



Aluminum Corporation of China Limited

中國鋁業股份有限公司

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

ANNOUNCEMENT OF 2003 INTERIM RESULTS

The Board of Directors of Aluminum Corporation of China Limited (the "Company") is pleased to announce the unaudited interim results of operations of the Company, its subsidiaries and two jointly controlled entities (the "Group") for the six months ended June 30, 2003, and would like to express our gratitude to our shareholders and the staff for their concern and support for the Company.

RESULTS

The consolidated turnover and other revenues of the Group for the six months ended June 30, 2003 amounted to RMB10,566.2 million, representing an increase of 28.1% as compared with the same period last year. The consolidated profit (after income taxes) for the period amounted to RMB1,575.0 million, representing an increase of 175.2% as compared with the same period last year. The basic earnings per share amounted to RMB0.15.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED JUNE 30, 2003

	Note	Unaudited	
		Six months ended June 30, 2003	2002
		RMB '000	RMB '000
Turnover	2	10,339,514	7,994,753
Cost of goods sold	2	7,196,805	6,323,525
Gross profit		3,142,709	1,671,228
Other revenues	2	226,656	250,885
Expenses related to other revenues	3	194,664	235,738
Other revenues, net		31,992	15,147
Selling and distribution expenses	4	241,581	248,551
General and administrative expenses	5	550,373	329,594
Research and development expenses		53,634	38,181
Other (income) expenses, net		(4,053)	18,919
Operating profit		2,333,166	1,051,130
Finance costs		227,618	272,290
Operating profit after finance costs		2,105,548	778,840
Share of profit (loss) of jointly controlled entities		1,073	(168)
Profit before income taxes		2,106,621	778,672
Income taxes	7	463,125	187,681
Profit after income taxes		1,643,496	590,991
Minority interests		68,477	18,641
Profit for the period		1,575,019	572,350
		RMB	RMB
Basic earnings per share	8	0.15 Yuan	0.05 Yuan

CONDENSED CONSOLIDATED BALANCE SHEET

AS OF JUNE 30, 2003

	Note	Unaudited		Audited	
		As of June 30, 2003	2002	As of December 31, 2002	2002
		RMB '000	RMB '000	RMB '000	RMB '000
Intangible assets		714,898	736,937	714,898	736,937
Property, plant and equipment		23,545,194	22,563,565	23,545,194	22,563,565
Interest in jointly controlled entities		21,714	17,695	21,714	17,695
Long-term investments		11,058	11,058	11,058	11,058
Deferred tax assets		110,925	32,734	110,925	32,734
Current assets					
Inventories		3,748,263	3,256,736	3,748,263	3,256,736
Accounts receivable, net	10	1,295,279	1,915,848	1,295,279	1,915,848
Due from related parties		467,268	472,629	467,268	472,629
Other current assets	11	618,831	570,508	618,831	570,508
Bank balances and cash:					
Pledged bank balances		60,681	46,169	60,681	46,169
Cash and cash equivalents		2,456,509	2,296,085	2,456,509	2,296,085
Total bank balances and cash		2,517,190	2,342,254	2,517,190	2,342,254
Total current assets		8,646,831	8,557,975	8,646,831	8,557,975
Current liabilities					
Accounts payable	12	1,897,178	1,971,509	1,897,178	1,971,509
Due to related parties		496,981	761,069	496,981	761,069
Other payables and accruals		2,966,365	2,804,036	2,966,365	2,804,036
Taxation payable		541,688	369,022	541,688	369,022
Current portion of long-term loans		948,916	1,053,984	948,916	1,053,984
Unsecured short-term loans		3,960,240	4,049,290	3,960,240	4,049,290
Total current liabilities		10,761,368	11,008,910	10,761,368	11,008,910
Net current liabilities		(2,114,537)	(2,450,935)	(2,114,537)	(2,450,935)
Total assets less current liabilities		22,289,252	20,911,054	22,289,252	20,911,054
Financed by:					
Issued capital and reserves		16,627,488	15,523,947	16,627,488	15,523,947
Minority interests		562,467	437,809	562,467	437,809
Non-current liabilities					
Long-term loans		5,099,297	4,949,298	5,099,297	4,949,298
		22,289,252	20,911,054	22,289,252	20,911,054

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

1 Basis of preparation and accounting policies

The unaudited consolidated condensed interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25: "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA").

These condensed interim financial statements should be read in conjunction with the 2002 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those used in the annual financial statements for the year ended December 31, 2002, except that the Group adopted SSAP 12 (revised) "Income Taxes" ("SSAP 12") issued by the HKSA which is effective for accounting periods commencing on or after January 1, 2003.

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

Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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

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

2 Turnover, revenues and segment information

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

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

Primary reporting format - business segments

The Group is organized in the People's Republic of China (the "PRC") into two main business segments:

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

Activities of the headquarters and other operations of the Group, comprising the conduction of research and development related to alumina business and minor production and distribution of alumina hydrate, are grouped under corporate and other services segment.

All inter-segment and inter-plant sales are made at prices approximate to market prices.

	Unaudited	
	Six months ended June 30, 2003	2002
	RMB '000	RMB '000
Segment results		
Turnover		
Alumina		
External sales	5,650,957	3,520,110
Inter-segment sales	1,473,464	1,257,699
	7,124,421	4,777,809
Primary aluminum		
External sales	4,656,512	4,446,359
Corporate and other services		
External sales	32,045	28,284
Inter-segment elimination	(1,473,464)	(1,257,699)
Total turnover	10,339,514	7,994,753

Cost of goods sold		
Alumina	4,694,020	3,800,416
Primary aluminum	3,944,234	3,725,345
Corporate and other services	25,568	24,463
Inter-segment elimination	(1,467,017)	(1,226,699)
Total cost of goods sold	7,196,805	6,323,525
Gross profit		
Alumina	2,430,401	977,393
Primary aluminum	712,278	721,014
Corporate and other services	6,477	3,821
Inter-segment elimination	(6,447)	(31,000)
Total gross profit	3,142,709	1,671,228

Segment results (continued)

	Unaudited	
	Six months ended June 30, 2003	2002
	RMB '000	RMB '000
Other costs, net of other revenues and other income		
Alumina	269,694	283,858
Primary aluminum	228,393	84,591
Corporate and other services	114,775	25,485
Unallocated	196,681	226,164
Total other costs, net of other revenues and other income	809,543	620,098
Segment operating profit (loss)		
Alumina	2,160,707	693,535
Primary aluminum	483,885	636,423
Corporate and other services	(108,298)	(21,664)
Unallocated	(196,681)	(226,164)
Inter-segment elimination	(6,447)	(31,000)
Total operating profit	2,333,166	1,051,130
Finance costs	227,618	272,290
Operating profit after finance costs	2,105,548	778,840
Share of profit (loss) of jointly controlled entities	1,073	(168)
Profit before income taxes	2,106,621	778,672
Income taxes	463,125	187,681
Profit after income taxes	1,643,496	590,991
Minority interests	68,477	18,641
Profit for the period	1,575,019	572,350

Secondary reporting format - geographical segments

All operations of the Group are carried out in the PRC and the related assets are located there. The PRC market is considered as one geographical location in an economic environment with similar risks and returns.

3 Expenses related to other revenues

Expenses related to other revenues mainly include the cost of scrap and other materials sold and costs incurred in the supply of electricity, heat, gas and water.

4 Selling and distribution expenses

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

5 General and administrative expenses

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

6 Expenses charged to the profit and loss account

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

7 Taxation

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

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

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

- Pursuant to "Guo Ban Fa 2001 No.73" dated September 29, 2001 issued by the State Council of the PRC and approved by the respective local tax authorities in late 2002, three branches of the Company located in the western region of China (namely Guangxi branch, Qinghai branch and Guizhou branch), were granted a tax concession to pay PRC income tax at a preferential rate of 15%. The preferential tax rate is applicable to qualified operations in specified regions with retroactive effect from January 1, 2001 for a ten-year period to December 31, 2010 so long as the relevant branches continue to engage in qualified operations in their respective regions.
- A subsidiary in the Shandong province is taxed at a preferential rate of 15% as it is classified as a "high-tech" enterprise in its province for tax purposes.
- Prior to the group reorganization which took place in 2001, the Core Units now comprising the Group were separate independent entities for tax reporting and filing purposes. Certain of these Core Units had incurred tax losses in previous periods. Given the restrictions on the utilization of such tax losses for periods subsequent to the group reorganization, the Company is awaiting final agreement by the relevant tax authorities regarding the use of such tax losses. The resulting deferred tax benefit arising from these tax losses of approximately RMB203 million (December 31, 2002: RMB220 million) has not been recognized in the financial statements.

8 Earnings per share

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

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

9 Withdrawal from reserves

No transfer has been made to statutory surplus reserve and statutory public welfare fund from profit for the period. The Company, however, has retained sufficient funds for such purpose and these transfers shall be made at the end of the year in accordance with the articles of association of the Company.

10 Accounts receivable, net

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

	Unaudited		Audited	
	As of June 30, 2003	2002	As of December 31, 2002	2002
	RMB '000	RMB '000	RMB '000	RMB '000
(a) Trade receivables	795,296	1,174,559	795,296	1,174,559
Gross trade receivables	795,296	1,174,559	795,29	



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ANNOUNCEMENT OF 2003 INTERIM RESULTS

INTERIM DIVIDEND

The Board of Directors of the Company proposed not to declare an interim dividend for the period from January 1, 2003 to June 30, 2003. (2002: Nil)

Market Review

The Chinese economy maintained rapid growth in the first half of 2003. In the spring of 2003, despite the impact exerted on some industrial sectors by the outbreak of SARS in some parts of the PRC, the GDP of the first half of 2003 maintained a growth rate of 8.2%, providing more space for growth of aluminum consumption. In the first half of 2003, the global and domestic alumina markets have maintained a similar trend since November last year, demonstrating generally a global shortage of alumina, limited supply on the spot market, strong buying in the PRC market and gradually rising prices of alumina. In the first half of the year, the FOB prices of imported alumina soared from US\$200 per tonne early this year to US\$285-295 per tonne and remained above that level thereafter. The average sales price of the Company's alumina was RMB2,603 per tonne. In the first half of the year, the domestic demand for alumina amounted to 5,300,000 tonnes with a shortage of 2,400,000 tonnes, representing an increase of 49% over the same period last year.

In the first half of 2003, the slow growth of the global economy failed to boost the consumption of primary aluminum. The rapidly expanding aluminum production capacity in the PRC is expected to lead to a growth in the total global production capacity of primary aluminum. With the commencement of production as a result of the expansion of output capacity in the West, this has led to an obvious increase in production volume as well. In general, the supply of primary aluminum remained slightly higher than its demand around the world. However, the prices of primary aluminum in the international market has fluctuated upwards. The primary aluminum market of the Shanghai Futures Exchange (SHFE) was stronger than that of the London Metals Exchange (LME). The average price for three-month commodity futures of primary aluminum as quoted by the SHFE was US\$85 per tonne higher than that of the LME. In the first half of the year, the domestic primary aluminum output amounted to approximately 2,530,000 tonnes, representing a 26.7% increase over the same period last year. Primary aluminum consumption amounted to 2,450,000 tonnes, representing approximately an increase of 26% over the same period last year.

BUSINESS REVIEW

The Company continues to focus on the development of its core business, while responding to the market in a positive manner by adjusting its strategies on a timely basis and enhancing its core competitiveness. Over the past few years, we have made unremitting efforts in achieving satisfactory results as evidenced by our integration of business, centralization of management, and implementation of a cost reduction programme, etc. In the first half of the year, despite the sharp rise in the market prices of alumina which allowed us to generate favorable operating results, we did not relax our internal work. We have captured the opportunities arising from the market, trying our best to maximize our operating results.

In the first half of the year, the Company's production volume of alumina products (including alumina, aluminum hydrate, alumina and chemical alumina) increased to a historical high of 2,860,000 tonnes, representing an increase of 8.7% over the same period last year. The production volume of primary aluminum products (including primary aluminum and other primary aluminum products) amounted to 376,000 tonnes, representing an increase of 2.7% over the same period last year. The Company's production and technology economic indicators have further improved by a breakthrough in the progress of refinery technology of "sandy" alumina, which also improved the quality of our alumina products. This improvement will lay down the foundation for further enhancement of the competitiveness of our products.

In the first half of the year, the Company sold 369,200 tonnes of primary aluminum products while the external sales volume of alumina products amounted to 2,135,500 tonnes, representing a production to sales ratio of 98.2% and 100.4%, respectively. By taking advantage of the rebound in the prices of alumina products, the Company is actively reviewing proposals to increase the number of long-term alumina contracts to minimize the impact of price fluctuation of alumina products to the Company's long-term profitability. To minimize the risk involved in contract performance, the Company involved the judicial authority and financial institutions in the process of sales contract negotiation as a means of enhancing contract performance.

The Company, by closely analyzing the international and domestic market trends, has flexibly adjusted its development strategies by increasing investment in alumina and accelerating the construction progress for key projects. Capital expenditure amounted to RMB2.13 billion in the first half of this year. With respect to project construction, the Pingguo Alumina Phase II Project with an annual capacity of 400,000 tonnes was completed and put into production at the end of June, which was not only six months ahead of schedule but also has saved financial cost and generated substantial economic benefits from the early production. Progress in the construction of the 300,000-tonne "Ore-dressing" Bayer project at the Company's Zhongzhou branch was ahead of schedule and was expected to come into overall trial operation by the end of the year. Construction of the 280,000-tonne aluminum-power joint venture project in Shanxi Province has already commenced and the joint venture company has officially commenced operation. Orderly and planned arrangements and management have ensured the effective implementation of the Company's development strategies.

In line with the new market environment and more stringent listing regulations, the Company has set higher requirements for corporate governance and stringently regulated our operation to meet these new standards. With full awareness of their responsibilities, the directors and senior management strongly believe in the business concept of "good faith as our principal and return as our top priority", which we have conveyed across the Company to each member of the staff. In addition to positioning our business to capitalize on various opportunities, the Company continues to recognize the importance of corporate governance, transparency and disclosure. The Company has established an information disclosure committee headed by the CEO and has taken the initiative to disclose quarterly operational data in the first quarter of 2003 to increase its transparency. Through providing more transparent and timely disclosure of the Company's operating results, we strive to provide our shareholders with a better understanding of the Company.

To enhance the Company's overall management through timely transmission of information and to improve work efficiency and decision-making in relation to informational development, use of network and information management, the Company has accelerated the establishment of an information network as well as software development progress in accordance with the principle of "unified planning and diversified implementation". In the first half of the year, initial success was made in the construction of a local area network of the Henan, Shandong, Shanxi and Zhongzhou branches and the research institute. The principal project has almost been completed and the system is in steady operation. The establishment of the Company's internal video conferencing system and the construction of a wide area network have been completed. The development of system application is progressing smoothly. The setting up of a website and the method for information dissemination have almost been completed.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion and analysis should be read in conjunction with our consolidated financial statements and the accompanying notes as set out in this interim report.

CONSOLIDATED RESULTS OF OPERATIONS

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

	For the six months ended June 30,	
	Consolidated 2003	Consolidated 2002
	%	%
Turnover	100.0	100
Cost of goods sold	69.6	79.1
Gross profit	30.4	20.9
Other revenues	2.2	3.1
Expenses related to other revenues	1.9	3.0
Other revenues, net	0.3	0.1
Selling and distribution expenses	2.4	3.1
General and administrative expenses	2.3	4.1
Research and development expenses	0.5	0.5
Other income/(expenses), net	(0.1)	0.2
Operating profit	22.6	13.1
Finance costs	2.2	3.4
Operating profit after finance costs	20.4	9.7

Revenue
The total revenue of the Group for the six months ended June 30, 2003 (first half of the year) was RMB10,566.2 million, representing an increase of RMB2,320.6 million or 28.1% as compared with RMB8,245.6 million of the same period last year.

Total revenue includes sales of goods and other revenue. Sales of goods accounted for 97.0% and 97.9% of our total revenue for the first half of 2002 and 2003 respectively. Our sales of goods increased by 29.3%, from RMB7,994.8 million in the first half of 2002 to RMB10,339.5 million in the first half of 2003. The increase was primarily due to the rise in the sales prices of the Group's products and the increase in sales volume.

The average external sales price per tonne for our alumina increased by 32.6% from RMB1,678.2 (exclusive of VAT) for the first half of 2002 to RMB2,224.9 (exclusive of VAT) for the first half of 2003. The average sales price for our primary aluminum increased by 8.6% from RMB11,262.5 (exclusive of VAT) per tonne for the first half of 2002 to RMB12,228.1 (exclusive of VAT) per tonne for the first half of 2003. This price increase was primarily due to the increase in international alumina and primary aluminum spot prices for the first half of 2003 as compared with the same period last year. The amount of increase in the domestic product price was basically the same as that of the international product price. The external sales volume of our alumina increased by 9.6% from 1,801,800 tonnes for the first half of 2002 to 1,974,200 tonnes for the first half of 2003. The sales volume of our primary aluminum decreased by 6.7% from 332,600 tonnes for the first half of 2002 to 310,400 tonnes for the first half of 2003.

Cost of Goods Sold

The total cost of goods sold of the Group increased by 13.8% from RMB6,323.5 million for the first half of 2002 to RMB7,196.8 million for the first half of 2003. The increase was mainly due to the increase in sales volume of alumina. In addition, as a result of the rise in the prices of raw materials, the unit production costs of primary aluminum increased in the first half of 2003.

Selling and Distribution Expenses

Our selling and distribution expenses decreased by 2.8% from RMB248.6 million for the first half of 2002 to RMB241.6 million for the first half of 2003. The decrease was primarily due to the improvement of the market in the first half of 2003 such that the expenses which were paid by the Company on behalf of clients were cancelled gradually. Despite an increase of 9.6% in the sales volume of alumina during the period and a consequential increase in the direct expenses in connection thereto, the Group has been able to reduce sales expenses by adjusting sales strategies and integrating sales networks.

General and Administrative Expenses

General and administrative expenses increased by 67.0% from RMB329.6 million for the first half of 2002 to RMB550.4 million for the first half of 2003. This was primarily due to the recovery by the Group in the first half of 2002 of its accounts receivable prior to 1999, thereby writing back this portion of the bad debts provision and reducing the general and administrative expenses by RMB71.865 million in the first half of 2002. The Company plans to carry out technological renovation to the [carbon roast production] line of the Guizhou branch and the [power supply rectification equipment] of the Qinghai branch in the second half of the year by dismantling some of the aged production equipment. As a result, a provision of RMB94.18 million was made in the first half of 2003 for impairment in the value of fixed assets and a provision of RMB38.70 million was made in the first half of 2003 for obsolete of inventories (spare parts).

Research and Development Costs

Our research and development expenses increased by 40.5% from RMB38.181 million for the first half of 2002 to RMB53.634 million for the first half of 2003. In the first half of 2002, the emphasis of the exchange of advanced technologies developed internally among our branches had reduced the investment in research and development. However, in the first half of this year, the Group has selected some key projects to carry out research and development, and as a result expenses on research and development have increased.

Other Expenses/Income

Our other net expenses/income were set from net expenses of RMB18.92 million for the first half of 2002 to net income of RMB4.05 million for the first half of 2003. The increase is primarily due to an interest waiver arrangement made between the Company and the Construction Bank of China, under which the Group was waived from paying an interest of RMB44.48 million in the first half of 2003.

Operating Profit

Our operating profit increased by 122.0% from RMB1,051.1 million for the first half of 2002 to RMB2,333.2 million for the first half of 2003. Our operating profit as a percentage of sales of goods increased from 13.1% for the first half of 2002 to 22.6% for the first half of 2003.

Finance Costs

Our finance costs decreased by 16.2% from RMB272 million for the first half of 2002 to RMB228 million for the first half of 2003 primarily due to the decrease in the average interest rate of bank loans of the Group.

Income Tax

Our income tax expenses increased by 146.7% from RMB187.7 million for the first half of 2002 to RMB463.1 million for the first half of 2003 primarily due to the increase in our taxable profits for the first half of 2003. Besides, the income tax expenses for 2002 were reduced because of the Group's entitlement to the government's policy on income tax reduction for equipment purchased domestically as opposed to importation.

For the first half of 2003, our effective income tax rate was 22.0%, which was lower than the statutory rate of 33.0%. This is primarily because our Guizhou, Pingguo and Qinghai branches in the western part of China were entitled to the government's "Go West" preferential policy at a reduced income tax rate of 15%, and also because of a reduced income tax rate of 15% for our subsidiary, Shandong Aluminum Co., Ltd., in Shandong.

Minority Interests

Minority interests increased by 267.4% from RMB18.64 million for the first half of 2002 to RMB68.48 million for the first half of 2003 primarily as a result of the increases in net income of the Company's non wholly-owned subsidiary, Shandong Aluminum Co. Ltd..

Profit for the Period

As a result of the foregoing, our profit for the period increased by 175.2% from RMB572.4 million for the first half of 2002 to RMB1,575.0 million for the first half of 2003.

Discussion of Segment Operations

The Group accounts for its operating results by segment which is organized into alumina segment, aluminum segment and corporate and other services segment as of July 1, 2001.

Unless otherwise indicated, we also include in these segments 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 relating to our business segments and segmental presentation, see Note 2 of our condensed interim financial statements.

There were substantial changes in the respective weightings of the turnover of the two operation segments to the total turnover as compared with those in the first half of 2002 (refer to Note 2 of our condensed interim financial statements). The percentage of turnover of alumina in the total turnover of the two segments increased from 51.8% in the first half of 2002 to 60.5% in the first half of 2003.

Alumina Segment

Sales of Goods

The total sales of goods from our alumina segment amounted RMB7,124.4 million for the first half of 2003, representing an increase of 49.1% as compared with RMB4,777.8 million for the same period last year. The increase was primarily a result of increases in both the sales prices and the sales volume of alumina.

Sales of alumina constituted 90.5% of the sales of our alumina segment for the first half of 2003. We sell alumina to our smelters as well as to external domestic smelters.

Revenue from the external sales of alumina amounted to RMB4,392.5 million for the first half of 2003, representing an increase of 45.3% or RMB1,368.8 million from RMB3,023.7 million for the first half of 2002. The increase was mainly due to the increases both in the sales prices and the sales volume of alumina. Revenue from sales of alumina to our smelters amounted to RMB1,473.5 million, representing an increase of 29.2% as compared with RMB1,140.1 million for the same period last year.

Production Cost and Cost of Goods Sold

The cost of goods sold of our total alumina segment increased by 23.5% from RMB3,800.4 million for the first half of 2002 to RMB4,694 million for the first half of 2003. This was primarily due to the increase in sales volumes of our alumina which resulted in increased sales cost, although such increase was partially mitigated by the decrease in the unit production costs of alumina.

The unit production costs of alumina decreased by 1.07% from the same period of 2002. This was mainly because of a decrease of 1.44% in consumption costs as a result of technological renovation, and a decrease of 2.88% as a result of the increase in production volume. A rise in the fuel prices in the PRC, however, had increased the cost by 3.25%.

Operating Profit

Total operating profit for our alumina segment increased by 211.6% from RMB693.5 million for the first half of 2002 to RMB2,160.7 million for the first half of 2003 primarily as a result of increases in both sales prices and the sales volume. Our alumina segment operating profit as a percentage of alumina segment sales of goods increased from 14.5% for the first half of 2002 to 30.3% for the first half of 2003.

Primary Aluminum Segment

Sales of Goods

The total sales of goods of our primary aluminum segment increased by 4.7% from RMB4,446.4 million for the first half of 2002 to RMB4,656.5 million for the first half of 2003.

Our revenue from the sales of primary aluminum for the first half of 2003 accounted for 81.5% of our total sales of goods of this segment. Sales of goods of primary aluminum increased by 1.3% from RMB3,746 million for the first half of 2002 to RMB3,793 million for the first half of 2003. The increase in sales of goods of primary aluminum was due to the increase in primary aluminum sales prices. However, in order to reduce product risks we adjusted the product mix by increasing the output of other primary aluminum products thereby decreasing the contribution of the output capacity of primary aluminum to the segment and partially offsetting the effect of the rise in sales prices of primary aluminum.

Cost of Goods Sold

The total cost of goods sold for our primary aluminum segment increased by 5.9% from RMB3,725.3 million for the first half of 2002 to RMB3,944.2 million for the first half of 2003. The increase is primarily due to the increase in the unit production costs of primary aluminum products.

The unit production costs of primary aluminum increased by 12.0% for the first half of 2003 over the same period of 2002 mainly due to an 8.5% increase in unit production costs as a result of the rise in alumina prices, a 1.5% increase in costs as a result of the surge in electricity prices and a 2.0% increase in costs as a result of a decrease in output.

Operating Profit

Primary aluminum segment operating profit decreased by 24.0% from RMB636.4 million for the first half of 2002 to RMB483.9 million for the first half of 2003 mainly due to the surge in the prices of raw materials for alumina. Our primary aluminum segment operating profit as a percentage of primary aluminum segment sales of goods decreased from 14.3% for the first half of 2002 to 10.4% for the first half of 2003.

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. The segment had an operating loss of RMB108.3 million for the first half of 2003.

Liquidity and Capital Resources

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

We have taken advantage of significantly lower interest rates on short-term debt to lower the finance costs of our capital expenditures. Interest rates on short-term debt in the PRC 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. As of June 30, 2003, our short-term debt amounted to RMB4,909 million (including the current portion of long-term debt of RMB949 million), which accounted for 49.05% of our total debt owed to banks. Our current liabilities as of June 30, 2003 exceeded our current assets by RMB2,115 million.

In addition, funding for our capital expenses has been mainly in the form of loans from state-owned banks and commercial banks. As of December 31, 2002, and June 30, 2003, we had RMB10,053 million and RMB10,008 million, respectively, of total outstanding obligations under these loans.

Our leverage ratio, or our total loans divided by the aggregate of our total loans plus owners' equity, had decreased from 39.30% as of December 31, 2002 to 37.57% as of June 30, 2003, primarily as a result of an increase in retained earnings.

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.

In view of our credit and the availability of funds in the PRC, 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 loans and the proceeds we received from the Global Offering. We have also obtained conditional undertakings from certain PRC state-owned banks and commercial banks to establish standby credit facilities for an aggregate amount of RMB26,300 million to fund any capital shortfall related to our alumina and primary aluminum projects and related working capital purposes. We believe that our working capital is sufficient for our present needs.

Cash and Cash Equivalents

As of June 30, 2003, our cash and cash equivalents, including foreign currency deposits, amounted to RMB2,456.5 million, comprising US\$31.93 million and HK\$16.37 million.

Net Cash Flow from Operating Activities

Net cash provided by operating activities increased by 775.5% from RMB262.4 million for the first half of 2002 to RMB2,297.4 million for the first half of 2003. The increase was primarily due to the increase in alumina and primary aluminum prices and the increase in sales volume of alumina.

Cash Flows from Investing Activities

In the first half of 2003, all the net cash from investing activities was used for capital expenditures. Our cash outlays for capital expenditure projects amounted to RMB1,380 million and RMB1,663.1 million in the first half of 2002 and 2003, respectively.

Cash Flows from Financing Activities

Cash flows from financing activities were a net outflow of RMB473.9 million in the first half of 2003. This amount was mainly used for payment of dividends and repayment of some of the principals of loans.

USE OF PROCEEDS

The net proceeds from the Global Offering amounted to approximately RMB3,303 million, including the net proceeds of approximately RMB205 million from the Over-allotment Option in connection with the Global Offering, which was exercised in January 2002. As of June 30, 2003, approximately RMB689 million was used to settle the current portion of the long-term liabilities and RMB1,401 million was used for capital expenditures. An amount of approximately RMB1,213 million worth of net proceeds from the Global Offering remains unused and is currently deposited with banks. The proceeds from the Global Offering, including the proceeds from the Over-allotment Option will continue to be used as described in the Hong Kong prospectus of the Company dated November 30, 2001.

DESIGNATED DEPOSITS AND OVERDUE TIME DEPOSITS

As of June 30, 2003, the Group had not placed any designated deposits with any financial institution in the PRC, nor had it failed to collect any time deposits upon maturity during the period.

Foreign Exchange Rate Risk

The Company conducts its business primarily in Renminbi.

The Renminbi is not a freely convertible currency. Limitations on foreign exchange transactions imposed by the PRC government could cause future exchange rates to vary significantly from current or historical exchange rates. The fluctuations in Renminbi exchange rates will affect our ability to perform our foreign currency-denominated obligations. Such fluctuations will also affect our ability to pay dividends in Hong Kong Dollars or to pay dividends in respect of American depositary receipts in United States Dollars. However, the Company believes that it is or will be able to obtain sufficient foreign exchange for the performance of such obligations.

Risk Exposure of Futures

During the first half of 2003, the Group conducted futures trading activities in primary aluminum on the Shanghai Futures Exchange. Futures trading activities are subject to inherent market risks. The Group carries out its futures business based on its self-produced primary aluminum only.

The Group is the largest primary aluminum producer in the PRC and imposes stringent control over futures trading. Therefore, we believe the Group is able to resist the risk exposure of futures trading.

EMPLOYEES, PENSION PLANS AND WELFARE FUND

As of June 30, 2003, there were approximately 67,150 employees in the Company. The remuneration package of the Company's employees includes salary, bonuses and allowances. Employees also receive welfare benefits including medical care, housing subsidies, child care and education, retirement and other miscellaneous items.

In accordance with applicable PRC regulations, the Company currently participates in pension contribution plans organized by provincial and municipal governments, under which each of the Company's branches is required to contribute an amount equal to a specified percentage of the sum of its employees' salaries, bonuses and various allowances. The amount of contribution as a percentage of the employees' salary varies from branch to branch, ranging from 18.0% to 22.9%, depending in part on the location of the branch and the average age of the employees. The Company also contributes to a welfare fund for its employees. The contributions of the Company to this fund are made at rates ranging from 5% to 10% of our after-tax profit. As of June 30, 2003, the Company had not paid discretionary retirement benefits to its employees.

SHARE CAPITAL STRUCTURE

The share capital structure of the Company as of June 30, 2003 was as follows:

	As of June 30, 2003	
Holders of Domestic Shares or H Shares	No. of shares (in millions)	Percentage of issued share capital (%)
Holders of Domestic Shares		
Aluminum Corporation of China	4,656.3	44.4
China Cinda Asset Management Corporation	1,610.3	15.3
China Orient Asset Management Corporation	602.2	5.7
China Development Bank	554.9	5.3
Guangxi Development and Investment Co., Ltd.	196.8	1.8
Guizhou Provincial Materials Development and Investment Corporation	129.4	1.2
Holders of H Shares		
Alcoa International (Asia) Limited	840.2	8.0
Other public investors	1,909.7	18.3

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 30 June 2003, the persons other than a director, chief executive or supervisor of the Company who have interests or short positions in the shares or underlying shares of the Company which are discloseable under Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO") are as follows (the interests in shares and short positions disclosed herein are in addition to those disclosed in respect of the Directors, the Chief Executive and the Supervisors):

Name of substantial shareholders	Class of shares	Number of shares held	Capacity	Type of interest	Percentage in the relevant class of share capital	Percentage in total share capital
Aluminum Corporation of China	Domestic Shares	4,656,261,060 (L)	Beneficial Owner	Corporate	60.1%	44.4%
China Cinda Asset Management Corporation	Domestic Shares	1,610,332,210 (L)	Beneficial Owner	Corporate	20.8%	15.3%
China Orient Asset Management Corporation	Domestic Shares	602,246,135 (L)	Beneficial Owner	Corporate	7.8%	5.7%
China Development Bank	Domestic Shares	554,940,780 (L)	Beneficial owner	Corporate	7.2%	5.3%
Alcoa Inc.	H Shares	840,209,728 (L)	Interest of controlled corporation	Corporate	30.55%	8.0%
Alcoa International (Asia) Limited	H Shares	840,209,728 (L)	Beneficial Owner	Corporate	30.55%	8.0%
J.P. Morgan Chase & Co. (Note 1)	H Shares	208,599,600 (L)	Interest of controlled corporations	Corporate	7.59%	1.99%

Notes:

- As at 30 June 2003, J.P. Morgan Chase & Co. was taken to be interested in 7.59% of the Company's total H Shares or 1.99% of the Company's total share capital through the following companies:
 - in the capacity as an investment manager,
 - 7,730,000 H Shares (representing approximately 0.28% of the Company's total H Shares) in a long position held by JF International Management Inc., which is a controlled corporation of J.P. Morgan Chase & Co.
 - 131,874,000 H Shares (representing approximately 4.8% of the Company's total H Shares) in a long position held by JF Asset Management Limited, which is a controlled corporation of J.P. Morgan Chase & Co.
 - 2,558,000 H Shares (representing approximately 0.09% of the Company's total H Shares) in a long position held by J.P. Morgan Fleming Asset Management (UK) Limited, which is a controlled corporation of J.P. Morgan Chase & Co.
 - 3,866,000 H Shares (representing approximately 0.14% of the Company's total H Shares) in a long position held by J.P. Morgan Investment Management Limited, which is a controlled corporation of J.P. Morgan Chase & Co.
 - 6,789,600 H Shares (representing approximately 0.25% of the Company's total H Shares) in a long position held by J.P. Morgan Investment Management Inc., which is a controlled corporation of J.P. Morgan Chase & Co.
 - in the capacity as a beneficial owner,
 - 182,000 H Shares (representing approximately 0.01% of the Company's total H Shares) in a long position held by J.P. Morgan Whitefriars Inc., which is a controlled corporation of J.P. Morgan Chase & Co.
 - 4,000,000 H Shares (representing approximately 0.15% of the Company's total H Shares) in a long position held by J.P. Morgan Securities Ltd., which is a controlled corporation of J.P. Morgan Chase & Co.
- The total number of H Shares held included interest in 51,600,000 H Shares (representing approximately 1.88% of the Company's total H Shares) held by JP Morgan Chase Bank in a lending pool.
- The letter "L" denotes a long position. The letter "P" denotes interest in a lending pool.

Apart from the above and so far as the Directors are aware, there are no other persons who are interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group.

DIRECTORS', CHIEF EXECUTIVE'S, AND SUPERVISORS' INTERESTS IN SHARES AND SHORT POSITIONS