,220,122 |
| Purchases of property, plant and equipment (including construction services and materials) | **1,221,608** | 3,045,089 |
| Long-term loans borrowed | **2,579,152** | 2,236,848 |
| Short-term bank loans borrowed | **1,069,912** | 352,375 |
| Interest income received | **89,363** | 61,540 |
| Issuance of short-term bonds | **1,970,840** | — |
| Bank charges paid | **2,159** | 3,126 |
| Interest expense paid | **708,600** | 518,481 |

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

## 35. Ultimate holding company

The Directors regard Chinalco, a company incorporated in the PRC, as being the ultimate holding company. As of December 31, 2005 and March 13, 2006 (being the date of the approval of the consolidated financial statements), Chinalco held 42.14% of the Company's issued share capital.

## 36. Subsequent events

In March 2006, the Group entered into an equity transfer contract with Liaoning Fushun Aluminium Plant pursuant to which the Group will acquire the entire equity interest of Fushun Aluminium Co., Ltd, ("Fulv Company") from Fushun Aluminium Plant for a consideration of RMB500 million. Fulv Company is mainly engaged in the production of primary aluminum and carbon products, and has a aluminium smelting capacity of 140,000 tonnes in 2005. As at the end of February 2006, total assets and net assets of Fulv Company were valued at approximately RMB1.27 billion and RMB503 million, respectively.

## 37. Comparative figures

The comparative figures presented in these consolidated financial statements are prepared by the Group and have been adjusted for the impact of the relevant new/revised HKFRSs as set out in Note 2(a) to these consolidated financial statements.

## 38. Approval of financial statements

The consolidated financial statements were approved by the Board of Directors on March 13, 2006.