

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our combined financial statements together with the accompanying notes, included elsewhere in this annual report. The combined financial statements have been prepared in accordance with HK GAAP, which differ in certain material respects from U.S. GAAP. Our combined financial statements and operating data present, and the discussion and analysis in this annual report pertain to, the combined results of operations of the business transferred to us by Chinalco and are based on the historical financial information of Chinalco.

Translations of amounts from renminbi into U.S. dollars are for the convenience of the reader only and have been made at the rate of US\$1.00 to RMB 8.2766, the noon buying rate in New York for cable transfers payable in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York as of December 31, 2001.



Overview

We are the sole producer of alumina (alumina oxide) and the largest producer of primary aluminum in China. We are also one of the largest producers of alumina in the world in terms of production. We are engaged primarily in alumina refining and primary aluminum smelting operations. We organize and manage our operations according to the following business segments:

- Alumina segment, which consists of mining and purchasing bauxite and other raw materials, refining bauxite into alumina, and selling alumina both internally to our primary aluminum smelters and externally to customers outside of our company. To a lesser extent, this segment also includes the production and sale of alumina hydrate, alumina chemicals and gallium.
- Primary aluminum segment, which consists of procuring alumina and other raw materials, supplemental materials and electricity, smelting alumina to produce primary aluminum, and selling substantially all our primary aluminum products to external customers. To a lesser extent, this segment includes production and sales of carbon products.
- Corporate and other services segment, which includes our headquarters' operations, sales of alumina products related to research conducted by our Research Institute and our research and development services provided to third parties. Since July 1, 2001, this segment also includes corporate services.

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Combined Results of Operations

The following table sets forth, for the periods indicated, information relating to certain income and expense items from our pro forma combined statements of income:

	Year Ended December 31,		
	1999	2000 (percent)	2001
Sales of goods	100.0%	100.0%	100.0%
Cost of goods sold	73.4	62.5	72.8
Gross profit	26.6	37.5	27.2
Other revenues	4.0	3.4	3.9
Expenses related to other revenues	2.5	2.5	3.7
Other revenues, net	1.5	0.9	0.2
Selling and distribution expenses	1.9	1.5	2.1
General and administrative expenses	8.5	7.0	6.7
Research and development expenses	0.8	1.8	0.9
Other (income)/expenses	(2.6)	0.1	(0.8)
Operating (loss)/income	19.5	28.0	18.5
Finance costs	9.6	4.0	3.4
Operating (loss)/income after finance costs	9.9	24.0	15.1

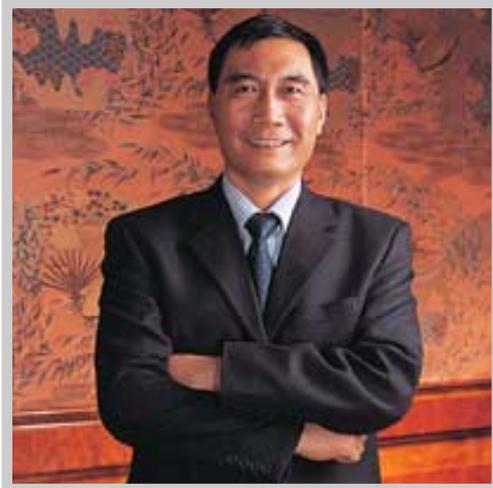
Year Ended December 31, 2001 Compared with Year Ended December 31, 2000

Revenues

Our total revenues decreased by 9.1% from RMB18,270.9 million in 2000 to RMB16,609.5 million (US\$2,006.8 million) in 2001. Total revenues include sales of goods and other revenues. Sales of goods accounted for over 96.7% and 96.3% of our total revenues for 2000 and 2001, respectively. Our sales of goods decreased 9.5% from RMB17,664.1 million in 2000 to RMB15,987.9 million (US\$1,931.7 million) in 2001. The decrease was primarily due to a 35.1% decrease in the average external sales price per tonne for our alumina, from RMB2,919.4 in 2000 to RMB1,896.0 (US\$229.1) in 2001, which was offset in part by a 14.3% increase in the external sales volume of alumina from approximately 2.8 million tonnes for 2000 to approximately 3.2 million tonnes for 2001. This price decrease was primarily a result of the decrease in international alumina spot prices in 2001.

To a lesser extent, a 13.8% decrease in the average sales price for our primary aluminum products from RMB13,782.8 per tonne in 2000 to RMB11,885.7 (US\$1,436.1) per tonne in 2001 also contributed to the decrease in our sales of goods for 2001. The decrease in the average sales price for our primary aluminum products was partially offset by an 11.4% increase in the sales volume of primary aluminum from 564,660 tonnes for 2000 to 628,832 tonnes for 2001.

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Liang Zhongxiu
(Director and Executive Vice President)

Cost of Goods Sold

Our cost of goods sold increased 5.5% from RMB11,040.0 million in 2000 to RMB11,646.3 million (US\$1,407.1 million) in 2001 due to a 7.8% increase in the cost of goods sold for the primary aluminum segment as a result of an increase in sales volume despite decreases in unit production costs. Due to the relatively greater weight of the primary aluminum segment in the total cost of goods sold for 2001, the increase in the cost of goods sold for the primary aluminum segment offset the decrease of 4.8% in the cost of goods for the alumina segment in 2001 which was attributable to decreases in unit production costs in spite of the increase in the sales volume of alumina during the year.

Selling and Distribution Expenses

Our selling and distribution expenses consist of loading and transportation, packaging, advertising for our products and other related expenses. Our selling and distribution expenses increased 29.4% from RMB259.1 million in 2000 to RMB335.2 million (US\$40.5 million) in 2001. In 2001, the market conditions were difficult for alumina sales. This increase in our selling and distribution expenses was primarily due to a 28.0% increase in transportation, packaging and loading expenses that we paid on behalf of our customers to promote sales, particularly in relation to our alumina segment. The increase was also attributable to our increased sales volume in both segments.

General and Administrative Expenses

Our general and administrative expenses include management and staff salaries and welfare expenses, office equipment maintenance and repairs, provision for doubtful receivables, government levies and surcharges and other miscellaneous expenses. General and administrative expenses decreased by 13.7% from RMB1,245.1 million in 2000 to RMB1,074.4 million (US\$129.8 million) in 2001, in part due to a 47.4% reduction in salaries and welfare expenses from RMB500.3 million for 2000 to RMB263.3 million (US\$31.8 million) for 2001, as compared with substantial compensation paid in 2000 linked to our earnings increase in that year. General and administrative expenses also declined as a result of a 63.0% reduction in repair and maintenance expenses from RMB106.7 million for 2000 to RMB39.5 million (US\$4.8 million) for 2001. Such decreases were partially offset by an increase of RMB65.9 million (US\$8.0 million) in provisions for accounts receivable overdue for three years.

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Research and Development Expenses

Our research and development expenses relate to activities associated with developing new technologies to improve production efficiency at our plants. Our research and development expenses decreased 53.5% from RMB309.5 million in 2000 to RMB144.0 million (US\$17.4 million) in 2001, primarily due to reductions as a result of the centralization of project management and controls imposed by our headquarters to avoid project repetitions.

Other Income/Expenses

Other income/expenses include various exceptional or non-recurring items such as government tax subsidies, waiver of interest by state-owned banks, net exchange loss or gain, and various penalties, fines and damages. Our other income net of other expenses increased from RMB16.0 million in net expenses in 2000 to RMB136.3 million (US\$16.47 million) in net income in 2001 primarily due to a gain of RMB103.0 million as a result of settlement of the outstanding interest payable relating to a bank loan and a sharp decrease in various penalties, fines and compensations payable by us.

Operating Income

Our operating income decreased 40.3% from RMB4,954.4 million in 2000 to RMB2,958.1 million (US\$357.4 million) in 2001. Our operating income as a percentage of sales of goods decreased from 28.0% in 2000 to 18.5% in 2001.

Finance Costs

Our finance costs decreased by RMB158.8 million, or 22.4%, from RMB708.2 million in 2000 to RMB549.4 million (US\$66.4 million) in 2001 due primarily to a decrease in interest expenses as a result of the debt-for-equity swap and low-cost refinancing. We benefited from a reduction in our finance costs in the amount of RMB76.9 million (US\$9.29 million) as a result of the transfer to Chinalco of RMB4,950.1 million of our debt obligations as part of the debt-for-equity swap and the related waiver of interest expenses beginning April 1, 2000. In 2001, we had the effect of a full-year waiver of interest. The remaining reduction in interest payment was due to our refinancing with loans of lower interest rates.



Xiong Weiping
(Director and Executive Vice President)

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Income Tax

Our income tax expense decreased from RMB1,589.5 million in 2000 to RMB756.8 million (US\$91.4 million) in 2001 due to the decrease in our taxable profit for 2001.

During 2001, our effective income tax rate was 31.4%, which was lower than the statutory rate of 33.0%, as part of our income was non-taxable.

Minority Interests

Minority interests decreased from RMB134.6 million in 2000 to RMB63.7million (US\$7.70 million) in 2001 primarily as a result of the decreases in net income of our subsidiary, Shandong Aluminum Industry Co. Ltd., which had minority shareholders.

Net Income for the Year

As a result of the foregoing, our combined net income for 2001 decreased 37.1% from RMB2,523.0 million in 2000 to RMB1,588.1 million (US\$191.9 million) in 2001.

Discussion of Segment Operations

We began accounting for our operations under two principal segments and a corporate and other services segment as of July 1, 2001. Although we had not divided our operations into these segments in 1999, 2000 and the first half of 2001, for the purposes of the following discussion we have reconstructed our 1999, 2000 and the first half of 2001 financial results on a segment basis. Consequently, we caution investors not to place undue reliance on historical segmental operating revenues, operating expenses or operating income as measures of the economic efficiency of these segments.

Unless otherwise indicated, inter-segment transactions have not been eliminated from the financial data discussed in this section. Also included in these segments are other revenues derived from such activities as supplying electricity, gas, heat and water to affiliates, selling scrap and other materials, and providing services including transportation and research and development to third parties. Interest income and dividends from unlisted securities investments, included in other revenues, are not attributed to any segment. For additional data and information relating to our business segments and segment presentation, see Note 3 to our combined financial statements.

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The following table sets forth, (i) for the periods indicated, revenues by segment and (ii) the contribution of external sales and inter-segment sales for 2001 as a percentage of sales of goods for such period, both before and after elimination of inter-segment sales.

	Pro forma combined			2001 US\$	Before	After
	Year Ended December 31,				Elimination of	Elimination of
1999	2000	2001		Inter-segment	Inter-segment	
RMB	RMB	RMB		Sales	Sales	
(in millions)						
Sales of goods						
Alumina:						
External sales	5,719.9	8,751.3	7,056.7	852.6	39.0%	44.1%
Inter-segment Sales	<u>1,909.7</u>	<u>2,526.5</u>	<u>2,124.6</u>	<u>256.7</u>	<u>11.7%</u>	<u>—</u>
Total sales of goods	7,629.6	11,277.8	9,183.3	1,109.3	50.7%	44.1%
Primary aluminum:						
External sales	7,907.5	8,870.6	8,888.1	1,073.9	49.1%	55.6%
Corporate and other services:						
External sales	<u>23.3</u>	<u>42.2</u>	<u>43.1</u>	<u>5.2</u>	<u>0.2%</u>	<u>0.3%</u>
Total sales of goods before inter-segment eliminations	<u>15,560.4</u>	<u>20,190.6</u>	<u>18,112.5</u>	<u>2,188.4</u>		
Elimination of inter-segment sales	<u>(1,909.7)</u>	<u>(2,526.5)</u>	<u>(2,124.6)</u>	<u>256.7</u>		
Combined sales of goods	<u><u>13,650.7</u></u>	<u><u>17,664.1</u></u>	<u><u>15,987.9</u></u>	<u><u>1,931.7</u></u>		

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The following table sets forth, for the periods indicated, pro forma combined sales of goods, costs of goods sold, other costs net of other revenues and other income, and operating income/(loss) by segment before and after elimination of inter-segment transactions.

	Year Ended December 31,			
	1999	2000	2001	2001
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>US\$</i>
	(in millions)			
Alumina:				
Sales of goods	7,629.6	11,277.8	9,181.3	1,109.3
Cost of goods sold	(5,567.8)	(6,544.4)	(6,228.3)	(752.5)
Other costs, net of other revenues and other income	(610.2)	(628.3)	(831.6)	(100.5)
Operating income	<u>1,451.6</u>	<u>4,105.1</u>	<u>2,121.4</u>	<u>256.3</u>
Primary aluminum:				
Sales of goods	7,907.5	8,870.6	8,888.1	1,073.9
Cost of goods sold	(6,339.1)	(6,937.7)	(7,479.9)	(903.7)
Other costs, net of other revenues and other income	(425.0)	(417.0)	(190.7)	(23.0)
Operating income	<u>1,143.4</u>	<u>1,515.9</u>	<u>1,217.5</u>	<u>147.1</u>
Corporate and other Services:				
Sales of goods	23.3	42.2	43.1	5.2
Cost of goods sold	(20.7)	(29.5)	(38.3)	(4.6)
Other costs, net of other revenues and other income	(2.8)	(4.3)	(30.5)	(3.7)
Operating income	<u>(.2)</u>	<u>8.4</u>	<u>(25.7)</u>	<u>(3.1)</u>
Segment operating income before unallocated operating income and inter-segment elimination				
Unallocated operating income/(loss)	2,594.8	5,629.4	3,313.1	400.3
Inter-segment elimination	71.3	(620.0)	(330.6)	(39.9)
Total operating income	<u>2,666.1</u>	<u>4,954.4</u>	<u>2,958.1</u>	<u>357.4</u>

Year Ended December 31, 2001 Compared with Year Ended December 31, 2000

Alumina Segment

Sales of Goods. Our total alumina segment sales of goods decreased 18.6% from RMB11,277.8 million in 2000 to RMB9,181.3 million (US\$1,109.3 million) in 2001. The decrease was due to a decrease in the external sales price for alumina, offset in part by an increase in sales volume. The price decrease was primarily a result of a global decline in international market prices for alumina and a large influx of imported alumina into China in 2001.

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Sales of alumina as a product constituted 82.9% of the sales of our alumina segment in 2001. We sell alumina to our smelters as well as to external domestic smelters. Revenues from external sales of alumina decreased 23.1% from RMB8,143.1 million in 2000 to RMB6,266.0 million (US\$757.1 million) in 2001. The principal reason for the decrease in external sales revenue in 2001 was the decrease in the weighted average external sales price of alumina in 2001, as discussed above. In 2001, we made a number of price adjustments to our external alumina sales price, in line with the decreases in alumina import prices. The decrease in the price of alumina was partially offset by an increase in external sales volume of 14.3% from 2.8 million tonnes in 2000 to approximately 3.2 million tonnes in 2001.

Revenues from sales of alumina internally to our smelters also decreased 11.6% from RMB2,402.9 million in 2000 to RMB2,124.6 million (US\$257.0 million) in 2001. The decrease in internal alumina sales was attributable to the decreases in internal alumina sale volume and the internal alumina transfer prices. The volume of internal sales decreased 3.2% from 1.3 million tonnes in 2000 to 1.2 million tonnes in 2001 due to our increased tolling businesses using imported alumina, representing 31.4% and 28%, respectively, of the total alumina sales volume in 2000 and 2001. In 2001, we made a shift to market prices in internal alumina sales at our integrated plants effective July 1, 2001 from our previous practice of supplying our primary aluminum smelters at cost.

Cost of Goods Sold. The total alumina segment cost of goods sold decreased 4.8% from RMB6,544.4 million in 2000 to RMB6,228.3 million (US\$752.5 million) in 2001. Production costs of the alumina segment decreased by 2.6% from RMB6,583.7 million in 2000 to RMB6,411.4 million (US\$774.6 million) in 2001. Production costs consist of raw material and supplemental material costs, fuel and power costs, manufacturing expenses, labor costs and depreciation expenses. While production cost is generally a good proxy for analyzing cost of goods sold, differences can arise due to inventory changes. Production costs decreased because the decrease in unit production costs of alumina as a product, as discussed below, offset an 8.3% increase in production volume for the comparative periods. The production costs of alumina as a product made up 91.6% and 92.2% of the production costs of the alumina segment in 2000 and 2001, respectively, with the production costs of the other alumina segment products accounting for the remaining amounts. The production costs of alumina as a product decreased 2.1% from RMB6,032.8 million in 2000 to RMB5,908.5 million (US\$713.8 million) in 2001.

The unit production costs of alumina as a product including depreciation expense decreased 9.6% from RMB1,478.4 per tonne in 2000 to RMB1,336.5 (US\$161.5) per tonne in 2001. Unit production costs excluding depreciation expenses decreased 11.4% from RMB1,293.8 per tonne in 2000 to RMB1,146.9 (US\$138.5) per tonne in 2001. Such decreases were due primarily to a 23.8% decrease in unit manufacturing expenses from RMB251.4 per tonne in 2000 to RMB191.6 (US\$23.1) per tonne in 2001. Manufacturing expenses in 2001 decreased because we did not incur similar expenses related to major renovations and improvements to production facilities as those incurred in 2000 and through coordinated efforts by the management to reduce costs in 2001.



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Operating Income. Total operating income for the alumina segment decreased 48.3% from RMB4,105.1 million in 2000 to RMB2,121.4 million (US\$256.3 million) in 2001 primarily as a result of an 18.6% decrease in sales of goods, offset partially by a 4.8% decrease in cost of goods sold for this segment. Our operating income as a percentage of sales of goods decreased from 36.4% in 2000 to 23.1% in 2001.

Primary Aluminum Segment

Sales of Goods. Our total primary aluminum segment sales of goods increased slightly from RMB8,870.6 million in 2000 to RMB8,888.1 million (US\$1,073.9 million) in 2001. Our revenue from the sales of primary aluminum as a product in 2001 accounted for 86.3% of our total sales of goods of the segment. Sales of goods of primary aluminum as a product decreased 2.7% from RMB7,782.6 million in 2000 to RMB7,571.4 million (US\$914.8 million) in 2001. The sales of other products of the segment increased 21.0% from RMB1,088.0 million in 2000 to RMB1,317 million (US\$159.1 million) in 2001. The decrease in sales of goods of primary aluminium as a product was due to decreases in primary aluminum sales prices, partially offset by increases in the sales volume of primary aluminum as a product. The weighted average sales price for our primary aluminum decreased 13.8% from RMB13,782.8 per tonne in 2000 to RMB11,885.7 (US\$1,436.1) per tonne in 2001. Sales volume increased 11.4% from 564,660 tonnes for 2000 to 628,832 tonnes for 2001.



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Cost of Goods Sold. The total cost of goods sold for our primary aluminum segment increased 7.8% from RMB6,937.7 million in 2000 to RMB7,479.9 million (US\$903.7 million) in 2001 due to the increase in primary aluminum sales volume. Production costs of the primary aluminum segment decreased 0.7% from RMB7,402.1 million in 2000 to RMB7,351.1 million (US\$888.2 million) in 2001. Production costs of the primary aluminum segment include raw materials and supplemental materials costs, fuel and power costs, labor costs, manufacturing expenses and depreciation expenses for primary aluminum and carbon. The decrease in production cost was attributable to a decrease in unit production costs, as discussed below, offset by a 7.3% increase in production volume of primary aluminum as a product. The discrepancy between the increase in the cost of goods sold of the primary aluminum segment and the decrease in the production costs of the segment was attributable to the increase in inventory sales. Production costs of primary aluminum as a product accounted for 86.1% and 83.1% of the total production costs of the segment for 2000 and 2001, respectively. The production costs of primary aluminum as a product decreased 4.0% from RMB6,370.4 million in 2000 to RMB6,112.9 million (US\$738.5 million) in 2001.

The unit production costs of primary aluminum as a product including depreciation expense decreased 10.6% from RMB10,821.2 per tonne in 2000 to RMB9,673.7 (US\$1,168.8) per tonne in 2001. Unit production costs excluding depreciation expense decreased 12.4% from RMB10,022.0 per tonne in 2000 to RMB8,774.5 (US\$1,060.1) per tonne in 2001. This decrease was attributable to a 34.4% decrease in unit manufacturing expenses from RMB994.7 per tonne for 2000 to RMB652.3 (US\$78.8) per tonne for 2001 as a result of extraordinary elimination of major renovation expenses incurred at our plants in 2000 and coordinated efforts to reduce costs. A 15.0% decrease in the cost of alumina to our smelters from RMB2,032.8 per tonne in 2000 to RMB1,730.0 (US\$209.0) in 2001 also contributed to the decrease in unit production cost of primary aluminum. Electricity cost remained stable during the period.

Operating Income. Primary aluminum segment operating income decreased 19.7% from RMB1,515.9 million in 2000 to RMB1,217.4 million (US\$147.1 million) in 2001. Our primary aluminum segment operating income as a percentage of primary aluminum segment sales of goods decreased from 17.1% in 2000 to 13.7% in 2001.

Corporate and Other Services Segment

Our corporate and other services segment reflected our headquarters expenses, research and development services and product sales of our Research Institute to external customers. Operating income for the segment increased from a profit of RMB8.4 million in 2000 to a loss of RMB25.7 million in 2001 (US\$ 3.1 million).

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Liquidity and Capital Resources

Our primary sources of funding have been cash provided by operating activities, short-term and long-term borrowings, and our primary uses of funds have been production-related working capital, repayment of short-term and long-term borrowings and capital expenditures.

We have historically taken advantage of significantly lower interest rates on short-term debt to lower financing costs on our capital expenditures. Interest rates on short-term debt in China have generally been approximately 1% to 2% per annum lower than those on long-term debt. As a result, we have incurred substantial short-term borrowings. Our current liabilities as of December 31, 2001 exceeded our current assets by RMB1,466.2 million (US\$177.1 million). As of December 31, 2001, our short-term debt amounted to RMB5,477.5 million (US\$661.8 million) (including the current portion of long-term debt, which was RMB1,324.2 million (US\$160.0 million)) and comprised 50.4% of our total debt.

In addition, because of PRC government policies relating to capital funding for state-owned enterprises, most of the government funding for our capital construction or improvements have been in the form of long-term loans from state-owned banks. As of December 31, 1999, 2000 and 2001 (before giving effect to the debt-for-equity swap), we had RMB7,944 million, RMB5,566 million and RMB5,392 million (US\$651.4 million), respectively, of total outstanding obligations under these loans.

Our leverage ratio, or our total debt divided by the aggregate of our total debt plus owners' equity, has significantly improved from 116.9% as of December 31, 1999 to 43.5% as of December 31, 2001, primarily as a result of the debt-for-equity swap, retained earnings and the Global Offering in 2001. We intend to continue to gradually reduce short-term debt as a percentage of our outstanding debt as well as our overall debt levels. Our pro forma interest coverage ratio (EBIT divided by total finance cost excluding interest capitalized in construction in progress) was 7.0 times for the year ended December 31, 2000 and 5.4 times for 2001.

In addition to internally generated funds and a portion of the proceeds from the Global Offering, we may rely on bank borrowings to finance our capital expenditure plans and meet our existing short-term debt obligations.

In view of our credit and the availability of funds in China, we currently do not foresee significant difficulties in obtaining bank borrowings. We plan to fund our capital and related expenditures principally through cash provided by operating activities, short-term and long-term debt and the net proceeds we received from the Global Offering. We have also obtained conditional undertakings from PRC state-owned banks to establish standby credit facilities for an aggregate of RMB4.0 billion (US\$483.3 million) to fund any capital shortfall related to alumina and primary aluminum projects and related working capital purposes. We believe that our working capital is sufficient for our present needs.

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Cash and Cash Equivalents

Included in the cash and cash equivalents as of December 31, 2001 were amounts denominated in foreign currencies of RMB2,835,678,000 (as of December 31, 2000: Nil), comprising US\$45.7 million and HK\$2,316.7 million.

The following table sets forth, for the periods indicated, a condensed summary of our pro forma combined statement of cash flow:

	For the Year Ended December 31,			
	1999	2000	2001	2001
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>US\$</i>
	(in millions)			
Cash flows from operating activities:				
Net cash provided by operations ⁽¹⁾	3,708.5	6,272.2	4,678.1	565.2
Net change in working capital ⁽²⁾	1,661.7	(222.5)	(1,630.1)	(196.9)
Net interest received/(paid)	(1,415.2)	(1,588.3)	(480.7)	(58.1)
Profit distributed to Chinalco and dividend paid to minority shareholders	(125.9)	(109.6)	(142.2)	(17.2)
PRC income tax paid and others	(77.1)	(222.1)	(484.2)	(58.5)
Total	<u><u>3,752.0</u></u>	<u><u>4,129.7</u></u>	<u><u>1,940.9</u></u>	<u><u>234.5</u></u>
Cash flows from investing activities:				
Capital expenditures	(1,350.2)	(1,776.1)	(2,944.5)	(353.5)
Sale of fixed assets and net sales of investments	43.6	76.0	(102.8)	(12.4)
Net increase in bank deposits	(83.3)	(316.8)	471.7	57.0
Total	<u><u>(1,389.9)</u></u>	<u><u>(2,016.9)</u></u>	<u><u>(2,575.6)</u></u>	<u><u>(311.2)</u></u>
Cash flows from financing activities:				
Net borrowings	(1,778.3)	(1,621.5)	807.6	97.6
Net proceeds from the Global Offering	—	—	3,098.6	374.4
Net contributions from/(distributions to) Chinalco and minority shareholders	(16.3)	(801.2)	(750.3)	(90.7)
Others ⁽³⁾	529.6	(87.2)	(47.8)	(5.8)
Total	<u><u>(1,265.0)</u></u>	<u><u>(2,509.9)</u></u>	<u><u>3,108.1</u></u>	<u><u>375.5</u></u>
Net increase/(decrease) in cash and cash equivalents	<u><u>1,097.1</u></u>	<u><u>(397.1)</u></u>	<u><u>2,473.4</u></u>	<u><u>298.8</u></u>

(1) Represents income/(loss) before income tax and minority interests as adjusted for depreciation expense, loss on disposal of fixed assets, interest waived written back, interest income, interest expense and gain from issuance of shares by a subsidiary.

(2) Represents decreases/(increases) in inventory, accounts receivable, accounts payable and other payables, including amounts due from and due to related parties.

(3) Represents proceeds from issuance of shares by a subsidiary, increases in bank deposits pledged and purchases of minority interests.

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Net Cash Flow from Operating Activities

Net cash provided by operations decreased 25.4% from RMB6,272.2 million for 2000 to RMB4,678.1 million (US\$565.2 million) for 2001. The decrease was primarily the result of decreases in sales prices for alumina and primary aluminum and increase of working capital used to fund the increased accounts receivable and raw material inventory in 2001. Of the net cash provided for operations during 2001, RMB1,630.1 million (US\$196.9 million) was used as working capital, RMB480.7 million (US\$58.1 million) was used for interest payment, RMB484.2 million (US\$58.5 million) was used to pay PRC income tax, and RMB142.2 million (US\$17.2 million) was used for profit distributions to shareholders, including RMB62.2 million (US\$7.51 million) in profit distribution to Chinalco and dividend payments of approximately RMB80.0 million (US\$9.67 million) to minority shareholders.

We have begun to implement a centralized cash management system. We expect that this system will help:

- centralize and simplify internal clearing and settlement procedures;
- utilize excess bank deposits to reduce bank borrowings;
- reduce accounts receivable; and
- improve the overall efficiency of our internal funds management.

Cash Flows from Investing Activities

In 1999, 2000 and 2001, 97.1%, 88.1% and 100.0%, respectively, of the net cash from investing activities were used for capital expenditures. Our cash outlays for capital expenditure projects amounted to RMB1,350.2 million, RMB1,776.1 million and RMB2,944.5 million (US\$355.8 million) in 1999, 2000 and 2001, respectively. For the three years ended December 31, 2001, our capital expenditure program was the major contributor to our increase of approximately 910,000 tonnes of alumina production capacity and to our increase of 90,000 tonnes of our primary aluminum production capacity.

We had a net outflow of RMB102.8 million (US\$12.4 million) from sales of fixed assets and purchase of investments in 2001 (includes additional capacity from the acquisition of Qinghai Haixing in November 2001).

Cash Flows from Financing Activities

Cash flows from financing activities were RMB3,108.1 million (US\$375.5 million) in 2001. This consisted primarily of net proceeds of RMB3,098.6 (US\$374.4 million) from the Global Offering, net distributions to Chinalco and minority shareholders of RMB750.3 million (US\$90.7 million), net loan borrowings of RMB807.6 million (US\$97.6 million) and increases in bank deposits pledged of RMB47.8 million (US\$5.8 million).