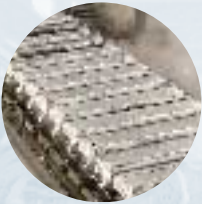




Sanmenxia Tianyuan Aluminum  
Company Limited\*  
三門峽天元鋁業股份有限公司

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



**THIRD**  
**QUARTERLY**  
**REPORT**  
**2 0 0 4**

## **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.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at [www.hkgem.com](http://www.hkgem.com) in order to obtain up-to-date information on GEM-listed issuers.**

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*This report, for which the directors of Sanmenxia Tianyuan Aluminum Company Limited (the “Directors”) collectively and individually accept full 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.*

### Third Quarterly 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 nine months (“nine-month period”) ended 30 September 2004 together with the comparative unaudited figures for the corresponding periods in 2003. The third quarterly unaudited results of nine-month period has been reviewed by the audit committee of the Company.

#### Condensed profit and loss accounts (unaudited)

Three months and nine months ended 30 September 2004

	Note	Three months ended 30 September		Nine months ended 30 September	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Turnover	3	354,932	270,736	1,023,648	854,149
Cost of goods sold		<u>(328,604)</u>	<u>(247,743)</u>	<u>(946,680)</u>	<u>(749,594)</u>
Gross profit		<u>26,328</u>	<u>22,993</u>	<u>76,968</u>	<u>104,555</u>
Other revenue	3	5,202	3,306	29,452	8,841
Expenses related to other revenue		<u>(3,079)</u>	<u>(2,444)</u>	<u>(23,070)</u>	<u>(6,603)</u>
Other revenue, net		<u>2,123</u>	<u>862</u>	<u>6,382</u>	<u>2,238</u>
Selling and distribution expenses		(5,754)	(5,235)	(13,099)	(14,328)
General and administrative expenses		<u>(6,841)</u>	<u>(11,281)</u>	<u>(23,469)</u>	<u>(28,593)</u>
Operating profit		15,856	7,339	46,782	63,872
Finance costs		<u>(5,518)</u>	<u>(5,057)</u>	<u>(16,390)</u>	<u>(12,912)</u>
Profit before income tax		10,338	2,282	30,392	50,960
Income tax	4	<u>(3,411)</u>	<u>(475)</u>	<u>(10,029)</u>	<u>(1,782)</u>
Profit for the period		<u>6,927</u>	<u>1,807</u>	<u>20,363</u>	<u>49,178</u>
Dividend		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Earnings per Share	5	<u>RMB0.62 cents</u>	<u>RMB0.21 cents</u>	<u>RMB2.16 cents</u>	<u>RMB5.78 cents</u>

**Condensed statement of changes in equity (unaudited)**

	Share capital <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Statutory public welfare fund <i>RMB'000</i>	Share issuance costs <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <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	–	–	–	–	–	49,178	49,178
Share issuance costs	–	–	–	–	(270)	–	(270)
At 30 September 2003	<u>85,000</u>	<u>28,324</u>	<u>6,508</u>	<u>3,255</u>	<u>(270)</u>	<u>88,348</u>	<u>211,165</u>
At 1 January 2004	85,000	28,324	11,664	5,833	(3,618)	87,759	214,962
Profit for the period	–	–	–	–	–	20,363	20,363
Share issuance costs	–	–	–	–	(32,087)	–	(32,087)
Transfer from share issuance costs to capital reserve	–	(35,705)	–	–	35,705	–	–
Shares issued	31,820	69,530	–	–	–	–	101,350
At 30 September 2004	<u>116,820</u>	<u>62,149</u>	<u>11,664</u>	<u>5,833</u>	<u>–</u>	<u>108,122</u>	<u>304,588</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 third quarter accounts have been prepared in accordance with the Statement of Standard Accounting Practice issued by the Hong Kong Society of Accountants and the disclosure requirements of Chapter 18 of the GEM Listing Rules.

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 30 September		Nine months ended 30 September	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover				
Sales of goods, net of value-added tax	<u>354,932</u>	<u>270,736</u>	<u>1,023,648</u>	<u>854,149</u>
Other revenue				
Sales of scrap and other materials	1,446	733	17,823	1,890
Supply of water and electricity	<u>3,409</u>	<u>2,248</u>	<u>10,615</u>	<u>6,370</u>
	4,855	2,981	28,438	8,260
Interest income	<u>347</u>	<u>325</u>	<u>1,014</u>	<u>581</u>
Total other revenue	<u>5,202</u>	<u>3,306</u>	<u>29,452</u>	<u>8,841</u>
Total revenue	<u>360,134</u>	<u>274,042</u>	<u>1,053,100</u>	<u>862,990</u>

## 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		Nine months ended	
	30 September		30 September	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover				
– The PRC	325,914	206,503	948,563	599,717
– Korea	29,018	–	29,018	62,019
– Hong Kong	–	52,294	46,067	178,392
– The USA	–	11,939	–	11,939
– Others	–	–	–	2,082
	<u>354,932</u>	<u>270,736</u>	<u>1,023,648</u>	<u>854,149</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. 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 nine months ended 30 September 2003 and 2004.

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

	Unaudited			
	Three months ended		Nine months ended	
	30 September		30 September	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
PRC enterprise income tax	2,492	753	10,208	11,597
Deferred tax arising from:–				
– Tax concession on qualifying capital expenditure ( <i>Note</i> )	–	–	–	(14,790)
– Utilisation of PRC tax concession	–	–	–	6,062
– Other temporary differences	919	(278)	(179)	(1,087)
	<u>3,411</u>	<u>475</u>	<u>10,029</u>	<u>1,782</u>

*Note:*

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 September 2004, 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.

## **5. Earnings per share**

Basic earnings per share for the three months and nine months ended 30 September 2004 are based on the unaudited profit attributable to shareholders of RMB6,927,000 and RMB20,363,000 respectively (2003: profit of RMB1,807,000 and RMB49,178,000 respectively), and the weighted average number of 1,126,696,000 shares and 943,245,000 shares respectively (2003: 850,000,000 shares) in issue during the respective 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 earnings per share.

## **DIVIDEND**

The Directors do not recommend the payment of any dividend for the nine months ended 30 September 2004 (2003: Nil).

## **MANAGEMENT'S DISCUSSIONS AND ANALYSIS**

### **Business Review**

During the period under review, the operations of the Company maintain at a steady growth. For the period from January to September of 2004, production volume of aluminum ingots reached 75,195 tonnes, representing an increase of 1,870 tonnes or 2.55% against that of the corresponding period in 2003. Turnover for the nine months ended 30 September 2004 reached RMB1,023,648,000, representing an increase of RMB169,499,000 or 19.84% against that of the corresponding period of the previous year. For the period from July to September of 2004, the production volume of aluminum ingots reached 25,951 tonnes, representing an increase of 842 tonnes or 3.35% against that of the corresponding period of the previous year. Turnover reached RMB354,932,000, representing an increase of RMB84,196,000 or 31% against that of the corresponding period of the previous year.

Increases in production volume of the Company for the periods from January to September and from July to September 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 September and July to September were mainly driven by the increase in the average selling price of aluminum products in the PRC market.

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 September of 2004, production volume of the aluminum alloy increased to an average of 2,694 tonnes from an average of 152 tonnes in the corresponding period of the previous year, representing an increase of 16.73 times. For the period from July to September 2004, production volume of aluminum alloy increased to an average of 582 tonnes from nil of the corresponding period of the previous year.

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 nine months ended 30 September 2004:

The Company recorded turnover of approximately RMB1,023,648,000 for the nine months ended 30 September 2004, a 19.84% increase from approximately RMB854,149,000 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 and third quarter of the year 2004.

Of the total turnover amount, RMB985,004,000 or 96% was generated from sale of aluminum re-smelt ingots in the PRC and overseas, and RMB38,644,000 or 4% was generated from sale of aluminum alloys.

The Company's gross profit for the nine months ended 30 September 2004 was approximately RMB76,968,000, representing a gross profit margin of approximately 7.5%, against the gross profit margin of about 12.2% for the nine months ended 30 September 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 during April to June 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%.

Net profit for the nine months ended 30 September 2004 was RMB20,363,000, representing a decrease of 59% from approximately RMB49,178,000 for the same period of the previous year.

For the three months ended 30 September 2004:

The Company recorded a turnover of approximately RMB354,932,000 for the three months ended 30 September 2004, a 31.1% increase from approximately RMB270,736,000 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 third quarter of the year 2004.



Of the total turnover amount, RMB346,622,000 or 98% was generated from the sale of aluminum re-smelt ingots in the PRC and overseas, and RMB8,310,000 or 2% was generated from the sale of aluminum alloys.

The Company's gross profit for the three months ended 30 September 2004 was approximately RMB26,328,000, representing a gross profit margin of approximately 7.4%, against the gross profit margin of about 8.5% for the three months ended 30 September 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.

Net profit for the three months ended 30 September 2004 was RMB6,927,000, representing an increase of RMB5,120,000 from profit of approximately RMB1,807,000 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 September 2004 and made no material acquisitions or disposals during the current period. At 30 September 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 fourth quarter 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 fourth quarter 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 and establish an effective incentive mechanism in order to allocate human resources and capitalize their potential;
6. continue to proceed with the establishment of information systems and comprehensively enhance 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 construction, 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 marco-economic regulations of the PRC government. The Company will further consolidate its existing position and improve its operating results.

#### **Share capital**

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

<b>Category of Shares</b>	<b>Number of shares in issue</b>	<b>Percentage (%)</b>
Domestic shares	818,180,000	70.04
H Shares	350,020,000	29.96

#### **DISCLOSURE OF INTERESTS**

##### **Interests of the directors, supervisors and chief executives**

As at 30 September 2004, none of the directors, supervisors and chief executive of the Company had 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 Securities and Futures Ordinance (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 shareholders

As at 30 September 2004, the persons (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 were as follows:

Interests in Domestic Shares (long positions):

Name	Capacity	Number of Domestic Shares	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	95.69%	67.02%

Interests in H Shares (long positions):

Name	Capacity	Number of H Shares	Approximate percentage of shareholding in the relevant class of securities	Approximate percentage of shareholding in the entire issued share capital of the Company
BCOM Securities Company Limited	Beneficial owner	99,930,000	28.55%	8.55%
CCIB Opportunity Income Growth Fund	Beneficial owner	33,000,000	9.43%	2.82%
Li Jun	Beneficial owner	18,000,000	5.14%	1.54%
Chen Yamin	Beneficial owner	17,660,000	5.05%	1.51%

## Other persons who are required to disclose their interests

As at 30 September 2004, save for the persons described in the paragraph headed “Substantial shareholders” above, the Directors were not aware of any other person (other than directors, supervisors or chief executives of the Company) who had 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 nine months ended 30 September 2004, none of the Directors was granted any option to subscribe for shares of the Company. As at 30 September 2004, none of the Directors had any right to acquire shares in the Company.

## **SHARE OPTION SCHEME**

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

## **COMPETING INTERESTS**

As at 30 September 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 Sponsor Agreement dated 12 July 2004 entered into between the Company and Oriental Patron Asia Limited, Oriental Patron Asia Limited 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 Oriental Patron Asia Limited, 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 September 2004.

## **BOARD PRACTICE AND PROCEDURES**

Since the listing of the Company on GEM on 13 July 2004, the Company has complied with the 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 has 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 nine months ended 30 September 2004, there was no purchase, sales or redemption of the Company's listed securities by the Company.

## **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 third quarterly accounts for the nine months ended 30 September 2004 have been reviewed by the audit committee.

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

*As at the date of this report, the executive Directors are Li Yong Zheng, Tan Yu Zhong and Xiao Chong Xin; the non-executive Directors are Yang Chun Lian, Zhu Qiang and Yan Li Qi; and the independent non-executive Directors are Wu Cheng, Zhu Xiao Ping, Song Quan Qi and Chan Nap Tuck.*

Henan Province, the PRC, 11 November 2004