



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)*

First Quarterly Report 2005



Sanmenxia Tianyuan

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This report, for which the directors (the “Directors”) of Sanmenxia Tianyuan Aluminum Company Limited (the “Company”) 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 the Company. 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.



## First Quarterly Results

The board of Directors (the "Board") of the Company is pleased to announce the unaudited results of the Company for the three months ("three-month period") ended 31 March 2005 together with the comparative unaudited figures for the corresponding period in 2004. The first quarterly unaudited results of the three-month period has been reviewed by the audit committee of the Company.

### Profit and loss account (unaudited)

Three months ended 31 March 2005

		Three months ended 31 March	
		2005	2004
	Note	RMB'000	RMB'000
Turnover	3	296,104	404,576
Cost of goods sold		<u>(272,093)</u>	<u>(365,988)</u>
Gross profit		----- 24,011	----- 38,588
Other revenue	3	2,272	19,184
Expenses related to other revenue		<u>(1,555)</u>	<u>(16,662)</u>
Other revenue, net		----- 717	----- 2,522
Selling and distribution expenses		(5,472)	(4,284)
General and administrative expenses		<u>(9,203)</u>	<u>(11,396)</u>
Operating profit		10,053	25,430
Finance costs		<u>(7,569)</u>	<u>(5,063)</u>
Profit before income tax		2,484	20,367
Income tax	4	<u>(820)</u>	<u>(6,721)</u>
Profit for the period		<u>1,664</u>	<u>13,646</u>
Dividend		<u>-----</u> -	<u>-----</u> -
Earnings per Share	5	<u>RMB0.14 cents</u>	<u>RMB1.61 cents</u>



## 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 2004	85,000	28,324	11,664	5,833	(3,618)	87,759	214,962
Profit for the period	—	—	—	—	—	13,646	13,646
At 31 March 2004	<u>85,000</u>	<u>28,324</u>	<u>11,664</u>	<u>5,833</u>	<u>(3,618)</u>	<u>101,405</u>	<u>228,608</u>
At 1 January 2005	116,820	62,099	14,060	7,031	—	106,914	306,924
Profit for the period	—	—	—	—	—	1,664	1,664
At 31 March 2005	<u>116,820</u>	<u>62,099</u>	<u>14,060</u>	<u>7,031</u>	<u>—</u>	<u>108,578</u>	<u>308,588</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 results of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

### 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 31 March	
	2005 RMB'000	2004 RMB'000
Turnover		
Sales of goods, net of value-added tax	296,104	404,576
Other revenue		
Sales of scrap and other materials	1,029	15,639
Supply of water and electricity	834	3,294
Interest income	1,863	18,933
	409	251
Total other revenue	2,272	19,184
Total revenue	298,376	423,760



## Primary reporting format – business segments

No segment information by business segment is presented as the principal operation of the Company during the period 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 31 March	
	2005 RMB'000	2004 RMB'000
Turnover		
– The PRC	288,354	376,369
– Hong Kong	7,750	28,207
	<u>296,104</u>	<u>404,576</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 three months ended 31 March 2005 and 2004.

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

	Unaudited Three months ended 31 March	
	2005 RMB'000	2004 RMB'000
PRC enterprise income tax	<u>820</u>	<u>6,721</u>

### 5. Earnings per share

Basic earnings per share for the three months ended 31 March 2005 are based on the unaudited profit attributable to shareholders of RMB1,664,000 (2004: profit of RMB13,646,000), and the weighted average number of 1,168,200,000 shares (2004: 850,000,000 shares) in issue during the respective periods. In determining the number of shares in issue during the periods, 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 three months ended 31 March 2005 (2004: 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 March 2005, production volume of aluminum ingots reached 25,523 tonnes, representing an increase of 818 tonnes or 3.31% against that of the corresponding period in 2004. Turnover for the three months ended 31 March 2005 reached RMB296,104,000 representing a decrease of RMB108,472,000 or 26.81% against that of the corresponding period of the previous year.

Increase in production volume of the Company for the period from January to March 2005 was mainly due to better management and the full utilization of the production facilities. The decrease in the turnover for the period from January to March 2005 was mainly driven by the decrease 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 March of 2005, production volume of the aluminum alloy increased to 2,770 tonnes from 184 tonnes in the corresponding period of the previous year, representing an increase of 14 times.

### **Financial Review**

For the three months ended 31 March 2005:

The Company recorded a turnover of approximately RMB296,104,000 for the three months ended 31 March 2005, a 28.61% decrease from approximately RMB404,576,000 for the same period of the previous year. The decrease in turnover was mainly attributable to the decrease in market price of aluminum ingots and the decrease in demand of aluminum ingot products during the first quarter of the year 2005.

Of the total turnover amount, RMB258,941,000 or 87.45% was generated from the sale of aluminum re-smelt ingots in the PRC and overseas, and RMB37,163,000 or 12.55% was generated from the sale of aluminum alloy ingots.

The Company's gross profit for the three months ended 31 March 2005 was approximately RMB24,011,000, representing a gross profit margin of approximately 8.1%, against the gross profit margin of about 9.5% for the three months ended 31 March 2004. The drop in gross profit margin was mainly because of the average market price of the Company's major finished goods, aluminum ingots, decreased but the average market price of the Company's major raw material, alumina, remained constant, as they were subject to different level of demand and supply.

Net profit for the three months ended 31 March 2005 was RMB1,664,000, representing a decrease of RMB11,982,000 from profit of approximately RMB13,646,000 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 31 March 2005 and made no material acquisitions or disposals during the current period.

### **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 including the aluminum industry and to protect the healthy development of the aluminum industry.

The Company believes that the economy of the PRC will keep growing steadily in 2005 and in the foreseeable future. The annual GDP of the PRC in 2005 is expected to grow at more 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 development of the western region, and the rapid development of the construction and building industry, the transportation industry and the packaging industry.

In the year 2005, 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 and development of sales channel in order to establish new source of revenue as soon as possible;
2. develop stable operating condition for production by entering long term supply contract in order to guarantee the supply and cost of raw materials;
3. improve production management and general administrative management;
4. strengthen the sales and marketing and the mutual relationship among futures, exports and imports, and spots markets;
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.

Looking ahead, with the strategies like the development of sales channel, construction of production facilities, developing new products and strengthening the management team, the 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.





## Share capital

As at 31 March 2005, the shareholders of the Company are as follows:

Category of shares	Number of shares in issue	Percentage (%)
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 31 March 2005, 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 31 March 2005, 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 31 March 2005, 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 three months ended 31 March 2005, none of the Directors was granted any option to subscribe for shares of the Company. As at 31 March 2005, none of the Directors had any right to acquire shares in the Company.

#### **SHARE OPTION SCHEME**

Up to 31 March 2005, the Company had not adopted any share option scheme or granted any option.

#### **COMPETING INTERESTS**

As at 31 March 2005, 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 31 March 2005.



## **BOARD PRACTICE AND PROCEDURES**

The Directors consider that 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 throughout the 3 months ended 31 March 2005.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES**

During the three months ended 31 March 2005, 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. ZHU Xiao Ping, Mr. SONG Quan Qi, Mr. CHAN Nap Tuck and Mr. WU Cheng (resigned on 30 March 2005).

The unaudited first quarterly accounts for the three months ended 31 March 2005 have been reviewed by the audit committee.

## **DISCLOSURE OF TRADE RECEIVABLE UNDER RULE 17.22 OF THE GEM LISTING RULES**

As at 31 March 2005, the Company recorded a trade receivable for approximately HK\$65,031,074 (RMB69,258,094), representing approximately 25.5% of the Company's total market capitalization as at 31 March 2005, from Sanmenxia Jiashi Wheel Hubs Co., Ltd. (三門峽佳適鋁合金輪殼有限責任公司) ("Jiashi"). Jiashi is a limited liability company established in the PRC on 19 November 1996 and is a connected person of the Company (as defined under the GEM Listing Rules).

The trade receivable from Jiashi was resulted from sales to Jiashi by the Company in its ordinary course of business and on normal commercial terms. It is unsecured and with a mutual agreed charge on outstanding balance. The Directors consider that Jiashi shall pay for the products supplied by the Company within 5 days after accepting delivery of the products in accordance with the repayment terms as set out in Aluminum Ingots Supply Agreement entered into between Jiashi and the Company.

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 Zhu Xiao Ping, Song Quan Qi and Chan Nap Tuck.*

Henan Province, the PRC, 10 May 2005