



Sanmenxia Tianyuan Aluminum
Company Limited*
三門峽天元鋁業股份有限公司

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



INTERIM
REPORT
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CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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This report, for which the directors of Sanmenxia Tianyuan Aluminum Company Limited (the “Directors”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to Sanmenxia Tianyuan Aluminum Company Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Highlights

- Achieved a turnover of approximately RMB668,716,000 for the six months ended 30 June 2004.
- Net profit amounted to approximately RMB13,436,000 for the six months ended 30 June 2004, representing a decrease of approximately 72% as compared to that of the corresponding period in 2003.
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2004.

Interim Results

The board of directors (the “Board”) of Sanmenxia Tianyuan Aluminum Company Limited (the “Company”) is pleased to announce the unaudited results of the Company for the three months (“three-month period”) and the six months (“six-month period”) ended 30 June 2004. The interim report of six-month period has been reviewed by the audit committee of the Company.

Condensed profit and loss accounts (unaudited)

Three months and six months ended 30 June 2004

	Note	Three months ended 30 June		Six months ended 30 June	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Turnover	3	264,140	325,183	668,716	583,413
Cost of goods sold		<u>(252,088)</u>	<u>(280,952)</u>	<u>(618,076)</u>	<u>(501,851)</u>
Gross profit		<u>12,052</u>	<u>44,231</u>	<u>50,640</u>	<u>81,562</u>
Other revenue	3	5,066	3,124	24,250	5,535
Expenses related to other revenue	4	<u>(3,329)</u>	<u>(2,388)</u>	<u>(19,991)</u>	<u>(4,159)</u>
Other revenue, net		<u>1,737</u>	<u>736</u>	<u>4,259</u>	<u>1,376</u>
Selling and distribution expenses		(3,061)	(3,864)	(7,345)	(9,093)
General and administrative expenses		<u>(5,232)</u>	<u>(7,157)</u>	<u>(16,628)</u>	<u>(17,312)</u>
Operating profit	5	5,496	33,946	30,926	56,533
Finance costs		<u>(5,809)</u>	<u>(3,432)</u>	<u>(10,872)</u>	<u>(7,855)</u>
(Loss)/profit before income tax		(313)	30,514	20,054	48,678
Income tax	6	<u>103</u>	<u>(10,070)</u>	<u>(6,618)</u>	<u>(1,307)</u>
(Loss)/profit for the period		<u>(210)</u>	<u>20,444</u>	<u>13,436</u>	<u>47,371</u>
Dividend		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
(Loss)/earnings per Share	7	<u>RMB(0.02) cents</u>	<u>RMB2.41 cents</u>	<u>RMB1.58 cents</u>	<u>RMB5.57 cents</u>

Condensed balance sheet

		As at	
		30 June 2004 (Unaudited) RMB'000	31 December 2003 (Audited) RMB'000
	Note		
Non-current assets			
Fixed assets		338,245	328,655
Debenture		500	500
Deferred tax assets		6,898	5,800
		345,643	334,955
Current assets			
Inventories		179,775	221,465
Accounts receivable	8	22,738	58,322
Due from related companies	9	35,163	9,410
Prepayments, deposits & other receivables		125,604	95,178
Bank balances and cash			
Pledged bank balances		94,670	156,693
Cash and other bank balances		53,391	30,046
		511,341	571,114
Current liabilities			
Trade and bills payables	10	229,036	264,507
Due to related companies	11	4,611	6,050
Other payables and accruals		41,896	42,651
Current portion of long-term bank loans	12	65,000	12,600
Short-term bank loans	13	235,399	237,799
		575,942	563,607
Net current (liabilities)/assets		(64,601)	7,507
Total assets less current liabilities		281,042	342,462
Financed by:			
Share capital		85,000	85,000
Reserves		133,542	129,962
		218,542	214,962
Non-current liabilities			
Long-term bank loans	12	62,500	127,500
		281,042	342,462

Condensed cash flow statement (unaudited)

	Six months ended	
	30 June	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash (outflow)/inflow from operating activities	<u>(2,217)</u>	<u>87,827</u>
Net cash outflow from investing activities	<u>(15,001)</u>	<u>(18,765)</u>
Net cash inflow from financing activities	<u>40,563</u>	<u>28,546</u>
Increase in cash and cash equivalents	23,345	97,608
Cash and cash equivalents at beginning of the period	<u>30,046</u>	<u>38,467</u>
Cash and cash equivalents at end of the period, representing unpledged cash and bank balances	<u>53,391</u>	<u>136,075</u>

Condensed statement of changes in equity (unaudited)

	Share Capital	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Share issuance costs	Retained earnings	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2003	68,000	28,324	6,508	3,255	–	56,170	162,257
Bonus issue	17,000	–	–	–	–	(17,000)	–
Profit for the period	–	–	–	–	–	47,371	47,371
Share issuance costs	–	–	–	–	(270)	–	(270)
At 30 June 2003	<u>85,000</u>	<u>28,324</u>	<u>6,508</u>	<u>3,255</u>	<u>(270)</u>	<u>86,541</u>	<u>209,358</u>
At 1 January 2004	85,000	28,324	11,664	5,833	(3,618)	87,759	214,962
Profit for the period	–	–	–	–	–	13,436	13,436
Share issuance costs	–	–	–	–	(9,856)	–	(9,856)
At 30 June 2004	<u>85,000</u>	<u>28,324</u>	<u>11,664</u>	<u>5,833</u>	<u>(13,474)</u>	<u>101,195</u>	<u>218,542</u>

NOTES TO THE ACCOUNTS

1. Organisation and principal operation

The Company was incorporated in the People's Republic of China (the "PRC") as a joint stock limited company with limited liability on 8 August 2000. The Company is principally engaged in the production and distribution of aluminum ingots. All of the Company's operating assets are located in the PRC.

The H shares of the Company were listed on GEM on 13 July 2004. Details of the restructuring have been set out in the prospectus of the Company dated 30 June 2004 ("Prospectus").

2. Basis of preparation

The unaudited condensed interim accounts have been prepared in accordance with the Statement of Standard Accounting Practice No. 25 "Interim Financial Report" issued by the Hong Kong Society of Accountants and the disclosure requirements of Chapter 18 of the GEM Listing Rules.

These condensed interim accounts should be read together with the Accountants' Report set out in the Prospectus.

The accounting policies and measurements adopted in preparing the unaudited condensed accounts are consistent with those adopted in preparing the financial information set out in the Accountants' Report in the Prospectus.

3. Turnover, revenues and segment information

The Company is principally engaged in the production and distribution of aluminum ingots. Revenues recognised during the periods are as follows:

	Unaudited			
	Three months ended		Six months ended	
	30 June		30 June	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover				
Sales of goods, net of value-added tax	264,140	325,183	668,716	583,413
Other revenue				
Sales of scrap and other materials	738	685	16,377	1,158
Supply of water and electricity	3,912	2,251	7,206	4,122
	4,650	2,936	23,583	5,280
Interest income	416	188	667	255
Total other revenue	5,066	3,124	24,250	5,535
Total revenue	269,206	328,307	692,966	588,948

Primary reporting format – business segments

No segment information by business segment is presented as the principal operation of the Company during the periods is the production and distribution of aluminum ingots, which is considered as the single business of the Company.

Secondary reporting format – geographical segments

	Unaudited			
	Three months ended		Six months ended	
	30 June		30 June	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover				
– The PRC	246,274	243,833	622,649	393,215
– Korea	–	35,434	–	62,019
– Hong Kong	17,866	45,916	46,067	126,098
– Others	–	–	–	2,081
	<u>264,140</u>	<u>325,183</u>	<u>668,716</u>	<u>583,413</u>

Carrying amount of assets and capital expenditure by geographical segments have not been presented as all assets and operations of the Company are located in the PRC.

4. Expenses related to other revenue

Expenses related to other revenue include the cost of scrap and other materials, and cost of water and electricity supplied.

5. Operating profit

Operating profit is stated after charging and crediting the following:

	Unaudited			
	Three months ended		Six months ended	
	30 June		30 June	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
After charging:				
Depreciation of fixed assets	5,411	7,086	10,798	12,401
Staff costs including directors' emoluments	9,160	11,025	23,372	22,820
Operating lease rental in respect of				
– plant and machinery	3,300	5,140	6,600	8,740
– land and buildings	167	167	334	334
Provision for doubtful debts	963	1,978	963	1,978
Net exchange loss	47	307	99	407
	<u>47</u>	<u>307</u>	<u>99</u>	<u>407</u>
After crediting:				
Unrealised gain on futures contracts	553	57	343	166
Interest income from bank deposits	416	188	667	255
	<u>416</u>	<u>188</u>	<u>667</u>	<u>255</u>

6. Taxation

The provision for current PRC enterprise income tax is based on the statutory rate of 33% of the assessable income of the Company as determined in accordance with the relevant PRC income tax rules and regulations during the six months ended 30 June 2003 and 2004.

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

	Unaudited			
	Three months ended		Six months ended	
	30 June		30 June	
	2004	2003	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
PRC enterprise income tax	996	7,606	7,716	10,746
Deferred tax arising from:–				
Tax concession on qualifying capital expenditure (<i>Note (i)</i>)	–	–	–	(14,790)
Utilisation of PRC tax concession	–	3,012	–	6,062
Other temporary differences	(1,099)	(548)	(1,098)	(711)
	<u>(103)</u>	<u>10,070</u>	<u>6,618</u>	<u>1,307</u>

Note:

- (i) Pursuant to relevant PRC income tax rule (技術改造國產設備投資抵免所得稅暫行辦法), the Company is entitled to a special tax concession equivalent to 40% of the qualifying capital expenditure as defined under the relevant PRC income tax rule. In March 2003, the Company received final approval from the relevant tax authorities and a tax concession amounting to approximately RMB14,790,000 was granted to offset against the enterprise income tax.

As at 30 June 2004 and 31 December 2003, approximately RMB11,960,000 of the approved concession amount has been utilised to offset against the enterprise income tax; while the remaining balance of approximately RMB3,594,000 has been carried forward and is recognised as deferred tax assets as the Directors are of the opinion that it is probable that future taxable profit will be available against which this concession can be utilised. The carried forward balance can be utilised to offset against the excess of future enterprise income tax payable over the amount of tax paid in the financial year immediately preceding the year in which the related qualifying capital expenditure were incurred.

7. (Loss)/earnings per share

Basic (loss)/earnings per share for the three months and six months ended 30 June 2004 are based on the (loss)/profit attributable to shareholders of RMB(210,000) and RMB13,436,000 respectively (2003: profit of RMB20,444,000 and RMB47,371,000 respectively), and 850,000,000 shares in issue during the periods. In determining the number of shares in issue during the periods, the bonus issue of 17,000,000 shares in April 2003 and the sub-division of shares in January 2004 were deemed to have occurred at the beginning of the earliest period presented.

As there are no potential dilutive shares in issue during the periods, there is no difference between basic and diluted (loss)/earnings per share.

8. Accounts receivable

	As at	
	30 June 2004 Unaudited RMB'000	31 December 2003 Audited RMB'000
Trade receivables (a)	8,303	20,574
Bills receivable (b)	14,435	37,748
	22,738	58,322

Notes:

(a) Trade receivables

The Company performs periodic credit evaluation on its customers and different credit policies are adopted for individual customers accordingly. Certain of the Company's sales for the periods were on advance payment or documents against payment and sales to small, new or short-term customers are normally expected to be settled shortly after delivery. A credit period, which may be extended for up to one month, may be granted, subject to negotiation, in respect of sales to large or long-established customers. Aging analyses of trade receivables at the respective balance sheet dates are as follows:

	As at	
	30 June 2004 Unaudited RMB'000	31 December 2003 Audited RMB'000
1-60 days	8,209	21,874
61-90 days	1,608	121
91-120 days	111	247
121-365 days	1,140	834
Over 1 year	3,094	2,742
	14,162	25,818
Less: Provision for doubtful debts	(5,859)	(5,244)
	8,303	20,574

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

9. Due from related companies

The amounts due from related companies are analysed as follows:

	As at	
	30 June 2004 Unaudited RMB'000	31 December 2003 Audited RMB'000
Due from:		
Holding company		
– Sanmenxia Tianyuan Aluminum Group Limited 三門峽天元鋁業集團有限公司	5,564	6,299
Other related companies		
– Sanmenxia Jiashi Wheel Hubs Co., Ltd. 三門峽佳適鋁合金輪殼有限責任公司	27,348	3,111
– Jiaozuo City Dongxing Carbon Company Limited 焦作東星炭素有限公司	2,251	–
	<u>35,163</u>	<u>9,410</u>

The aging analyses of the amounts due from holding company, fellow subsidiaries and other related companies are as follows:

	As at	
	30 June 2004 Unaudited RMB'000	31 December 2003 Audited RMB'000
1-60 days	31,069	9,410
61-90 days	4,045	–
91-120 days	49	–
	<u>35,163</u>	<u>9,410</u>

All balances with related companies are mainly trade in nature, unsecured, non-interest bearing and are repayable on demand.

10. Trade and bills payables

	As at	
	30 June 2004	31 December 2003
	Unaudited RMB'000	Audited RMB'000
Trade payables (Note (a))	60,036	37,257
Bills payable (Note (b))	169,000	227,250
	<hr/>	<hr/>
	229,036	264,507
	<hr/>	<hr/>

Notes:

(a) Trade payables

The aging analyses of the trade payables are as follows:

	As at	
	30 June 2004	31 December 2003
	Unaudited RMB'000	Audited RMB'000
1-60 days	47,184	19,943
61-90 days	3,657	4,958
91-120 days	707	1,440
121-365 days	8,488	8,471
Over 1 year	–	2,445
	<hr/>	<hr/>
	60,036	37,257
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(b) Bills payable

Bills payable are repayable within six months. Bills payable of RMB169,000,000 and RMB136,000,000 as at 30 June 2004 and 31 December 2003 respectively were supported by guarantees provided by the holding company.

11. Due to related companies

The amounts due to related companies are analysed as follows:

	As at	
	30 June	31 December
	2004	2003
	Unaudited	Audited
	<i>RMB'000</i>	<i>RMB'000</i>
Due to:		
Holding company		
– Sanmenxia Tianyuan Aluminum Group Limited 三門峽天元鋁業集團有限公司	2,051	2,277
Fellow subsidiaries		
– Sanmenxia Tianyuan Aluminum Group Transportation Company 三門峽天元鋁業集團有限公司運輸公司	1,180	1,168
– Sanmenxia Tianyuan Aluminum Group Yin Lu Company 三門峽天元鋁業集團有限公司銀鋁公司	195	636
– Sanmenxia Tianyuan Aluminum Decoration Co. Ltd. 三門峽天元鋁業裝飾有限公司	–	1
Other related companies		
– Baiyin Fluoride Salts Limited 白銀氟化鹽有限責任公司	1,175	767
– Jiaozuo City Dongxing Carbon Company Limited 焦作東星炭素有限公司	–	1,191
– Jiaozuo City Duofuduo Chemical Company Limited 焦作市多氟多化工有限公司	10	10
	<u>4,611</u>	<u>6,050</u>

The aging analyses of the amounts due to holding company, fellow subsidiaries and other related companies are as follows:

	As at	
	30 June	31 December
	2004	2003
	Unaudited	Audited
	<i>RMB'000</i>	<i>RMB'000</i>
1-60 days	4,071	5,609
61-90 days	530	287
91-120 days	–	144
121-365 days	10	10
	<u>4,611</u>	<u>6,050</u>

All balances with related companies are mainly trade in nature, unsecured, non-interest bearing and are repayable on demand.

12. Long-term bank loans

The maturity of the long-term bank loans (unsecured) is as follows:

	As at	
	30 June 2004 Unaudited RMB'000	31 December 2003 Audited RMB'000
Within one year	65,000	12,600
In the second year	–	127,500
In the fourth year	62,500	–
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	127,500	140,100
Less: current portion included in current liabilities	(65,000)	(12,600)
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	62,500	127,500
	<hr/>	<hr/>

The long-term bank loans are supported by guarantees provided by:

	As at	
	30 June 2004 Unaudited RMB'000	31 December 2003 Audited RMB'000
Holding company	87,500	127,500
Third party	40,000	12,600
	<hr/>	<hr/>
	127,500	140,100
	<hr/>	<hr/>

13. Short-term bank loans

Short-term bank loans (unsecured) are supported by guarantees provided by:

	As at	
	30 June 2004 Unaudited RMB'000	31 December 2003 Audited RMB'000
Holding company	70,000	85,000
Third parties	165,399	152,799
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	235,399	237,799
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14. Related party transactions

Significant related party transactions, which were carried out in the normal course of the Company's business during the periods are as follows:

	<i>Notes</i>	Unaudited			
		Three months ended		Six months ended	
		30 June		30 June	
		2004	2003	2004	2003
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Continuing transactions:					
Sales of materials and finished goods to					
– Holding company	(a)	20,176	44,527	64,324	76,863
– Fellow subsidiaries		940	564	1,258	1,772
– A related company		32,750	5,835	48,127	14,436
Purchases of key and auxiliary materials from	(b)				
– A fellow subsidiary		846	1,066	1,395	1,876
– Other related companies		3,032	2,773	8,006	9,058
Provision of utility services to	(c)				
– Holding company		1,014	711	2,315	1,511
– Fellow subsidiaries		43	106	123	289
– Other related companies		2,436	834	3,952	1,589
Provision of social services by the holding company	(d)	600	1,256	1,200	1,856
Provision of transportation services by a fellow subsidiary	(e)	1,444	2,227	3,408	4,863
Operating lease rentals charged by the holding company in respect of					
– Plant and machinery	(f)	3,300	5,140	6,600	8,740
– Land and buildings	(g)	167	167	334	334

	<i>Notes</i>	Unaudited			
		Three months ended 30 June		Six months ended 30 June	
		2004	2003	2004	2003
Non-continuing transactions:					
Purchase of key and auxiliary materials from the holding company	<i>(b)</i>	20,080	461	28,180	541
Sales of fixed assets to the holding company	<i>(h)</i>	–	487	–	487

Notes:

- (a) Sales of materials and finished goods to the holding company, fellow subsidiaries and other related companies during the periods were set at terms in accordance with the underlying agreements.
- (b) Purchases of key and auxiliary materials from the holding company, fellow subsidiaries and other related companies were at terms in accordance with the underlying agreements.
- (c) Utility fees, including electricity and water, were charged to the holding company, fellow subsidiaries and other related companies at terms in accordance with the underlying agreements.
- (d) Social services which were provided by the holding company in accordance with the terms of the underlying agreement, 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, environment and hygiene, greenery, sanatoriums and canteens, guesthouses and offices, public transport and other services.
- (e) Transportation services were provided by a fellow subsidiary in accordance with the terms of the underlying agreements.
- (f) Operating lease rentals in respect of hire of plant and machinery were charged by the holding company in accordance with the terms of the underlying agreement.
- (g) Operating lease rentals in respect of land and buildings were charged by the holding company in accordance with the terms of the underlying agreements.
- (h) The consideration for the sale of fixed assets was based on the net book value of the assets as at the date of sale.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2004 (2003: Nil).

BUSINESS SUMMARY

The aluminum industry of the PRC kept a steady growth and the Company actively expanded its business. For the period from January to June of 2004, production volume of the Company increased by 2.13% while turnover increased by 14.62%, as compared to the corresponding period in 2003. For the period from April to June of 2004, the Company experienced a short-term adverse impact on its turnover and profit due to a sharp price correction of aluminum ingots in May and June 2004 after the implementation of macro-economic policies on the aluminum industry.

MANAGEMENT'S DISCUSSIONS AND ANALYSIS

Business Review

The past six months in 2004 marked a historical moment to the Company. On 19 January 2004, the Company obtained approval from the China Securities Regulatory Commission authorizing it for listing on GEM. The Company submitted its application for the listing of H shares to the Exchange in February 2004, and listed on GEM by way of placing of H shares on 13 July 2004. The listing gives the Company an access to the international capital market.

During the period under review, the operations of the Company maintain at a steady growth. For the period from January to June of 2004, production volume of aluminum reached 49,244 tonnes, representing an increase of 1,028 tonnes or 2.13% against that of the corresponding period in 2003. Turnover for the six months ended 30 June 2004 reached RMB668,716,000, representing an increase of RMB85,303,000 or 14.62% against that of the corresponding period of the previous year. For the period from April to June of 2004, the production volume of aluminum reached 24,538 tonnes, representing an increase of 117 tonnes or 0.48% against that of the corresponding period of the previous year. Turnover reached RMB264,140,000, representing a decrease of RMB61,043,000 or 18.77% against that of the corresponding period of the previous year.

Increases in production volume of the Company for the periods from January to June and from April to June of 2004 were mainly due to better management and the full utilization of the production facilities. The increase in the turnover for the period from January to June was mainly driven by the increase in the average selling price of aluminum products in the PRC market while the decreased turnover for the period from April to June was mainly due to the decrease in the sales caused by the drop in demand and fall in price of aluminum ingots as a result of the implementation of macro-economic policies on the aluminum industry.

During the period under review, the Company strived to improve the structure of the products and to increase the production volume of aluminum alloy, a product with higher added-value. For the period from January to June of 2004, production volume of the aluminum alloy increased to an average of 2,111 tonnes from an average of 152 tonnes in the corresponding period of the previous year, representing an increase of 12.89 times. For the period from April to June 2004, production volume of aluminum alloy increased to an average of 1,927 tonnes from an average of 152 tonnes of the corresponding period of the previous year, representing an increase of 11.68 times.

During the period under review, the recycled aluminum project had significant development. The construction and installation of a portion of the production facilities were basically completed.

Financial Review

For the six months ended 30 June 2004:

The Company recorded turnover of approximately RMB668,716,000 for the six months ended 30 June 2004, a 12.8% increase from approximately RMB583,413,000 for the same period of the previous year. The increase in turnover was mainly attributable to the increase in market price of aluminum ingots and the increase in demand of aluminum ingot products during the first quarter of the year 2004.

Of the total turnover amount, RMB638,382,000 or 95% was generated from sale of aluminum re-smelt ingots in the PRC and overseas, and RMB30,334,000 or 5% was generated from sale of aluminum alloys.

The Company's gross profit for the six months ended 30 June 2004 was approximately RMB50,640,000, representing a gross profit margin of approximately 7.6%, against the gross profit margin of about 14.0% for the six months ended 30 June 2003. The drop in gross profit margin was mainly because of the fact that the average market price of the Company's major finished goods, aluminum ingots, has not increased as much as the average market price of the Company's major raw material – alumina. Such situation was further magnified by (i) drop in the market price and demand of aluminum ingots since April 2004 as a result of the implementation of macro-economic policies by the PRC central government and (ii) the decrease value-added tax rebate for export sales from 15% to 8%.

Other revenue of the Company for the six months ended 30 June 2004 amounted to RMB24,250,000, of which approximately RMB16,377,000 was derived from sales of scrap and other materials, approximately RMB7,206,000 from supply of water and electricity to the Company's related parties and other independent third parties and from interest income approximately RMB667,000. This was a significant increase against RMB5,535,000 for the six months ended 30 June 2003.

Operating expenditures amounted to RMB23,973,000 for the six months ended 30 June 2004, which is comparable with that of RMB26,405,000 for the same period of the previous year.

The selling and distribution expenses of the company amounted to approximately RMB7,345,000 or 1.1% of the turnover for the six months ended 30 June 2004, versus about RMB9,093,000 or 1.6% of the turnover for the same period of the previous year. Such drop was due to the decrease in transportation cost which was in turn a result of the decrease in the proportion of export sales over total sales.

For the six months ended 30 June 2004, general and administration expenses were approximately RMB16,628,000. The general and administration expenses amounted to RMB16,628,000 for the six months ended 30 June 2004 was comparable with that of RMB17,312,000 for the same period of previous year due to the offsetting effect of (i) slight increase in salaries and entertainment expenses; and (ii) write-back of an accrual of RMB2,350,000 during the current period. The slight increase in salaries as compared to that for the same period of previous year was mainly contributed by the increase in staff costs as a result of an increase in headcount to accommodate the expanded operations while the additional entertainment expenses were incurred

for promoting the Company during the listing process. Such increase in expenses was offset by the write-back of accrual for professional services amounting to RMB2,350,000 in relation to the Company's A-share listing plan which was no longer payable now as the Company has listed on GEM. Such expense was previously recorded in the Company's profit and loss accounts in previous years.

Net profit for the six months ended 30 June 2004 was RMB13,436,000, representing a decrease of 72% from approximately RMB47,371,000 for the same period of the previous year.

For the three months ended 30 June 2004:

The Company recorded a turnover of approximately RMB264,140,000 for the three months ended 30 June 2004, a 19% decrease from approximately RMB325,183,000 for the same period of the previous year. The decrease in turnover was mainly attributable to the drop in sales volume and selling price of aluminum ingots since April 2004 as a result of the implementation of macro-economic policies by the PRC central government.

Of the total turnover amount, RMB235,690,000 or 89% was generated from the sale of aluminum re-smelt ingots in the PRC and overseas, and RMB28,450,000 or 11% was generated from the sale of aluminum alloys.

The Company's gross profit for the three months ended 30 June 2004 was approximately RMB12,052,000, representing a gross profit margin of approximately 4.6%, against the gross profit margin of about 13.6% for the three months ended 30 June 2003. The drop in gross profit margin was mainly because the average market price of the Company's major finished goods, aluminum ingots, has not increased as much as the average market price of the Company's major raw material – alumina – as they were subject to different level of demand and supply. Such situation was further magnified by (i) the drop in the market price and demand of aluminum ingots since April 2004 as a result of the implementation of macro-economic policies by the PRC central government while the market price of alumina was not affected, and (ii) the drop in value-added tax rebate for export sales from 15% to 8%.

Other revenue of the Company for the three months ended 30 June 2004 amounted to RMB5,066,000, which comprised approximately RMB738,000 from sales of scrap and other materials, approximately RMB3,912,000 from supply of water and electricity to the Company's related parties and other independent third parties and interest income of approximately RMB416,000. This was an increase compared to RMB3,124,000 for the three months ended 30 June 2003.

Operating expenditures amounted to RMB8,293,000 for the three months ended 30 June 2004, representing a decrease of 24.8% from RMB11,021,000 for the same period of the previous year.

The selling and distribution expenses of the Company amounted to about RMB3,061,000 or 1.2% of the turnover for the three months ended 30 June 2004, which was comparable to about RMB3,864,000 or 1.2% of the turnover for the three months ended 30 June 2003.

For the three months ended 30 June 2004, general and administration expenses were approximately RMB5,232,000. The decrease as compared to that for the same period of previous year was mainly due to the write-back of an accrual of RMB2,350,000 as mentioned above.

The net loss for the three months ended 30 June 2004 was RMB210,000, representing a drop of RMB20,654,000 from profit of approximately RMB20,444,000 for the same period of the previous year.

The Company operates a conservative set of investment policies to ensure that no unnecessary risks are taken with the Company's assets. No investments other than cash and other short-term bank deposits are currently permitted.

The Company has not held any significant investment for the three months ended 30 June 2004 and made no material acquisitions or disposals during the current period. At 30 June 2004, the company had no material capital commitments and no future plans for material investments or capital assets.

Strategies and Plans

With a view to ensure the steady and healthy development of the PRC economy, the PRC government adopted a series of policies to regulate the macro-economy of the aluminum industry and to protect the healthy development of the aluminum industry.

The Company believes that the economy of the PRC will keep its growth steadily in the second half of 2004 and in the foreseeable future. The annual GDP of the PRC in 2004 is expected to grow at an even higher rate than 7%, the growth rate predicted at the beginning of the year. The electrolytic aluminum industry and the Company will be benefited from the continuous growth of the PRC economy, the grand development of the western region, and the rapid development of the construction and building industry, the transportation industry and the packaging industry.

In the second half of 2004, the Company is committed to expand its business and further enhance the quality of its products. In this respect, the Company has established the following development strategies:

1. speed up the construction of recycled aluminum facilities in order to establish new source of revenue as soon as possible;
2. develop new products and enrich the variety of products in order to enhance the profitability of products;
3. improve production management and general administrative management;
4. strengthen the sales and marketing and capitalize the overall mutual relationship among futures, exports and imports, and spots;
5. provide staff trainings, enhance the quality of the staff, establishing an effective incentive mechanism in order to allocate human resources and capitalize their potential;
6. continue to proceed with the establishment of information systems, comprehensively enhancing the efficiency and standard of management, with an aim of promoting industrialization with information systems.

The management is optimistic about the future of the Company although there is always volatility due to the macro situations which are beyond the Company's capability such as measures exerted by the PRC government.

Looking ahead, with the strategies like speeding up the progress of constructions, developing new products and strengthening the management team, management and the staff team of the Company will strive for their best in meeting the challenges and capture the business opportunities brought by the growing China market and the macro-economic regulations of the PRC government. The Company will further consolidate its existing position and improve its operating results.

Liquidity and capital resources

The major source of liquidity of the Company for the first half of 2004 was operating cash income. As at 30 June 2004, the Company's non-current assets were approximately RMB345,643,000. Non-current assets mainly comprised construction-in-progress and fixed assets of approximately RMB338,245,000.

As at 30 June 2004, the Company had net current liabilities of approximately RMB64,601,000. Current assets comprised cash and bank balances of approximately RMB148,061,000, inventories of approximately RMB179,775,000, account receivables of approximately RMB22,738,000, due from related companies of approximately RMB35,163,000, and prepayments, deposits and other receivables of approximately RMB125,604,000. Current liabilities comprised short-term bank loans of approximately RMB235,399,000, trade and bills payables of approximately RMB229,036,000, due to related companies of approximately RMB4,611,000, other payables and accruals of approximately RMB41,896,000 and current portion of long-term bank loans of approximately RMB65,000,000.

Capital structure

As at 30 June 2004, borrowings of the Company were mainly denominated in Renminbi, and other cash equivalents were mainly held in Renminbi.

The Company intended to maintain an appropriate share capital and debt portfolio to ensure having an effective capital structure from time to time. As at 30 June, 2004, the Company had an aggregate outstanding borrowings of RMB531,899,000 (including bills payables of RMB169,000,000). The gearing ratio was 75% (total liabilities/total assets).

Employee information

The remuneration for the employees of the Company amounted to approximately RMB23,372,000, including the Directors' emoluments of approximately RMB25,033 during the six months ended 30 June 2004 (2003: approximately RMB22,820,000, including the Directors' emoluments of approximately RMB27,477). The increase in employee remuneration resulted from the increase in number of employees from 2,074 to 2,167.

Details of pledged assets of the Company

As at 30 June 2004, the Company has pledged bank balances of RMB94,670,000.

Foreign exchange risk

The income and expenses of the Company are mainly denominated in Renminbi. During the period under review, the Company has neither experienced any significant difficulties nor any operating capital or cash flow problems resulting from the fluctuation in the exchange rate. The Directors believe that having regard to the working capital position of the Company, it is able to meet its foreign exchange liabilities as they become due.

Share capital

As at 30 June 2004, the shareholders of the Company are as follows:

Category of Shares	Number of shares in issue	Percentage (%)
Domestic shares	850,000,000	100

BUSINESS OBJECTIVES REVIEW

The following section compares the Company's actual business progress to the information provided in the section headed "Business objectives and future plans and prospects" as set out in the Prospectus.

	Anticipated progress of projects	Actual progress of projects
Product development and enhancement of production facilities:	Purchase of 3 sets of furnace and 1 set of casting and piling machine for building of production facilities for aluminum alloy casting	3 sets of furnace were purchased and under installation
	Purchase of 2 sets of furnace and 1 set of assembly line for aluminum rod casting	2 sets of furnace were purchased and under installation
	Purchase of 1 set of casting and piling machine for continue building of the production facilities for and commence production of aluminum alloy casting	1 set piling machine was purchased
	Purchase of 4 sets of crystalliser and 2 sets of bar cutter for continue building of the production facilities for and commence production of aluminum rod casting	under planning stage
	Building of production facilities for aluminum square-ingots	under planning stage

	Anticipated progress of projects	Actual progress of projects
Research and development of new production technology:	Enhance the integrated technology for energy conservation and durability of large-scale aluminum smelting cells, in particular the pilot test on the use of on-line material test technology, anticorrosive and low electric resistance carbon anodes	Developed the integrated technology which has already entered the trial stage
	Research on improvement of production technology in particular the enhancement of current efficiency and reduction of the consumption of carbon anodes	Developed the integrated technology which has already entered the trial stage
Sales network development:	Expansion of sales network of aluminum by setting up sales offices in the major cities in the PRC	Under planning stage
	Set up sales team for developing aluminum alloy markets in the PRC	Under planning stage
Information system set up:	Set up of Intranet based financial systems	Under development
	Set up of Internet based human resources management systems	Under development
	Set up of Internet based office automation systems	Under development
	Set up instant monitoring and data enquiry systems for aluminum smelting	Under development
Staff training:	Staff internal training for production staff, managers and technicians to learn aluminum alloy production technique	Under planning stage
	Staff external training for technicians to learn up-to-date production technology and the recycle processing technique	Under planning stage
	Recruitment program to recruit technicians for aluminum alloy production	Under planning stage

USE OF PROCEEDS FROM THE PLACING

The Company was listed on GEM on 13 July 2004. As at 30 June 2004, the Company has not received the net proceeds from the placing of H shares (the “Placing”) amounting to approximately HK\$72 million as described in the Prospectus.

DISCLOSURE OF INTERESTS

As at 30 June 2004, the Company had not maintained any register required to be kept under section 352 of the Securities and Futures Ordinance (the “SFO”) and had no notice of any interest required to be recorded in such register as the Company was not yet listed on GEM at that date.

Interests of the directors, supervisors and chief executives

Immediately following the completion of the Placing on 13 July 2004, none of the directors, supervisors and chief executive of the Company has any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Substantial shareholder

Immediately following the completion of the Placing on 13 July 2004, the person (other than a director, supervisor or chief executive of the Company) who have an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO and were directly or indirectly interested in 10% or more of the shares of the Company were as follows:

Name	Capacity	Number and class of securities (Long position)	Approximate percentage of shareholding in the relevant class of securities	Approximate percentage of shareholding in the entire issued share capital of the Company
三門峽天元鋁業集團有限公司	Beneficial owner	782,882,280 domestic shares of RMB0.10 each	95.69	67.02

Other persons who are required to disclose their interests

Immediately following the completion of the Placing on 13 July 2004, save for the person described in the paragraph headed “Substantial shareholder” above, no other person has an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

During the six months ended 30 June 2004, none of the Directors was granted options to subscribe for shares of the Company. As at 30 June 2004, none of the Directors had any rights to acquire shares in the Company.

SHARE OPTION SCHEME

Up to 30 June 2004, the Company had not adopted any share option scheme or granted any option.

COMPETING INTERESTS

As at 30 June 2004, none of the Directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Company.

SPONSOR'S INTEREST

Pursuant to the agreement dated 12 July 2004 entered into between the Company and its sponsor, namely Oriental Patron Asia Limited, the sponsor has received and will receive a fee for acting as the Company's retained sponsor for the period from 13 July 2004 to 31 December 2006 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

None of the Company's sponsor, their directors, employees or associates had any interests in the securities of the Company or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company as at 30 June 2004.

BOARD PRACTICE AND PROCEDURES

Since the listing of the Company on GEM on 13 July 2004, the Company has complied with board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

Since the listing of the Company on GEM on 13 July 2004, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 30 June 2004, there was no purchase, sales or redemption of the Company's listed securities by the Company as its H shares were listed on GEM on 13 July 2004.

AUDIT COMMITTEE

The Company established an audit committee on 13 June 2004 with written terms of reference in compliance with the requirements as set out in Rules 5.28 to 5.30 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year report and quarterly reports and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the financial reporting process and internal control system of the Company. The audit committee comprises four independent non-executive directors, namely Mr. WU Cheng, Mr. ZHU Xiao Ping, Mr. SONG Quan Qi and Mr. CHAN Nap Tuck.

The unaudited condensed interim financial statements for the six months ended 30 June 2004 have been reviewed by the audit committee.

By Order of the Board
Sanmenxia Tianyuan Aluminum Company Limited
Li Yong Zheng
Chairman

Henan, the PRC, 10 August 2004