

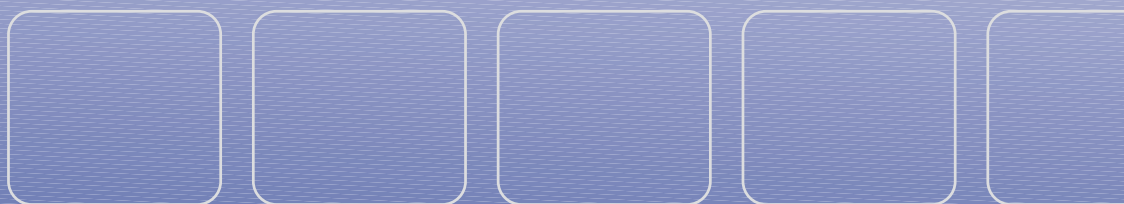


Sanmenxia Tianyuan Aluminum Company Limited*

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)

Annual Report 2004



Sanmenxia Tianyuan

Sanmenxia Tianyuan Aluminum Company Limited





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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 Stock 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.



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Executive Directors

Mr. LI Yong Zheng (*Chairman*)
Mr. XIAO Chong Xin
Mr. TAN Yu Zhong

Non-executive Directors

Mr. ZHU Qiang
Ms. YANG Chun Lian
Mr. YAN Li Qi

Independent non-executive Directors

Dr. SONG Quan Qi
Mr. ZHU Xiao Ping
Mr. CHAN Nap Tuck
Mr. WU Cheng *

Registered address and principal place of business in the PRC

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Henan Province
The PRC

Principal place of business in Hong Kong

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Website of the Company

www.styal.com.cn

Company secretary

Mr. YAO Yan Ping FCPA, FCCA

Qualified accountant

Mr. YAO Yan Ping FCPA, FCCA

Compliance officer

Mr. TAN Yu Zhong

Audit committee

Dr. SONG Quan Qi
Mr. ZHU Xiao Ping
Mr. CHAN Nap Tuck
Mr. WU Cheng*

Authorised representatives

Mr. TAN Yu Zhong
Mr. YAO Yan Ping

Principal bankers

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Sanmenxia Branch
Hubin District Sub-branch
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Huanghe Road Central
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Henan Province
The PRC

China Construction Bank
Sanmenxia Branch
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Sanmenxia City
Henan Province
The PRC

Shanghai Pudong Development Bank
No. 159, Jiankang Road
Zhengzhou City
The PRC

Bank of Communication
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* Resigned on 30 March 2005



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and transfer office**

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The PRC

Auditors

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor
Prince's Building
Central
Hong Kong



FINANCIAL HIGHLIGHTS

	For the year ended 31 December		
	2004	2003	2002
	RMB'000	RMB'000	RMB'000
Profit and loss account			
Turnover	1,416,839	1,191,930	907,089
Cost of goods sold	(1,315,781)	(1,056,328)	(798,425)
Gross profit	101,058	135,602	108,664
Other revenue	33,966	12,093	45,012
Expenses related to other revenue	(25,238)	(8,639)	(39,332)
Other revenue, net	8,728	3,454	5,680
Selling and distribution expenses	(19,851)	(19,763)	(14,717)
General and administrative expenses	(30,808)	(37,290)	(25,495)
Operating profit	59,127	82,003	74,132
Finance costs	(24,888)	(18,992)	(12,085)
Profit before income tax	34,239	63,011	62,047
Income tax	(11,490)	(6,688)	(20,550)
Profit after income tax	22,749	56,323	41,497
Profit attributable to shareholders	22,749	56,323	41,497
Dividend	11,682	—	—
Earnings per share	RMB0.023	RMB0.066	RMB0.049
	As at	As at	As at
	31 December	31 December	31 December
	2004	2003	2002
Assets and liabilities	RMB'000	RMB'000	RMB'000
Total assets	1,162,280	906,069	434,802
Total liabilities	855,356	691,107	272,545
Net assets	306,924	214,962	162,257



Dear Shareholders,

Year 2004 is a significant year for Sanmenxia Tianyuan Aluminum Company Limited (the "Company"). The Company was listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 13 July 2004 (the "Listing") and became the first large-scale aluminum re-smelt ingots manufacture company listed in Hong Kong.

I am pleased to present the annual report of the Company for the financial year ended 31 December 2004 and, on behalf of the board of directors (the "Board") and the employees of the Company, express our gratitude to our shareholders for their support to the Company.

REVIEW OF OPERATING RESULTS

Turnover and other revenues of the Company for 2004 amounted to RMB1,450,805,000, representing an increase of 20.5% over the previous year. Profit for the year was RMB22,749,000, representing a decrease of 59.6% from the previous year. Earnings per share reached RMB0.023, representing a decrease of 65.2% from the previous year.

The Board proposes to declare a final dividend of RMB0.01 per share for 2004, totaling RMB11,682,000 based on 1,168,200,000 total outstanding shares as of 30 March 2005. The proposal to declare and pay this final dividend is to be submitted to the Annual General Meeting scheduled on 15 July 2005 for review and approval.

MARKET CONDITION IN 2004

1. Aluminum Market

With the US dollar depreciation, the metal market was pulled by the strong global economy recovery represented by the United States and was getting strong in 2004. The economic environment of the PRC had also played an important role in the aluminum re-smelt ingots and alumina market. The price of aluminum re-smelt ingots increased in the bull market in early 2004, reaching its peak for the past eight years. In April 2004, the price of aluminum re-smelt ingots decreased significantly when the macro-economic regulating policies became effective in the PRC, especially, the industry of electrolytic aluminum was the emphasis of such policies. The huge overstock of aluminum in the market, which was covered by the radical market sentiment at the initial stage, has emerged gradually. The price of aluminum in Shanghai Future Exchange has decreased to its lowest level of RMB14,800. After part of the aluminum stock was absorbed by the market and along with approaching high season of primary aluminum consumption, the price of aluminum recovered gradually in August 2004 and maintained at a steady growth rate throughout the rest of the year and reached its peak of RMB17,500 near the end of the year.



The international aluminum price reached its highest for the past 10 years in 2004. It increased in the first 4 months (increased from US\$1,621 per tonne to US\$1,835 per tonne) and adjusted to the lowest level of US\$1,560 per tonne in the middle of the year (from May to September). The price then went up again in the last couple of months at the end of the year with price ranging from US\$1,750 to US\$1,860 per tonne.

2. Alumina Market

The international alumina market could also be divided into 3 stages in 2004. During the rising period from early of the year to early April, the alumina price rose from US\$420 per tonne to US\$530 per tonne. During the four months from the middle of April to early August, the alumina price fell to US\$310 from US\$530. During the period from August to December, the alumina price rose and reached the level of US\$470. Subsequently, it decreased slightly in December and maintained the price at around US\$450.

The domestic alumina price basically followed the trend of the international price. It maintained at RMB3,700 per tonne from January to March, increased to RMB4,300 per tonne from March to August, fell to RMB3,750 per tonne from August to October, and finally priced at RMB4,300 per tonne from October till the year end.

CORPORATE STRATEGY

- I. Responding actively to macro environment change, creating stable operating condition for production and management.

In view of the changing external environment, the Company studied the state macro-economic regulating policies actively and adopted flexible strategies to ensure a stable operation in response to market changes. Firstly, in response to the state policy of raising electricity price, the Company had signed electricity supply contracts with Sanmenxia City Electricity Industry Bureau, Thermo-electricity Factory of Shan Xian and Ya Neng Tian Yuan Electricity Company. This had made the electricity price paid by the Company lower than the raised price stipulated by the government and the raising level of the Company's electricity price was the lowest in the industry. Besides, the entering into the electricity supply contracts guaranteed a stable power supply for the Company's production. Secondly, under the condition of increasing price of alumina and lack of alumina supply domestically and abroad, the Company had signed alumina supply contracts with domestic and overseas suppliers, which guaranteed the alumina supply and persistent stable production.



- II. Strengthening internal management, reducing production cost and increasing production efficiency.

With the carrying out of the state macro-economic regulating policies, production cost had increased significantly for electrolytic aluminum companies and their survival space had been squeezed seriously. Therefore, the Company had strengthened the internal management, reduced production cost and increased production efficiency. Firstly, the Company strengthened the internal management by focusing on finance and emphasizing on budget management. This had made the expenses under effective control during the reported period. Secondly, the production managerial staff dedicated themselves to refine electrolytic techniques and innovations and to ensure the stable operation of electrolytic cells with high efficiency. Thirdly, the Company carried out strict purchasing and bidding systems for raw materials and ancillary materials to reduce costs. The Company had established OHSMS18000 system, integrated it with ISO14001 environmental system and created a comprehensive management system, which reduced system operation cost and increased system operation efficiency and benefit. On 26 February 2004, the Company was awarded OSHMS certificate and became the only company which passed the certification of three managerial systems in the aluminum industry in Henan Province. Moreover, the Company passed the appraisal conducted by the PRC Environment United Certification Centre. The Company ranked 23rd in terms of production volume among over 140 aluminum enterprises in the PRC. Its major technology economic indices (such as direct current electricity expense and current electricity efficiency) were both ranked the top position in the domestic industry and reached advanced level in the world. In light of the significant leasing expenses in relation to lands, buildings, plants and machineries, the Company will make every endeavour to reduce the leasing expenses in order to enhance the profitability of the Company and the shareholders' return.

- III. Speeding up the development of aluminum alloy production line, creating condition for new profit growth.

The Company had started to construct a project of 50,000 tonne aluminum alloy over the past year. All of the construction project, including the main factory building and its subsidiary for aluminum cast and roll, oxygen generation station, water circulation pump station, diesel warehouse, raw materials storage warehouse, administrative building, roads inside the factory area, pipe network and facilities installation project, had been completed by the end of 2004. The whole construction project was inspected and approved by the municipal quality testing centre on 25 November 2004. The installation and testing of the domestically-produced equipment and facilities had been completed. A356 production lines of spindle cast and bar cast are ready for production.



BUSINESS PROSPECT

The Directors anticipate that the global economy will maintain the trend of growing in 2005, and the oversupply of electrolytic aluminum will change to be balanced and even short of supply. The International Monetary Fund forecasted that the economic growth rate for western countries would be 3.3% in 2005 (3.5% for the United States, 2% for Western Europe and 3.2% for Japan). The economic growth would increase the demand for aluminum and its price. Some international organizations have raised the forecast for aluminum price. The forecasting prices are from US\$1,600 to US\$2,000 per tonne. Based on the official forecast data, the economic growth rate will range from 7.0% to 7.6% over the next five to ten years in the PRC. The domestic economy is expected to grow at a stable pace. This will create a sound environment for aluminum consumption and production. However, the Company is facing more difficulties and challenges with the PRC's accession to the World Trade Organization ("WTO"), further market open and the influence of state macro-economic regulations.

1. National macro-economic regulations continue, and the PRC government will cancel the 8% export tax-return policy in 2005 and require smelting factories to eliminate or upgrade the production line with a feature of underdeveloped smelting. The international aluminum price will continue to be in a strong position in the next few years because alumina and energy will be under supply and the growth of demand in the PRC market will be stable.
2. The intense supply condition for alumina will not be changed in 2005 and the price will be higher in the early period and lower afterwards. The overall production capability of alumina only increased 350,000 tonnes in 2004, which resulted in the shortage of supply of alumina in 2004. This situation will probably continue up to the middle of 2005. With the macro-economic regulations going further, part of the electrolytic aluminum factories will cease production in the second half of 2005. Electrolytic aluminum production will drop. The intense supply situation of alumina will be moderated at that time and the price may go down again.
3. Transportation capability is tensed and shipment fee might go up. The cost of aluminum per tonne will go up because the railway capability is not large enough and over-weight transport on the road by truck is prohibited in the PRC.

Facing the opportunities and challenges in 2005, the Company will continue to reduce energy consumption, improve internal management, lower production cost, improve production output and quality in order to increase the Company's profit and returns for its shareholders. The main performance targets and strategies of the Company are:

1. Managing flexibly to ensure stable and persistent production of electrolytic aluminum in response to the macro environment. Firstly, we will continue to carry out the electricity supply contract and take advantage of the increasing capability provided by contracted electricity-supply factory (i.e. Ya Neng Tian Yuan Power Company), to



increase the contracted electricity-supply and reduce electricity cost. Secondly, we will strengthen the relationship with domestic and overseas alumina suppliers to ensure the supply of alumina. The Company has signed a five-year contract regarding alumina supply of 200,000 tonnes (40,000 tonnes annual supply) and a one-year contract regarding alumina supply of 40,000 tonnes with a domestic supplier. This will help to reduce purchasing cost of over RMB40 million when compared with the same period last year and ensure the abundant supply of raw materials. Thirdly, we will strengthen the business relationship with financial institutions to ensure the support from external financing.

2. Focusing on management, finance and budget planning, strengthen appraisal work and implement internal management process to reduce cost.
3. Adjusting product structure flexibly, enhance technology inherent in product, dedicate to product development and technology innovation, improve efficiency and benefit from technology reform.
4. Exploiting the aluminum alloy market and create new profit growth point by accomplishing the production of 50,000 tonnes aluminum alloy.

APPRECIATION

Despite the challenges ahead of us, I am confident that with our healthy financial position, solid business foundation and highly capable and loyal management team, our business will continue to provide solid contributions in the coming years.

Finally, I would like to take this opportunity to express my sincere gratitude to our shareholders, customers and partners for their continuous support, and to the management and staff for their hard work, support and dedication.

LI Yong Zheng
Chairman

Sanmenxia City, Henan Province, the PRC
27 May 2005



The following section compares the Company's actual business progress with the information provided in the section headed "Business objectives and future plans and prospects" as set out in the prospectus of the Company dated 30 June 2004 (the "Prospectus").

Stage 1: From 1 July 2004 to 31 December 2004

	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	Developed the facilities which have already entered the trial stage
	Purchase of 2 sets of furnace and 1 set of assembly line for aluminum rod casting	Developed the facilities which have already entered the trial stage
	Purchase of 1 set of casting and piling machine for continue building of the production facilities for and commence production of aluminum alloy casting	Developed the facilities which have already entered the trial stage
	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	Developed the facilities which have already entered the trial stage
	Building of production facilities for aluminum square-ingots	Under planning stage
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



	Anticipated progress of projects	Actual progress of projects
Sales network development:	Expansion of sales network of aluminum by setting up sales offices in the major cities in the PRC	The Company has set up several sales offices in the major cities in the PRC
	Set up sales team for developing aluminum alloy markets in the PRC	Recruitments have been made and undergoing
Information system set up:	Set up of Intranet based financial systems	The Company has commenced the studies on the development of new web technologies for content management
	Set up of Internet based human resources management systems	
	Set up of Internet based office automation systems	
	Set up instant monitoring and data enquiry systems for aluminum smelting	
Staff training:	Staff internal training for production staff, managers and technicians to learn aluminum alloy production technique	The Company has organised several courses in relation to production of aluminum re-smelt ingots and aluminum alloy in the PRC and will continue to organise courses
	Staff external training for technicians to learn up-to-date production technology and the recycle processing technique	The Company has organised several courses in relation to production of aluminum re-smelt ingots and aluminum alloy in the PRC and will continue to organise courses
	Recruitment program to recruit technicians for aluminum alloy production	Recruitment has been made for replacements



The Company is principally engaged in the production and sale of aluminum re-smelt ingots and aluminum alloy. The Company currently has two smelting facilities, which are primarily used for the production of aluminum re-smelt ingots, and one aluminum alloy production facility is under construction. The Company has a total annual production capacity of about 100,000 tonnes of aluminum re-smelt ingots and 50,000 tonnes aluminum alloy products respectively. The Company had manufactured about 95,180 tonnes of aluminum re-smelt ingots in 2004, representing a reduction of 4.99%, from 100,174 tonnes for 2003; production volume of the aluminum alloy amounted to 5,255 tonnes, representing an increase of 1105.28%, from 436 tonnes for 2003.

The following discussion and analysis should be read in conjunction with our financial statements together with the accompanying notes included in this annual report. The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") (which include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong.

BUSINESS REVIEW

Results of Operations

The Company's profit amounted to approximately RMB22,749,000 for 2004, representing a decrease of RMB33,574,000 or 59.61%, from about RMB56,323,000 for 2003.

The decrease was primarily due to continuous increase in cost of the major raw material, alumina and electricity, after the second quarter in 2004.

Turnover

The Company's total turnover amounted to approximately RMB1,416,839,000 for 2004, representing an increase of 18.87%, from about RMB1,191,930,000 for 2003. The increase in turnover was mainly due to the increase in market price of aluminum ingots and the increase in demand of the products.

Sales volume of aluminum ingots and aluminum alloy amounted to 101,237 tonnes for 2004, representing an increase of 4,330 tonnes or 4.47%, from 96,907 tonnes for 2003; the average price was RMB13,995 per tonne for 2004, representing an increase of RMB1,695 per tonnes or 13.78%, from RMB12,300 per tonne for 2003. Of the total sales volume, the sales of aluminum ingots was 95,981 tonnes for 2004, representing a decrease of 490 tonnes or 0.51%, from 96,471 tonnes for 2003; the selling price of aluminum ingots amounted to RMB13,979 per tonne for 2004, representing an increase of RMB1,684 per tonne or 13.70%, from RMB12,295 per tonne for 2003; the sales of aluminum alloy was 5,256 tonnes for 2004, representing an increase of 4,820 tonnes or 1105.50%, from 436 tonnes for 2003; the average selling price of aluminum alloy amounted to RMB14,285 per tonne for 2004, representing an increase of RMB934 per tonne or 6.99% from RMB13,351 per tonne for 2003.



During 2004, approximately RMB1,252,544,000 or 88% of the total turnover amount was generated from the domestic sales in the PRC, and approximately RMB164,295,000 or 12% was generated from the export sales. The domestic sales for 2004 increased by RMB447,365,000 or 56% when compared with the domestic sales of approximately RMB805,179,000 in 2003. The increase in domestic sales was mainly due to the increase in local demand for the products.

During 2004, of the total turnover amount, approximately RMB1,341,764,000 or 94.70% was generated from the sales of aluminum re-smelt ingots, and about RMB75,075,000 or 5.30% was generated from the sales of aluminum alloys. The sales of aluminum re-smelt ingots amounted to approximately RMB1,341,764,000 in 2004, representing an increase of 13.12%, from about RMB1,186,106,000 in 2003.

The sales of aluminum alloy amounted to approximately RMB75,075,000 for 2004, representing an increase of 11.89 times, from about RMB5,824,000 for 2003.

Cost of Sales

The Company's total cost of sales amounted to approximately RMB1,315,781,000 in 2004, representing an increase of 24.56%, from about RMB1,056,328,000 in 2003. The increase was mainly due to the increase in the price of major raw material, alumina, and the cost of electricity compared to 2003. The average purchase price for alumina was RMB3,651 per tonne (excluding tax) for 2004, increased by RMB870 per tonne or 31.28%, from RMB2,781 per tonne (excluding tax) for 2003. Average price for electricity increased by RMB0.0295 per degree or 10.27%.

In 2004, the Company continuously strengthened the general administrative management and production management, improved the quality of production techniques and made improvement for achieving full utilization of raw materials, in order to reduce the consumption of raw materials. The consumption of alumina for the production of each tonne of aluminum ingot was 1.9224 tonnes for 2004 and 1.9402 tonnes for 2003, representing a decrease of 17.8kg alumina consumption. The Company's various technical standards were also stated on the leading edge in the PRC, which diminished the influence of the increased prices of raw materials on the Company's operating results in certain extents.

Gross Profit

The Company's gross profit for the year ended 31 December 2004 was approximately RMB101,058,000, representing a gross profit margin of 7.13%, against the gross profit margin of about 11.38% for the year ended 31 December 2003. The decrease in gross profit margin for 2004 was mainly due to: (1) the average market price of the Company's major finished products, aluminum ingots, has not increased as much as the average market price of the Company's major raw material – alumina. Average market price for aluminum ingots amounted to RMB13,979 per tonne, representing an increase of 13.78% from the previous year. Cost of sales for aluminum ingots amounted to RMB12,972 per tonne, representing an increase of 19.09% from the previous year; and (2) the decrease in valued-added tax rebate for export sales from 15% to 8%.



Selling and Distribution Expenses

The Company's selling and distribution expenses were approximately RMB19,851,000 or 1.4% of turnover in 2004, increased by 0.45%, from about RMB19,763,000 or 1.66% of turnover in 2003. The increase was due to the increase in agency fees. The agency fee was RMB1,467,154 for 2004, representing an increase of RMB1,089,620, from RMB377,534 for 2003. Such increase was compensated by the decrease in exporting cost, which was RMB654,719 for 2004, representing a decrease of RMB997,008, from RMB1,651,727 for 2003, the drop of exporting cost was a result of the decrease in the proportion of export sales over total sales.

General and Administrative Expenses

The Company's general and administrative expenses were approximately RMB30,808,000 in 2004, representing a decrease of RMB6,482,000 or 17.38%, from about RMB37,290,000 for 2003. The decrease was mainly attributable to the recovery of the bad debts provided in 2003 which accounted for the decrease of approximately RMB6,505,000.

Other Revenue/Expenses related to other revenues

Other revenue of the Company amounted to approximately RMB33,966,000 for 2004, representing an increase of RMB21,873,000 or 180.87%, from about RMB12,093,000 in 2003. The increase is due to: (1) the sales of 4,000 tonnes of alumina amounted to about RMB15,230,000; (2) supply of electricity to independent third parties of income of approximately RMB10,963,000, representing an increase of RMB3,138,000, from about RMB7,825,000 for 2003.

The Company's expenses related to other revenues for 2004 were approximately RMB25,238,000, representing an increase of RMB16,599,000 or 192.14%, from about RMB8,639,000 for 2003. The increase was due to: (1) the sales of 4,000 tonnes of alumina with costs of sales amounted to approximately RMB13,420,000; (2) supply of electricity to independent third parties of cost of approximately RMB9,465,000, representing an increase of RMB3,035,000 from about RMB6,430,000 for 2003.

Finance Costs

The finance costs for the Company in 2004 were approximately RMB24,888,000, representing an increase of RMB5,896,000 or 31.04%, from about RMB18,992,000 in 2003. The increase in finance costs was mainly attributable to the increase in average interest rate on bank loan for the Company and increase in average bank loan balances during the year.



Net Profit

As a result of the foregoing, the Company's net profit attributable to shareholders for the year was approximately RMB22,749,000, representing a decrease of RMB33,574,000 or 59.61%, from about RMB56,323,000 in 2003.

Significant Investment

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

The Company has not held any significant investment for the year ended 31 December 2004 and made no material acquisitions or disposals during the period.

Working Capital and Liabilities

As of 31 December 2004, the Company's current assets amounted to approximately RMB831,857,000, representing an increase of RMB260,743,000 from about RMB571,114,000 for 2003. The increase was mainly attributable to the increase in prepayment for raw materials of approximately RMB118,511,000 in order to maintain constant supply and an increase of about RMB138,339,000 in cash and bank balances.

As of 31 December 2004, the Company's current liabilities amounted to approximately RMB792,856,000, representing an increase of RMB229,249,000, from about RMB563,607,000 for 2003. The increase was mainly attributable to obtained of certain short-term loans and increase in the current portion of long-term loan. A portion of the above increase was affected by the decrease in accounts payable.

The Company currently does not foresee significant difficulties in obtaining bank loans because of (i) the Company's good standing credit records; (ii) Tianyuan Group acting as the Company's guarantor; and (iii) the high availability of funds in the PRC's lending market. The Company plans to finance its projects and related expenditures principally through cash provided by operating activities, long-term debt and the remaining net proceeds from the Listing. The Company has also established standby credit facilities with domestic banks for aggregate of RMB581,600,000 to finance any funding shortfall related to its alumina and other projects and for relevant working capital purposes.



Capital Structure

As of 31 December 2004, borrowings of the Company were mainly denominated in Renminbi, and other cash equivalents were mainly held in Renminbi.

The Company plans to maintain an appropriate share capital and debt portfolio to ensure having an effective capital structure from time to time. As at 31 December 2004, the Company had an aggregate outstanding borrowings of approximately RMB721,007,000 (including bills payables of about RMB144,000,000). The gearing ratio was 195% (being the aggregate outstanding borrowings of RMB721,007,000 divided by the total net assets of RMB369,424,000).

Contingent Liabilities

As at 31 December 2004, the Company had a cross guarantee arrangement with Yima Electric Power Plant ("Yima"), a state-owned enterprise established in the PRC, under which the Company and Yima agreed to provide guarantee to each other's bank loans to the maximum amount up to RMB50,000,000. As at 31 December 2004, the outstanding bank loans of Yima under such guarantee amounted to RMB48,500,000 (2003: Nil). The cross guarantee will expire on 26 August 2005. Taking into account of the contingent liabilities, the gearing ratio as at 31 December 2004 was 208% (being the sum of the aggregate outstanding borrowings of RMB721,007,000 and contingent liabilities of RMB48,500,000 divided by the total net assets of RMB369,424,000).

Capital Commitments

As of 31 December 2004, the Company's capital commitments amounted to approximately RMB28,798,000, which mainly consists of the part of the Company's 50,000 tonnes under-developing aluminum alloy project.

Cash and Cash Equivalents

Cash and cash equivalents of the Company's as of 31 December 2004 (including foreign currency-denominated deposits) totaled approximately RMB325,078,000, comprising about US\$10,010,000 and HK\$75,460,000.

Net Cash Flow from Operating Activities

The Company's net cash outflow from operating activities amounted to approximately RMB59,186,000 for the year ended 31 December 2004 while the operating profit before changes in working capital was about RMB77,890,000. The difference was mainly due to an increase in accounts receivable by about RMB9,198,000, an increase in prepayments, deposits and other receivables by about RMB85,140,000, a decrease in trade and bills payable by about RMB107,788,000 and the net change in amounts due from/to related companies of about RMB32,141,000, which was offset by a decrease in inventories of about RMB30,323,000 and an increase in other payables and accruals by about RMB74,137,000.



Cash Flows from Investing Activities

The Company's cash outlays for capital expenditure projects amounted to approximately RMB78,710,000 and RMB45,908,000 for 2003 and 2004 respectively. The capital expenditure was mainly contributed to the 50,000 tonnes under-developing aluminum alloy project. Under the concern of maintenance of the stability of the Company's internal operations, the capital expenditure was primarily contributed to the expansion the scale of production operation for the Company.

Cash Flows from Financing Activities

Net cash inflows from financing activities amounted to approximately RMB230,352,000 for 2004, representing an increase of RMB181,653,000, from about RMB48,699,000 for 2003. This increase was primarily the result of increase in short-term bank loans and issue of new shares during the year.

Information of Employees

As at 31 December 2004, the Company has 2,178 employees (2003: 2,167). Staff costs, including directors' remuneration, was approximately RMB44 million for the year under review. The Company remunerates its employees based on their performance, experience and the prevailing industry practice.

Staff Retirement Plan

Details of the retirement plan of the Company are set out in note 10 to the financial statements.

Details of pledged assets of the Company

As at 31 December 2004, the Company has pledged bank balances amounted to approximately RMB169,774,000.

Foreign Exchange Rate Risk

The Company conducts its business primarily in Renminbi. During the year under review, the Company has neither experienced any significant difficulties nor any operating capital or cash flow problems resulting from 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.



Executive Directors

Mr. Li Yong Zheng (李永正), aged 48, is the Chairman of the Company. He is responsible for the strategic planning and overall management of the Company's operations. He joined Sanmenxia Tianyuan Aluminum Group Limited (三門峽天元鋁業集團) ("Tianyuan Group") (formerly known as Sanmenxia Aluminum Factory (三門峽鋁廠)) in 1980 and has about 24 years of experience in the aluminum industry. During his employment at Tianyuan Group, he has served as factory manager in Sanmenxia City Aluminum Products Factory (三門峽市鋁製品廠) for 1 year, Sanmenxia Aluminum Foil Factory (三門峽鋁箔分廠) for 2 years and Sanmenxia Aluminum Factory for 3 years, and as general manager of Tianyuan Group for 2 years. Mr. Li graduated from Shenyang Gold College (沈陽黃金學院) in November 1980 and obtained the professor grade senior engineer qualification (教授級高級工程師) in April 2003. He is a member of the Communists' Party of the PRC. Mr. Li has joined the Company since its establishment. Mr. Li has been the Chairman and Party Secretary of Tianyuan Group since 1997 and 1999 respectively.

Mr. XIAO Chong Xin (肖崇信), aged 39, is the deputy chairman of of the Company. He is responsible for the management of the Company's operations. He joined Tianyuan Group in 1988 and has about 16 years of experience in the aluminum industry. During his employment at Tianyuan Group, he has served as the head of equipment maintenance factory of Sanmenxia Aluminum Factory for 5 years, and the deputy general manager, chief engineer and head of technology center of Tianyuan Group for 4 years. Mr. Xiao graduated from Zhongnan University of Industry (中南工業大學) with a bachelor's degree in Industry in July 1988 and obtained the senior engineer qualification in October 2004. He is a member of the Communists' Party of the PRC. Mr. Xiao joined the Company in December 2001. He is also a director of Tianyuan Group.

Mr. TAN Yu Zhong (譚豫忠), aged 41, is an executive Director and general manager of the Company. He is responsible for the overall management of the Company's operations. Mr. Tan joined Tianyuan Group in 1984 and has about 20 years of experience in the aluminum industry. He has served as Chairman and General Manager of the Company for 4 years and deputy general manager of Tianyuan Group for 6 years. Mr. Tan graduated from Zhenzhou University (鄭州大學) with a major in finance in July 1997 and obtained the senior economist qualification in April 2001. He is a member of the Communist Party of the PRC. Mr. Tan joined the Company in August 2000. He is also a director of Tianyuan Group.



Non-executive Directors

Mr. ZHU Qiang (朱強), aged 45, was appointed non-executive Director of the Company in July 2000. He joined Tianyuan Group in 1978 and has about 26 years of experience in the aluminum industry. Out of the 26 years of experience in the aluminum industry, he has served as the head of product development office of Sanmenxia Aluminum Foil Factory for 8 years, the deputy factory manager of Sanmenxia Aluminum Factory for 5 years, and a member of the party committee, director and deputy general manager for 3 years and general manager for 4 years in Tianyuan Group. Mr. Zhu graduated from the Department of Industrial Economics of the Graduate School of the China College of Social Science (中國社科院碩士研究生院工業經濟系) in November 1998 and obtained the senior engineer qualification in July 2002. He is a member of the Communists' Party of the PRC. Mr. Zhu is also an executive director, the deputy party secretary and the general manager of Tianyuan Group.

Ms. YANG Chun Lian (楊春蓮), aged 42, was appointed non-executive Director of the Company in July 2000. She joined Tianyuan Group in 1983 and has about 21 years of experience in the aluminum industry. During her employment at Tianyuan Group, she had served as the head of treasury division and deputy head of the finance department of Sanmenxia Aluminum Factory for 3 years, as the head of treasury division and manager of the finance department in Tianyuan Group for 5 years, 2 years of which she was also the chief accountant of Tianyuan Group. Ms. Yang graduated from Henan College of Finance and Economics (河南財經學院) in June 1998 and obtained the economist qualification in August 1999. She is a member of the Communists' Party of the PRC. Ms. Yang is also the chief accountant of Tianyuan Group.

Mr. YAN Li Qi (閔利啟), aged 51, was appointed non-executive Director of the Company in August 2003. Mr. Yan graduated from Jiaozuo University (焦作大學) with a major in enterprise management in December 1996 and obtained the economist qualification in December 1994. He is the deputy chairman of the Henan Province Carbon Association (河南省炭素協會). He is a member of the Communists' Party of the PRC and the standing committee of Chinese People's Political Consultative Conference of Jiaozuo City Macun District (焦作市馬村區). He was also elected as an outstanding entrepreneur by the Henan Province Political Consultative Economics Committee in December 2000. Mr. Yan is the general manager of Jiaozuo City Dongxing Carbon Company Limited (焦作市東星炭素有限公司).



Independent non-executive Directors

Mr. ZHU Xiao Ping (朱小平), aged 56, was appointed independent non-executive Director in September 2001. Mr. Zhu has extensive experience in teaching and academic research. He had served as the head of the accounting department of The People's University of China (中國人民大學) for 4 years since 1996, and is serving as a part-time professor in Central South University (中南大學). He is also a committee member of the China Accounting Society (中國會計學會) and a member of China Audit Society (中國審計學會).

Mr. CHAN Nap Tuck (陳立德), aged 62, was appointed independent non-executive Director in March 2004. Mr. Chan graduated from University of London with a diploma in accountancy in 1975. He is the founder of Anthony Chan & Co., Certified Public Accountants and managing director of Anthony Chan Management Consultancy Company Limited. He is a fellow member of The Chartered Association of Certified Accountants, a fellow member of The Chartered Institute of Management Accountants and a Certified Public Accountant of The Hong Kong Institute of Certified Public of Accountants. He was a council member of the Chartered Institute of Management Accountants United Kingdom (Hong Kong Division) during the period between 1990 and 1999 and is also a visiting professor of The People's University of China, Jinan University, South China Teachers' Training University and a visiting lecturer of Hong Kong Polytechnic University and He Bei University. Mr. Chan has more than 16 years' experience in senior position in the field of accounting.

Dr. SONG Quan Qi (宋全啟), aged 40, was appointed independent non-executive Director in March 2001. Dr. Song has extensive experience in research, investments and business consulting. During his employment at Tianyuan Group, he graduated from the People's University of China (中國人民大學) with a doctoral degree in economics in June 1993. He is the managing director of Henan Zhiyi Investment Company Development Limited (河南智益投資發展有限公司), and expert director of a number of companies in the PRC. Dr. Song is also a director of Hennan Joyline & Joysun Pharmaceutical Stock Co., Ltd. (河南竹林眾生製藥股份有限公司) and independent non-executive director of Henan Zhongfu Industry Co., Ltd. (河南中孚實業股份有限公司), both of which are listed on the Shanghai Stock Exchange.



Mr. WU Cheng* (吳澄), aged 65, was appointed independent non-executive Director of the Company in August 2003. Mr. Wu is a professor of the Department of Automation and an instructor of doctoral students of Qinghua University. He was also elected as a fellow of the China Engineering Institute (中國工程學院) in May 1995. Mr. Wu is an independent non-executive director of Kingdee International Software Group Company Limited, a Company listed on GEM, and an independent non-executive director of Aerospace Information Co., Ltd. (航天信息股份有限公司) and SANY Heavy Industry Co., Ltd. (三一重工股份有限公司), both of which are listed on the Shanghai Stock Exchange.

* *Mr. Wu Cheng resigned as independent non-executive Director on 30 March 2005*

SUPERVISORS

The Company has a Supervisory Committee whose primary duty is the supervision of the senior management of the Company, including the Board, managers and senior officers. The function of the Supervisory Committee is to ensure that the senior management of the Company acts in the interests of the Company, its shareholders and employees and does not perform acts which violate PRC law. The Supervisory Committee reports to the Shareholders in general meetings. The Supervisory Committee currently comprises 5 members whose details are set out as follows:

Mr. WANG Gang Min (王剛民), aged 46, is the chairman of the board of supervisors. Mr. Wang has served as the factory manager of the power factory of the Company. Mr. Wang has also served as the head of party sub-division of power transmission sub-factory of the Company. He is a member of the Communists' Party of the PRC. He obtained the assistant engineer qualification in March 1993. He was appointed as a supervisor in July 2000.

Mr. HU Yu Jun (胡玉軍), aged 47, is deputy chief accountant and finance manager of The Sixth Construction. He is a member of the Communists' Party of the PRC. He was appointed as a supervisor in August 2003.

Mr. YANG Xiao Jian (楊曉建), aged 31, is the head of production and administration of smelting factory II of the Company. He obtained the economist qualification in November 1999. Mr. Yang is a member of the Communists' Party of the PRC. He was appointed as a supervisor and a staff representative of the supervisory board of the Company in March 2001.



Ms. YANG Feng Zhen (楊鳳珍), aged 46, is the manager of the internal audit department of the Company. Ms. Yang has served as the head of internal audit department of Sanmenxia Aluminum Factory and the chief accountant of internal audit department of Tianyuan Group. Ms. Yang is a member of the Communists' Party of the PRC. She was appointed as a supervisor of the Company in March 2001.

Mr. CHENG Jiang Chuan (程江川), aged 36, is the head of the technology department of the smelting factory I. Mr. Cheng has held the position of technical head of technology department of Sanmenxia Aluminum Factory. He obtained the engineer qualification in August 1999. Mr. Cheng is a member of the Communists' Party of the PRC. He was appointed as a staff representative of the supervisory board of the Company in August 2003.

In accordance with Articles 10.03 and 13.02 of the Company's Articles of Association, the term of office of all directors and supervisors for the time being should be subject to 3 years term and, being eligible, offer themselves for re-election.

SENIOR MANAGEMENT

Mr. Zhao Zheng Bin (趙正斌), aged 47, is the secretary to the Board and chief economist of the Company. Mr. Zhao has held various senior management positions in Sanmenxia Aluminum Factory, Aluminum Products Factory (鋁製品廠) and Tianyuan Group Silver Aluminum Company (天元集團銀鋁公司). He graduated from Zhengzhou University (鄭州大學) with a major in Administration Management in June 1994. Mr. Zhao is a member of the Communists' Party of the PRC. He joined the Company in August 2000.

Mr. Chen Ying Guang (陳應廣), aged 42, is the deputy general manager and chief engineer of the Company. Mr. Chen has held various senior management positions in Tianyuan Group, Sanmenxia Aluminum Foil Factory and Tianyuan Group. He graduated from Shenyang Gold College (沈陽黃金專科學院) in July 1983. Mr. Chen is a member of the communists' Party of the PRC. He joined the Company in September 2002.

Mr. Yang Xian Zhong (楊獻忠), aged 31, is the chief accountant of the Company. Mr. Yang has held various senior positions in Tianyuan Group and Jiashi. He is responsible for accounting, internal audit and finance matters. He graduated from Zhejiang Jiaying College (浙江嘉興學院) with a Finance degree in July 1995. He obtained the registered accountant qualification in the PRC. He joined the Company in August 2004.



Ms. Gan Hong Yu (甘紅予), aged 40, is the finance manager of the Company. Ms. Gan has held various senior positions in Tianyuan Group and Sanmenxia Aluminum Factory (三門峽鋁廠) responsible for accounting and finance matters. She graduated from Henan Province Zhonghua School of Accounting (河南省中華會計學校) in September 1991 and obtained the accountant qualification in October 1994. Ms. Gan is a member of the Communists' Party of the PRC. She joined the Company in August 2000.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Yao Yan Ping (姚恩平), aged 35, is the qualified accountant and company secretary of the Company. Mr. Yao is responsible for the corporate finance and company secretarial functions of the Company. He obtained a bachelor's degree in accounting from the City University of Hong Kong in November 1992. Mr. Yao joined the Company in August 2003. Mr. Yao is a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants.



The Board submits to the Company the report together with the audited financial statements for the year ended 31 December 2004.

Principal Activities

The principal activities of the Company are the production and sales of aluminum re-smelt ingots and aluminum alloy ingots.

Financial Summary

The profit and loss account of the Company for the year ended 31 December 2004 are set out on page 38 of the financial statements.

Dividend

The Board has proposed to declare a final dividend of RMB0.01 per share for 2004, being in total RMB11,682,000 based on 1,168,200,000 total issued shares of the Company as of 31 December 2004. The profit distribution plan proposed by the Board will be submitted to the shareholders for review and approval at the Annual General Meeting for 2004.

Reserves

Movements in the reserves of the Company during the year are set out in the statement of changes in equity on page 40 and Note 25 to the financial statements.

Fixed Assets

Details of the movements in fixed assets of the Company are set out in Note 12 to the financial statements.

Distributable Reserves

Pursuant to Article 15.05 of the Company's Articles of Association, where the financial statements prepared in accordance with PRC accounting standards differ from those prepared under accounting principles generally accepted in Hong Kong, distributable profit for the relevant accounting period shall be deemed to be the lesser of the amounts shown in the two different financial statements. Distributable reserves of the Company as of 31 December 2004, calculated based on the above principle, amounted to approximately RMB106,914,000.

**Use of Proceeds From the Placing**

The Company was listed on GEM on 13 July 2004. As at 31 December 2004, the Company had received the net proceeds from the placing of 318,200,000 H shares at HK\$0.3 per H share (which aggregate nominal value was RMB31,820,000) (the "Placing") amounting to approximately HK\$72 million after deducting the proceeds of the 31,820,000 sale H shares and the relevant administrative expenses.

As of 31 December 2004, the usages of the net proceeds received from the Placing in accordance with the Prospectus were as follows:

	As at 31 December 2004	
	Proposed total fundings required from net proceeds	Actual fundings spent
	<i>RMB'000</i>	<i>RMB'000</i>
Product development and enhancement of production facilities (<i>note 1</i>)	33,413	16,542
Research and development of new production technology	1,060	1,576
Sales network development	424	58
Information system set up	530	233
Staff training	212	265
Total	<u>35,639</u>	<u>18,674</u>

Note 1: Actual fundings spent on the product development and enhancement of production facilities reduced by approximately RMB16 million when compared with proposed fundings required from net proceeds. The difference is mainly due to cost saving from the integration of production facilities by self-developed technology instead of outsourcing as initially planned. Moreover, the building of production facilities for aluminum square-ingots is still under planning stage.

The Directors have been re-evaluating the Company's business and development strategies against the strategies envisaged in the Prospectus. It is the present intention of the Directors that the proceeds from the Placing shall be utilized for the business and development strategies envisaged in the Prospectus. If for any reason the business and development strategies are revised, the Company will publish an announcement in accordance with the requirements of the GEM Listing Rules.



Taxation

Details of the treatment of the Company's taxation for the year ended 31 December 2004 are set out in Note 7 to the financial statements.

Pre-emptive Rights

Under the Articles of Association of the Company and the laws of the PRC, no pre-emptive rights exist that require the Company to offer new shares to its exiting shareholders in proportion to their shareholding.

Litigation

As of 31 December 2004, the Company has no significant pending litigation.

Directors' and Supervisors' Service Contracts and Remuneration

Each of the Directors (including non-executive Directors) and supervisors of the Company (the "Supervisors") has entered into a service contract with the Company for a term of three years. No Director or Supervisor has entered into a service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation). Details of the Directors' and Supervisors' remuneration and the five highest paid individuals of the Company are set out in Note 11 to the financial statements.

Directors', Chief Executives', and Supervisors' Interests in Shares of the Company

As at 31 December 2004, none of the Directors, Supervisors or chief executive of the Company had an interest or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register required to be kept by the Company pursuant to section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Directors' and Supervisors' Interests in Contracts

During the year ended 31 December 2004, none of the Directors or Supervisors had a material interest, directly or indirectly, in any contract of significance to the business of the Company to which the Company was a party.



Directors' Rights to Acquire Shares

During the year ended 31 December 2004, none of the Directors was granted any option to subscribe for shares of the Company. As at 31 December 2004, none of the Directors had any right to acquire shares in the Company.

Share Option Scheme

Up to 31 December 2004, the Company had not adopted any share option scheme or granted any option.

Confirmation of Independence by Independent Non-executive Director

The Company confirms that it has received from each of independent non-executive directors of the Company an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing and considers, based on the confirmations received, the independent non-executive directors of the Company to be independent.

Directors' and Supervisors' Interests in a Competing Business

None of the Directors or Supervisors 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.

Substantial Shareholders

As at 31 December 2004, the following persons or companies (other than the Directors, Supervisors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register of interest required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Substantial Shareholders	Class of Shares	Number of Shares held (Long Position)	Capacity	Percentage in Domestic Shares	Percentage in H Shares	Percentage in Total Share Capital
Sanmenxia Tianyuan Aluminum Group Limited	Domestic Shares	782,882,280	Beneficial Owner	95.69%	–	67.02%
BCOM Securities Company Limited	H Shares	99,930,000	Beneficial Owner	–	28.55%	8.55%
CCIB Opportunity Income Growth Fund	H Shares	33,000,000	Beneficial Owner	–	9.43%	2.82%

**Substantial Shareholders** *(continued)*

Name of Substantial Shareholders	Class of Shares	Number of Shares held (Long Position)	Capacity	Percentage in Domestic Shares	Percentage in H Shares	Percentage in Total Share Capital
Li Jun	H Shares	18,000,000	Beneficial Owner	–	5.14%	1.54%
Chen Yamin	H Shares	17,660,000	Beneficial Owner	–	5.05%	1.51%

Repurchase, Sale or Redemption of the Company's Shares

From the date of commencement of dealings in the H shares of the Company on GEM on 13 July 2004 to 31 December 2004, the Company had not purchased, sold or redeemed any of the Company's listed shares.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Major Customers and Suppliers

The largest customer and the five largest customers of the Company's primary aluminum accounted for 15.65% and 40.97%, respectively, of the Company's total primary aluminum revenue for the year ended 31 December 2004.

The amount of raw materials (including electricity) provided by the largest supplier and the five largest suppliers of the Company accounted for 35.24% and 68.23%, respectively, of the Company's total cost of raw materials.

None of the Directors or their respective associates (as defined under the GEM Listing Rules) or the existing shareholders, which, to the knowledge of the Directors of the Company, holding more than 5% of the Company's issued share capital, has any interests in the Company's five largest customers or five largest suppliers of the primary aluminum segment at any time during the year ended 31 December 2004.



Connected Transactions

During the year, the Company has undertaken certain connected transactions and continuing connected transactions with its connected persons (as defined under the GEM Listing Rules). The Company has confirmed that certain connected transactions and continuing connected transactions have not complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules, details of which are as follows:

Connected Persons

1. Baiyin Fluoride Salt Limited (白銀氟化鹽有限責任公司) (“Baiyin”), a limited liability company established in the PRC on 8 June 1990 and is a promoter of the Company.
2. Sanmenxia Tianyuan Aluminum Decoration Company Limited (三門峽天元鋁業裝飾有限公司) (“Decoration Company”), formerly known as Sanmenxia Decoration Factory (三門峽裝飾分廠), which was subsequently established as a limited liability company in May 1998. Decoration Company is owned as to 60% by Tianyuan Group.
3. Jiaozuo City Dongxing Carbon Company Limited (焦作市東星炭素有限公司) (“Dongxing”), formerly known as Jiaozuo City Jiaolu Carbon Factory (焦作市焦鋁炭素廠), which was subsequently established as a limited liability company on 10 January 2002 and is a promoter of the Company.
4. Sanmenxia Jiashi Wheel Hubs Co., Ltd. (三門峽佳適鋁合金輪殼有限責任公司) (“Jiashi”), a limited liability company established in the PRC on 19 November 1996 and is owned as to 48% by Tianyuan Group.
5. Tianyuan Group, formerly known as Sanmenxia Aluminum Factory (三門峽鋁廠), a PRC state-owned enterprise established under the laws of the PRC in 1958, which was subsequently established as a limited liability company on 31 December 1997 and is the controlling shareholder and promoter of the Company.
6. Sanmenxia Tianyuan Aluminum Group Transportation Company (三門峽天元鋁業集團有限公司運輸公司) (“Transportation Company”), a limited liability company established in the PRC on 30 June 1999 and is a wholly owned subsidiary of Tianyuan Group.
7. Sanmenxia Tianyuan Aluminum Group Yin Lu Company (三門峽天元鋁業集團有限公司銀鋁公司) (“Yin Lu”), a limited liability company established in the PRC on 15 April 1996 and is a wholly owned subsidiary of Tianyuan Group.



Connected Transactions *(continued)*

Connected Transactions

1. The Company has provided financial assistance in an aggregate sum of approximately RMB134.5 million to Tianyuan Group at various time from July 2004 to December 2004, of which approximately RMB106.3 million was repaid up to 31 December 2004. The financial assistance provided to Tianyuan Group was unsecured, non-interest bearing and repayable on demand. Such provision of financial assistance constitutes a major and connected transaction which should have been subject to the reporting, announcement and independent shareholders' approval requirements under Chapters 19 and 20 of the GEM Listing Rules. However, the Company has failed to comply with such requirements.
2. The Company has purchased bus bar scrap and other ancillary materials from Tianyuan Group for an aggregate consideration of approximately RMB31,121,000. Such transaction should have been subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. However, the Company has failed to comply with such requirements.
3. The Company has purchased aluminum filings, ashes and other ancillary materials from Jiashi for an aggregate consideration of approximately RMB13,107,000. Such transaction should have been subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. However, the Company has failed to comply with such requirements.
4. The Company has sold aluminum ingots to Baiyin for an aggregate amount of approximately RMB1,701,000. Such transaction should have been subject to the reporting and announcement requirements but were exempt from the independent shareholders' approval requirement under Chapter 20 of the GEM Listing Rules. However, the Company has failed to comply with such requirements.
5. The Company has sold aluminum ingots to Dongxing for an aggregate amount of approximately RMB4,764,000. Such transaction should have been subject to the reporting and announcement requirements but were exempt from the independent shareholders' approval requirement under Chapter 20 of the GEM Listing Rules. However, the Company has failed to comply with such requirements.



Connected Transactions *(continued)*

Connected Transactions (continued)

6. The Company has purchased fixed assets including electricity supply equipment and furnace for the building of recycled aluminum production line from Decoration Company for an aggregate amount of approximately RMB1,445,000. Such transaction should have been subject to the reporting and announcement requirements but were exempt from the independent shareholders' approval requirement under Chapter 20 of the GEM Listing Rules. However, the Company has failed to comply with such requirements.

Continuing Connected Transactions

1. The leasing of the factory premises of the new smelting factory I at Sanmenxia City Yelu Village (三門峽野鹿村) which has a site area of approximately 121,949 sq.m., 62 units of 190kA electrolytic cells thereat with an annual production capacity of approximately 31,000 tonnes and all ancillary facilities thereat by Tianyuan Group to the Company under the Asset Leasing and Operating Agreement dated 13 June 2004 which was entered into between the Company and Tianyuan Group. The rental paid by the Company to Tianyuan Group under this transaction during the year amounted to RMB15,196,000.
2. The supply of aluminum re-smelt ingots by the Company to Tianyuan Group, Jiashi and Yin Lu under the respective Aluminum Ingots Supply Agreement dated 13 June 2004 which was entered into between the Company and each of Tianyuan Group, Jiashi and Yin Lu. The sum received by the Company under these transactions during the year amounted to RMB94,340,000, RMB35,180,000 and RMB1,287,000 respectively.
3. The provision of various products and services including staff accommodation management, single staff accommodation, hospitals, hygiene services, security services, education, telecommunications, social facilities, canteen and other services by Tianyuan Group to the Company and the provision of water, electricity and other services by the Company to Tianyuan Group and its fellow subsidiaries and other related companies under the Comprehensive Services Agreement dated 13 June 2004 which was entered into between the Company and Tianyuan Group. The sum paid by the Company to Tianyuan Group and the sum received by the Company from Tianyuan Group under these transactions during the year amounted to RMB2,398,000 and RMB3,471,000 respectively.



Connected Transactions *(continued)*

Continuing Connected Transactions (continued)

4. The provision of transportation service by Transportation Company to the Company under the Transportation Service Agreement dated 13 June 2004 which was entered into between the Company and Transportation Company. The sum paid by the Company to Transportation Company under this transaction during the year amounted to RMB7,052,000.
5. The supply of ancillary materials by Yin Lu to the Company under the Ancillary Materials Purchase Agreement dated 13 June 2004 which was entered into between the Company and Yin Lu. The sum paid by the Company to Yin Lu under this transaction during the year amounted to RMB2,383,000.
6. The supply of fluoride salt by Baiyin to the Company under the Raw Material Purchase Agreement dated 15 June 2004 which was entered into between the Company and Baiyin. The sum paid by the Company to Baiyin under this transaction during the year amounted to RMB2,228,000.
7. The supply of pre-baked carbon anode by Dongxing to the Company under the Raw Material Purchase Agreement dated 13 June 2004 which was entered into between the Company and Dongxing. The sum paid by the Company to Dongxing under this transaction during the year amounted to RMB15,815,000 which exceeded the maximum annual cap of RMB15,000,000 specified in the waiver granted by the Stock Exchange on 23 June 2004. As such, the Company should have recomplied with the reporting, announcement and the independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. However, the Company has failed to comply with such requirements.
8. The Company has sold aluminum alloy ingots to Jiashi for an aggregate amount of approximately RMB58,953,000. Such transaction should have been subject to reporting, announcement and the independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. However, the Company failed to comply with such requirements.



Connected Transactions *(continued)*

Continuing Connected Transactions (continued)

In respect of transaction nos. 1 to 6 set out in the paragraph headed "Continuing Connected Transactions" above, waiver has been granted by the Stock Exchange on 23 June 2004 from strict compliance with the reporting, announcement and independent shareholders' approval requirements relating to the non-exempt continuing connected transactions as set out in Chapter 20 of the GEM Listing Rules.

The independent non-executive Directors have examined all the continuing connected transactions above and confirmed that these transactions have been entered into:

- (i) in the ordinary and usual course of business of the Company;
- (ii) on normal commercial terms or on terms not less favourable than those given to (or obtained from, wherever applicable) independent third parties (if no comparable transaction can be referred to judge whether the transaction was entered into on normal commercial terms); and
- (iii) (save as continuing connected transaction no. 8 above, where no agreement has been signed between the parties) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Disclosure of trade receivables under Rule 17.22 of the GEM Listing Rules

As at 31 December 2004, the Company recorded trade receivables due from Jiashi and LG International Corporation to the Company for approximately RMB57.4 million and RMB28.9 million respectively.

The trade receivables due from Jiashi and LG International Corporation to the Company arose from the sales in the Company's ordinary course of business and on normal commercial terms. The trade receivable due from Jiashi is unsecured and with a finance charge on the outstanding amount which may be agreed between the Company and Jiashi. For the year ended 31 December 2004, the Company charged Jiashi with a monthly finance charge of 0.4425% on the outstanding trade receivable balance as at each of the month ends. Jiashi shall pay for the products supplied by the Company within 5 days after accepting delivery of the products pursuant to the relevant agreement entered into between the Company and Jiashi on 13 June 2004. The trade receivable due from LG International Corporation is unsecured, interest free and with a repayment term of 30 days after accepting delivery of the products.



The Code of Best Practice

During the year ended 31 December 2004, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules, which were in force prior to the amendment of the GEM Listing Rules relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report on 1 January 2005. The Company will comply with the amended GEM Listing Rules in the financial year ending 31 December 2005.

Compliance Adviser's Interests

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

None of the Compliance Adviser, their directors, employees or associates (as referred to in Note 3 of Rule 6.35 of the GEM Listing Rules) 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 December 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 5.33 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 advices and comments thereon to reporting process and internal control system of the Company. During the year, two meetings have been held by the audit committee.



Auditors

PricewaterhouseCoopers and Beijing Xinghua Certified Public Accountants were the international auditors and the PRC auditors to the Company respectively for the year ended 31 December 2004. A resolution for the re-appointment of PricewaterhouseCoopers as the international auditors and Beijing Xinghua Certified Public Accountants as the PRC auditors to the Company will be proposed at the forthcoming Annual General Meeting to be held on 15 July 2005.

By Order of the Board

Sanmenxia Tianyuan Aluminum Company Limited

LI Yong Zheng

Chairman

Sanmenxia City, Henan Province, the PRC

27 May 2005



To the Shareholders:

The Supervisory Committee of Sanmenxia Tianyuan Aluminum Company Limited (the "Supervisory Committee"), in compliance with the provisions of the Company Law of the People's Republic of China (the "PRC Company Law"), the relevant laws and regulations of Hong Kong and the Articles of Association of the Company, under their fiduciary duty, took up an active role to work reasonably and cautiously with diligence to protect the interests of the Company and its shareholders.

During the year, the Supervisory Committee had reviewed cautiously the operation and development plans of the Company and provided reasonable suggestions and opinions to the Board of Directors. It also strictly and effectively monitored and supervised the Company's management in making significant policies and decisions to ensure that they are in compliance with the laws and regulations of the PRC and the Articles of Association of the Company, and in the interests of its shareholders.

We have reviewed and agreed to the report of the Directors, audited financial statements and the dividend to be proposed by the Board of Directors for presentation at the forthcoming annual general meeting. We are of the opinion that the Directors, the general manager and other senior management of the Company were able to strictly observe their fiduciary duty, to act diligently and to exercise their authority faithfully in the best interests of the Company. The transactions between the Company and connected parties are in the interests of the shareholders as a whole and/or under fair and reasonable price. Up till now, none of the Directors, general manager and senior management staff had been found damaging the interests of the Company and infringing upon the interests of its shareholders and employees.

The Supervisory Committee is satisfied with the achievement and cost-effectiveness of the Company in 2004 and has great confidence in the future of the Company.

By Order of the Supervisory Committee

Wang Gang Min
Chairman

Sanmenxia City, Henan Province, the PRC
27 May 2005



AUDITORS' REPORT TO THE SHAREHOLDERS OF SANMENXIA TIANYUAN ALUMINUM COMPANY LIMITED

(incorporated in the People's Republic of China with limited liability)

We have audited the accounts on pages 38 to 70 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 2004, and of its profit and cash flows for the year then ended, and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 March 2005



PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
Turnover	3	1,416,839	1,191,930
Cost of goods sold		(1,315,781)	(1,056,328)
Gross profit		101,058	135,602
Other revenue	3	33,966	12,093
Expenses related to other revenue	4	(25,238)	(8,639)
Other revenue, net		8,728	3,454
Selling and distribution expenses		(19,851)	(19,763)
General and administrative expenses		(30,808)	(37,290)
Operating profit	5	59,127	82,003
Finance costs	6	(24,888)	(18,992)
Profit before income tax		34,239	63,011
Income tax	7	(11,490)	(6,688)
Profit for the year and attributable to shareholders		22,749	56,323
Dividends	8	11,682	–
Earnings per share			
– Basic	9	RMB0.023	RMB0.066
– Diluted	9	N/A	N/A



BALANCE SHEET

As at 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
Non-current assets			
Fixed assets	12	324,663	328,655
Debenture		500	500
Deferred tax assets	7(b)	5,260	5,800
		<u>330,423</u>	<u>334,955</u>
Current assets			
Inventories	13	191,142	221,465
Accounts receivable	14	67,520	58,322
Due from related companies	15	67,799	9,410
Purchase deposits	16	167,138	48,627
Prepayment, deposits and other receivables	17	13,180	46,551
Bank balances and cash	18		
– Pledged and restricted bank balances		169,774	156,693
– Cash and other bank balances		155,304	30,046
		<u>831,857</u>	<u>571,114</u>
Current liabilities			
Accounts payable	19	156,719	264,507
Due to related companies	20	4,099	6,050
Other payables and accruals	21	116,788	42,651
Taxation payable		743	–
Current portion of long-term bank loans	22	65,000	12,600
Short-term bank loans	23	449,507	237,799
		<u>792,856</u>	<u>563,607</u>
Net current assets		<u>39,001</u>	<u>7,507</u>
Total assets less current liabilities		<u>369,424</u>	<u>342,462</u>
Financed by:			
Share capital	24	116,820	85,000
Reserves	25	190,104	129,962
		<u>306,924</u>	<u>214,962</u>
Non-current liabilities			
Long-term bank loans	22	62,500	127,500
		<u>369,424</u>	<u>342,462</u>

LI Yong Zheng
Director

TAN Yu Zhong
Director



STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2004

	<i>Note</i>	2004 RMB'000	2003 RMB'000
Total equity as at beginning of the year		<u>214,962</u>	<u>162,257</u>
Profit for the year	25	<u>22,749</u>	<u>56,323</u>
Issue of shares	24, 25	101,300	–
Share issue expenses	25	<u>(32,087)</u>	<u>(3,618)</u>
		<u>69,213</u>	<u>(3,618)</u>
Total equity at end of the year		<u>306,924</u>	<u>214,962</u>



CASH FLOW STATEMENT

For the year ended 31 December 2004

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Operating activities		
Operating profit	59,127	82,003
Depreciation	21,845	23,212
Gain on disposals of fixed assets	(144)	(422)
Interest income	(2,938)	(842)
	<hr/>	<hr/>
Operating profit before working capital changes	77,890	103,951
Decrease/(increase) in inventories	30,323	(172,620)
Increase in accounts receivable	(9,198)	(52,824)
Increase in prepayments, deposits and other receivables	(85,140)	(46,400)
(Decrease)/increase in accounts payable	(107,788)	200,241
Increase in other payables and accruals	74,137	16,342
Net change in amounts due from/to related companies	(32,141)	(13,224)
	<hr/>	<hr/>
Net cash (outflow)/inflow generated from operation	(51,917)	35,466
Interest received	2,938	842
PRC enterprise income tax paid	(10,207)	(14,718)
	<hr/>	<hr/>
Net cash (outflow)/inflow from operating activities	(59,186)	21,590
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Investing activities		
Purchase of fixed assets	(17,979)	(85,078)
Proceeds from disposals of fixed assets	270	6,639
Advance to holding company	(134,499)	(700)
Repayment from holding company	106,300	429
	<hr/>	<hr/>
Net cash outflow from investing activities	(45,908)	(78,710)
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Financing activities		
Issue of ordinary shares	101,300	–
Share issue costs	(32,087)	(3,618)
Interest paid	(24,888)	(18,992)
Increase in pledged bank balances	(13,081)	(138,561)
New bank loans	542,317	425,299
Repayment of bank loans	(343,209)	(215,429)
Advance from related companies	–	5,000
Repayment to related companies	–	(5,000)
	<hr/>	<hr/>
Net cash inflow from financing	230,352	48,699
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Increase/(decrease) in cash and cash equivalents	125,258	(8,421)
Cash and cash equivalents at beginning of the year	30,046	38,467
	<hr/>	<hr/>
Cash and cash equivalents at end of the year representing unpledged cash and bank balances	<u>155,304</u>	<u>30,046</u>



1. ORGANISATION AND PRINCIPAL ACTIVITIES

Sanmenxia Tianyuan Aluminum Company Limited (the "Company") was incorporated in the People's Republic of China ("PRC") on 8th August 2000 as a joint stock company with limited liability. The Company is principally engaged in production and distribution of aluminum ingots. All of the Company's operating assets are located in the PRC. The H shares of the Company have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited since 13 July 2004.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention except that futures contracts are stated at fair values as disclosed below.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods beginning on or after 1 January 2005. The Company has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Company has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its result of operations and financial position.

(b) Fixed assets

(i) *Construction in progress*

Construction in progress represents buildings, plant and equipment under construction and pending installation, and is stated at cost, which includes costs directly attributable to the construction less any accumulated impairment losses. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is ready for its intended use.

No depreciation is provided on construction in progress.



2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Fixed assets *(continued)*

(ii) *Property, plant and equipment*

Property, plant and equipment, comprising buildings, plant and machinery, motor vehicles, office and other equipment, are stated at cost less accumulated depreciation and accumulated impairment losses.

(iii) *Depreciation*

Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	9 to 40 years
Plant and machinery	2 to 20 years
Motor vehicles and transportation facilities	3 to 15 years
Office and other equipment	2 to 20 years

The plant components are depreciated over the period to overhaul. Major costs incurred in restoring the plant components to its normal working condition to allow continued use of the overall asset are capitalised and depreciated over the period to the next overhaul.

Improvements are capitalised and depreciated over their expected useful lives to the Company.

(iv) *Impairment and gain or loss on sale*

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of fixed assets are determined as the difference between the net sales proceeds and the carrying amounts of the relevant assets and is recognised in the profit and loss account.

**2. PRINCIPAL ACCOUNTING POLICIES** *(continued)***(c) Government grants**

A government grant is recognised when there is reasonable assurance that the Company will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the profit and loss account over the period necessary to match with the costs which they are intended to compensate. Grants relating to the purchase of assets are included in non-current liabilities as deferred income and are credited to profit and loss account on a straight-line basis over the expected useful lives of the related assets.

(d) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Payments made under operating leases net of any incentives received from the lessor are charged to the profit and loss account on a straight-line basis over the periods of the leases.

(e) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average method, comprises materials, direct labour and an appropriate proportion of all production overhead expenditures. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(f) Accounts and other receivables

Provision is made against accounts and other receivables to the extent which they are considered to be doubtful. Accounts and other receivables in the balance sheet are stated net of such provision.

(g) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

**2. PRINCIPAL ACCOUNTING POLICIES** *(continued)***(h) Provisions**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. When the Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(i) Employee benefits*(i) Employee leave entitlements*

Employee entitlements to sick leave and maternity leave, where applicable, are not recognised until the time of leave.

(ii) Bonuses

The expected cost of bonus payments are recognised as a liability when the Company has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities of bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iii) Retirement obligations

The Company contributes on a monthly basis to a defined contribution retirement benefit plan organised by the relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertakes to assume the retirement benefit obligations of all existing and future retired employees payable under this plan. Contributions to this plan are expensed as incurred.

(j) Taxation

Income tax charged to the profit and loss account comprise current and deferred tax. Current income tax is calculated based on the taxable income at the prevailing applicable rates of taxation for the year that is chargeable to tax.



2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(j) **Taxation** *(continued)*

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 accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(k) **Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Company.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(l) **Revenue recognition**

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.



2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(m) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(n) Futures contracts

The Company uses futures contracts to reduce its exposure to fluctuations in the price of primary aluminium. Payments for entering into these futures contract are initially recognised in the balance sheet at cost and are subsequently remeasured to their fair value. Changes in fair value of futures contracts are recognised immediately in the profit and loss account.

The fair value of futures contracts is based on quoted market prices of Shanghai Futures Exchange at the balance sheet date.

(o) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transactions dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

(p) Segment reporting

In accordance with the Company's internal financial reporting, the Company has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

In respect of geographical segment reporting, sales are based on the country in which the customer is located.

**3. TURNOVER, REVENUES AND SEGMENT INFORMATION**

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

	2004 RMB'000	2003 <i>RMB'000</i>
Turnover		
Sales of goods, net of value-added tax	1,416,839	1,191,930
Other revenue, net of value-added tax		
Sales of scrap and other materials	17,506	2,112
Supply of water and electricity	12,342	9,139
	29,848	11,251
Interest income	2,938	842
Government grants	1,180	–
	33,966	12,093
Total revenue	1,450,805	1,204,023

Primary reporting format – business segments

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

Secondary reporting format – geographical segments

	2004 RMB'000	2003 <i>RMB'000</i>
Turnover		
– The PRC	1,252,544	805,179
– The United States of America	14,054	22,001
– Korea	104,168	104,502
– Singapore	–	5,735
– Switzerland	–	55,645
– Hong Kong	46,073	196,787
– Others	–	2,081
	1,416,839	1,191,930

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:

	2004 RMB'000	2003 RMB'000
Charging:		
Auditors' remuneration	1,618	300
Depreciation of fixed assets	21,845	23,212
Staff costs including directors' emoluments (Note 10)	43,519	50,040
Operating lease rental in respect of		
– plant and machinery (Note 28)	14,500	15,560
– land and buildings (Note 28)	696	696
Provision for doubtful debts	–	5,005
Net exchange loss	157	752
Unrealised loss on futures contracts	–	629
	<u> </u>	<u> </u>
Crediting:		
Net gain on disposals of fixed assets	144	422
Unrealised gain on futures contracts	213	–
Written back of provision for doubtful debts	1,529	–
	<u> </u>	<u> </u>

6. FINANCE COSTS

	2004 RMB'000	2003 RMB'000
Interest on bank loans wholly repayable within five years	24,888	18,992
	<u> </u>	<u> </u>

**7. TAXATION**

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

	2004 RMB'000	2003 <i>RMB'000</i>
PRC enterprise income tax	10,950	11,744
Deferred tax (<i>Note (b)</i>)	540	(5,056)
	11,490	6,688

- (a) Provision for PRC current income tax is based on the statutory rate of 33% on the assessable income of the Company as determined in accordance with the relevant PRC income tax rules and regulations.

The taxation on the Company's profit before income tax differs from the theoretical amount that would arise using the taxation rate in the PRC applicable to the Company as follows:

	2004 RMB'000	2003 <i>RMB'000</i>
Profit before income tax	34,239	63,011
Tax calculated at a tax rate of 33%	11,299	20,794
Expenses not deductible for tax purposes	574	684
PRC tax concession (<i>Note (i)</i>)	–	(14,790)
Others	(383)	–
Taxation charge	11,490	6,688

Note:

- (i) Pursuant to relevant PRC income tax rule (技術改造國產設備投資抵免企業所得稅暫行辦法), 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. The Company received final approval from the relevant tax authorities in 2003 and a tax concession amounting to approximately RMB14,790,000 was granted to offset against future enterprise income tax. During the year, tax concession of approximately RMB756,000 (2003: RMB11,196,000) has been utilised to offset against the enterprise income tax paid/payable. As at 31 December 2004, approximately RMB2,838,000 (2003: RMB3,594,000) of such tax concession was carried forward as deferred tax assets as the directors are of the opinion that it is probable that future profit will be available against which this concession can be utilised. The tax concession will expire in 2008 (being five years from the date of grant).

**7. TAXATION** *(continued)*

- (b) Deferred income tax is calculated on temporary differences under the liability method using a principal tax rate of 33%. The movement in the deferred tax assets account is as follows:

	2004 RMB'000	2003 <i>RMB'000</i>
At beginning of the year	5,800	744
Deferred taxation (charged)/credited to profit and loss account	(540)	5,056
At end of the year	5,260	5,800
Provided for in respect of:		
Accrued interest expenses	312	318
Accrued expenses	621	–
Impairment loss on fixed assets	365	365
Provision for doubtful debts	1,124	1,523
Tax concession on qualifying capital expenditure <i>(Note a(i))</i>	2,838	3,594
Total deferred tax assets	5,260	5,800

8. DIVIDENDS

	2004 RMB'000	2003 <i>RMB'000</i>
Final, proposed, of RMB0.01 (2003: Nil) per share	11,682	–

At a meeting held on 30 March 2005, the directors proposed a final dividend of RMB0.01 per share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2005.

**9. EARNINGS PER SHARE**

Basic earnings per share is based on the profit attributable to shareholders of RMB22,749,000 (2003: RMB56,323,000) and the weighted average number of 999,946,301 shares (2003: 850,000,000 shares) in issue during the year. In determining the number of shares in issue, the bonus issue of 17,000,000 shares in June 2003 and the sub-division of shares in January 2004 were deemed to have occurred as at 1 January 2003 (Note 24).

No information in respect of diluted earnings per shares is presented as the Company has no potential dilutive ordinary shares in existence during the years.

10. STAFF COSTS INCLUDING DIRECTORS' EMOLUMENTS

	2004 RMB'000	2003 RMB'000
Wages and salaries	30,146	37,327
Housing benefits	1,456	1,173
Contributions to retirement scheme (Note (a))	6,375	5,446
Staff welfare	5,542	6,094
	<u>43,519</u>	<u>50,040</u>

- (a) The employees of the Company participate in a retirement benefit plan organised by municipal and provincial governments under which the Company was required to make monthly defined contributions to this plan at rates ranging from 24% to 25% of the employees' basic salary. The Company's contributions to this defined contribution scheme are expensed as incurred. The assets of the scheme, which is operated by the respective governments, are held separately from the Company. There were no forfeited contributions during the years. As at 31 December 2004, the Company had outstanding payable to the retirement scheme amounting to approximately RMB3,056,000 (2003: RMB3,023,000), which was included in other payables and accruals in the balance sheet.

**11. EMOLUMENTS OF DIRECTORS AND SUPERVISORS****(a) Emoluments of directors and supervisors**

	2004 RMB'000	2003 RMB'000
Fees	220	–
Other emoluments		
– basic salaries, housing allowances, other allowances and benefits in kind	150	71
– discretionary bonuses	–	97
– contributions to the retirement scheme	29	22
	399	190

No directors or supervisors of the Company waived any emoluments during the year (2003: Nil).

In addition to the directors' emoluments disclosed above, Mr. Li Yong Zheng received emoluments from the holding company, which amounted to approximately RMB45,000 (2003: RMB45,000) for the year, part of which is related to his services to the Company. No apportionment has been made as the directors consider that it is impractical to apportion this amount between his service to the Company and his service to the holding company.

Directors' fees disclosed above comprised RMB220,000 (2003: Nil) payable to the independent non-executive directors. No fees were paid/payable to the non-executive directors, who are employees of the holding company and related companies.



11. EMOLUMENTS OF DIRECTORS AND SUPERVISORS *(continued)*

(a) Emoluments of directors and supervisors *(continued)*

Individual emoluments paid/payable to the directors and supervisors of the Company during the year are as follows:

	2004 RMB'000	2003 <i>RMB'000</i>
Executive Directors		
– Mr. Li Yong Zheng	–	–
– Mr. Tan Yu Zhong	31	37
– Mr. Xiao Chong Xin	30	36
Non-executive Directors		
– Ms. Yang Chun Lian	–	–
– Mr. Zhu Qiang	–	–
– Mr. Yan Li Qi	–	–
Independent non-executive Directors		
– Mr. Wu Cheng	50	–
– Mr. Zhu Xiao Ping	50	–
– Mr. Song Quan Qi	50	–
– Mr. Chan Lap Tuck	70	–
	281	73
Supervisors		
– Mr. Wang Gang Min	28	30
– Mr. Hu Yu Jun	–	–
– Mr. Yang Xiao Jian	40	28
– Mr. Yang Feng Zhen	22	27
– Mr. Cheng Jiang Chuan	28	14
– Mr. Shi En Zhe*	–	18
	118	117
Total	399	190

* *Mr. Shi En Zhe resigned as supervisor during the year ended 31 December 2003.*

The emoluments of the directors of the Company fell within the following band:

	Number of directors	
	2004	2003
Emoluments band		
Nil to RMB1,060,000 (equivalent to HK\$1,000,000)	10	10

**11. EMOLUMENTS OF DIRECTORS AND SUPERVISORS** *(continued)***(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Company for the year include 5 (2003: 2) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three individuals during the year are as follows:

	2004 RMB'000	2003 <i>RMB'000</i>
Basic salaries, housing allowances, other allowances and benefits in kind	–	33
Discretionary bonuses	–	54
Contributions to the retirement scheme	–	13
	<u>–</u>	<u>100</u>

The emoluments fell within the following band:

	Number of individuals	
	2004	2003
Emoluments band Nil to RMB1,060,000 (equivalent to HK\$1,000,000)	<u>–</u>	<u>3</u>

**12. FIXED ASSETS**

	Construction in progress	Buildings	Plant and machinery	Motor vehicles and transportation facilities	Office and other equipment	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>
Cost						
At 1 January 2004	73,836	54,966	213,839	5,348	27,730	375,719
Additions	16,473	407	-	-	1,099	17,979
Transfers	(9,786)	3,455	3,941	1,022	1,368	-
Disposals	-	-	(248)	(110)	(274)	(632)
At 31 December 2004	<u>80,523</u>	<u>58,828</u>	<u>217,532</u>	<u>6,260</u>	<u>29,923</u>	<u>393,066</u>
Accumulated depreciation and impairment losses						
At 1 January 2004	-	6,581	32,478	1,123	6,882	47,064
Charge for the year	-	1,927	16,825	577	2,516	21,845
Disposals	-	-	(216)	(89)	(201)	(506)
At 31 December 2004	<u>-</u>	<u>8,508</u>	<u>49,087</u>	<u>1,611</u>	<u>9,197</u>	<u>68,403</u>
Net book value						
At 31 December 2004	<u>80,523</u>	<u>50,320</u>	<u>168,445</u>	<u>4,649</u>	<u>20,726</u>	<u>324,663</u>
At 31 December 2003	<u>73,836</u>	<u>48,385</u>	<u>181,361</u>	<u>4,225</u>	<u>20,848</u>	<u>328,655</u>

All of the Company's buildings (located in the PRC) are built on land which was leased by the Company from its holding company (see Note 28).

**13. INVENTORIES**

	2004 RMB'000	2003 <i>RMB'000</i>
Raw materials	110,846	134,392
Work in progress	34,131	34,058
Finished goods	46,165	53,015
	191,142	221,465

No inventories were stated at net realisable value as at 31 December 2004 (2003: Nil).

14. ACCOUNTS RECEIVABLE

	2004 RMB'000	2003 <i>RMB'000</i>
Trade receivables (<i>Note (a)</i>)	4,028	20,574
Bills receivable (<i>Note (b)</i>)	63,492	37,748
	67,520	58,322

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 were on advance payment or documents against payment. 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.



14. ACCOUNTS RECEIVABLE *(continued)*

(a) Trade receivables

Aging analysis of trade receivables was as follows:

	2004	2003
	RMB'000	RMB'000
1-30 days	1,388	21,761
31-60 days	2,087	113
61-90 days	143	121
91-120 days	189	247
121-365 days	433	834
Over 1 year	–	2,742
	4,240	25,818
Less: Provision for doubtful debts	(212)	(5,244)
	4,028	20,574

(b) Bills receivable

Bills receivable are bills of exchange with maturity dates less than six months.

15. DUE FROM RELATED COMPANIES

	2004	2003	Maximum balance outstanding during the year	
	RMB'000	RMB'000	2004	2003
			RMB'000	RMB'000
Holding Company				
Sanmenxia Tianyuan				
Aluminum Group Limited	19,559	6,299	47,827	14,787
Other related company				
Sanmenxia Jiashi Wheel				
Hubs Co., Ltd.	48,240	3,111	58,801	5,907
	67,799	9,410		

Refer to Note 28 for details of related party transactions.

**16. PURCHASE DEPOSITS**

Purchase deposits represents advance to suppliers in respect of purchases to be effected subsequent to 31 December 2004.

17. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

	2004 RMB'000	2003 <i>RMB'000</i>
Customs deposits	–	2,600
Deposits for futures deposits	5,118	19,478
Prepaid operating expenses	3,775	1,358
Value-added tax recoverable	–	20,833
Other deposits and receivables	4,287	2,282
	<u>13,180</u>	<u>46,551</u>

18. BANK BALANCES AND CASH

As at 31 December 2004, the Company's bank balances and cash comprised:

	2004 RMB'000	2003 <i>RMB'000</i>
Bank deposits pledged with banks	87,009	156,693
Restricted bank deposits, representing receipts in advance from a customer (<i>Note (a)</i>)	82,765	–
	<u>169,774</u>	156,693
Other cash and bank balances	155,304	30,046
	<u>325,078</u>	<u>186,739</u>

- (a) As at 31 December 2004, the Company has bank deposits of approximately RMB82,765,000 being purchase deposits received from an overseas customer. Withdrawal of cash from the bank account was restricted to the value of goods delivered and accepted by the customer.

**18. BANK BALANCES AND CASH** *(continued)*

Details of bank balances pledged are as follows:

	2004 RMB'000	2003 <i>RMB'000</i>
Bank balances pledged in respect of:		
Letters of credit	–	94,512
Bills payable	87,009	62,181
	87,009	156,693

The cash and bank balances were denominated in Renminbi and United States dollars which were deposited with banks in the PRC. The conversion of Renminbi denominated balances into foreign currencies and the remittance of Renminbi out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

19. ACCOUNTS PAYABLE

	2004 RMB'000	2003 <i>RMB'000</i>
Trade payables <i>(Note (a))</i>	12,719	37,257
Bills payables <i>(Note (b))</i>	144,000	227,250
	156,719	264,507

(a) Trade payables

The aging analysis of trade payables was as follows:

	2004 RMB'000	2003 <i>RMB'000</i>
1-60 days	5,024	19,943
61-90 days	694	4,958
91-120 days	970	1,440
121-365 days	2,709	8,471
Over 1 year	3,322	2,445
	12,719	37,257

(b) Bills payable

Bills payable are repayable within six months.

**20. DUE TO RELATED COMPANIES**

	2004 RMB'000	2003 <i>RMB'000</i>
Holding company		
Sanmenxia Tianyuan Aluminum Group Limited	29	2,277
Fellow subsidiaries		
Sanmenxia Tianyuan Aluminium Group Transportation Company	1,359	1,168
Sanmenxia Tianyuan Aluminium Group Yin Lu Company	532	636
Sanmenxia Tianyuan Aluminium Decoration Co., Ltd.	314	1
Other related companies		
Baiyin Fluoride Salts Limited	64	767
Jiaozuo City Dongxing Carbon Company Limited	1,539	1,191
Jiaozuo City Duofuduo Chemical Company Limited	262	10
	4,099	6,050

Refer to Note 28 for details of related party transactions.

21. OTHER PAYABLES AND ACCRUALS

	2004 RMB'000	2003 <i>RMB'000</i>
Receipt in advance from customers (<i>Note (a)</i>)	96,209	29,106
Payables to the National Social Security Fund (<i>Note (b)</i>)	7,289	–
Staff welfare payable	5,619	5,515
Accrued construction costs	3,586	2,876
Others	4,085	5,154
	116,788	42,651

**21. OTHER PAYABLES AND ACCRUALS** *(continued)*

- (a) Included in receipt in advance from customers was a balance amounting to RMB82,765,000, of which cash received from the relevant overseas customer was restricted as at 31 December 2004 (see Note 18(a)).
- (b) Pursuant to the "Temporary Administration Measures for Reduction of state-owned shares" (減持國有股籌集社會保障資金管理暫行辦法) promulgated by the State Council on 12 June 2001, net proceeds arising from sales of H shares by Sanmenxia Tianyuan Aluminum Group Limited, the holding company, has to be remitted to the National Social Security Fund. As at 31 December 2004, such proceeds were kept by the Company, pending to be remitted on behalf of the holding company.

22. LONG-TERM BANK LOANS

The maturity of the bank loans is as follows:

	2004 RMB'000	2003 <i>RMB'000</i>
Within one year	65,000	12,600
In the second year	62,500	127,500
	127,500	140,100
Less: current portion included in current liabilities	(65,000)	(12,600)
	62,500	127,500

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

	2004 RMB'000	2003 <i>RMB'000</i>
Holding company	127,500	127,500
Third party	—	12,600
	127,500	140,100

Interest is charged on the outstanding balances at 5.22% to 6.59% per annum (2003: 5.22% to 6.13%).



23. SHORT-TERM BANK LOANS

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Guarantees provided by:		
Holding company	42,000	85,000
Third parties	276,207	152,799
	318,207	237,799
Unsecured	131,300	–
	449,507	237,799

Interest is charged on the outstanding balances at 2.69% to 6.37% per annum (2003: 2.69% to 6.12%).

24. SHARE CAPITAL

	Registered, issued and fully paid					
	Domestic shares		H shares		Total	
	of RMB0.10 each		of RMB0.10 each		No. of shares	RMB'000
	<i>No. of shares</i>	<i>RMB'000</i>	<i>No. of shares</i>	<i>RMB'000</i>	<i>No. of shares</i>	<i>RMB'000</i>
At 1 January 2003 (nominal value of RMB1.00 each)	68,000,000	68,000	–	–	68,000,000	68,000
Bonus issue (Note a)	17,000,000	17,000	–	–	17,000,000	17,000
At 1 January 2004 (nominal value of RMB1.00 each)	85,000,000	85,000	–	–	85,000,000	85,000
Sub-divided of shares (Note b)	765,000,000	–	–	–	765,000,000	–
Issue of shares (Note c)	–	–	318,200,000	31,820	318,200,000	31,820
Conversion of shares (Note d)	(31,820,000)	(3,182)	31,820,000	3,182	–	–
At 31 December 2004	818,180,000	81,818	350,020,000	35,002	1,168,200,000	116,820



24. SHARE CAPITAL *(continued)*

Note:

- (a) In June 2003, the Company issued 17,000,000 shares of RMB1.00 each to the then shareholders of the Company out of the Company's retained earnings as bonus issue.
- (b) On 19 January 2004, each share with par value of RMB1.00 each in the share capital of the Company was sub-divided into 10 shares with a par value of RMB0.10 each.
- (c) In July 2004, 318,200,000 H shares of RMB0.1 each were issued at a price of HK\$0.30 per share pursuant to the initial public offering and listing of the Company's H shares on GEM of The Stock Exchange of Hong Kong Limited (the "IPO"). Net proceeds from such issue, amounting to RMB69,213,000, have been used to provide working capital for the Company.
- (d) Pursuant to the "Temporary Administration Measures for Reduction of state-owned shares", 31,820,000 Domestic shares were converted to H shares and sold together with the new H shares of the Company pursuant to the IPO of the Company's shares in 2004.

All the Domestic shares and H shares rank *pari passu* in all material respects except that dividends to holders of H shares are declared in RMB but paid in Hong Kong dollars.



25. RESERVES

Movements in reserves were as follows:

	Capital reserve <i>(Note (a))</i> <i>RMB'000</i>	Statutory surplus reserve <i>(Note (b))</i> <i>RMB'000</i>	Statutory public welfare fund <i>(Note (c))</i> <i>RMB'000</i>	Share issue costs <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2003	28,324	6,508	3,255	-	56,170	94,257
Increase in share capital	-	-	-	-	(17,000)	(17,000)
Profit for the year	-	-	-	-	56,323	56,323
Share issue costs	-	-	-	(3,618)	-	(3,618)
Transfer to						
- Statutory surplus reserve	-	5,156	-	-	(5,156)	-
- Statutory public welfare fund	-	-	2,578	-	(2,578)	-
	<u>28,324</u>	<u>11,664</u>	<u>5,833</u>	<u>(3,618)</u>	<u>87,759</u>	<u>129,962</u>
At 31 December 2003	28,324	11,664	5,833	(3,618)	87,759	129,962
Profit for the year	-	-	-	-	22,749	22,749
Premium of new shares issued <i>(Note 24 (c))</i>	69,480	-	-	-	-	69,480
Share issue costs	-	-	-	(32,087)	-	(32,087)
Transfer from share issue costs to capital reserve	(35,705)	-	-	35,705	-	-
Transfer to						
- Statutory surplus reserve	-	2,396	-	-	(2,396)	-
- Statutory public welfare fund	-	-	1,198	-	(1,198)	-
	<u>62,099</u>	<u>14,060</u>	<u>7,031</u>	<u>-</u>	<u>106,914</u>	<u>190,104</u>
At 31 December 2004	<u>62,099</u>	<u>14,060</u>	<u>7,031</u>	<u>-</u>	<u>106,914</u>	<u>190,104</u>
Representing:						
Reserves	62,099	14,060	7,031	-	95,232	178,422
2004 final dividend proposed <i>(Note 8)</i>	-	-	-	-	11,682	11,682
	<u>62,099</u>	<u>14,060</u>	<u>7,031</u>	<u>-</u>	<u>106,914</u>	<u>190,104</u>

**25. RESERVES** *(continued)***(a) Capital reserve**

Capital reserve represents the difference between the aggregate nominal value of the share capital issued by the Company and the consideration received as a result of issue of the Company's shares. Such reserve can be used to reduce any losses incurred or to increase share capital.

(b) Statutory surplus reserve

In accordance with the relevant PRC laws and financial regulations, the Company is required to transfer 10% of the profit after taxation prepared in accordance with PRC accounting standards to the statutory surplus reserve every year until the balance reaches 50% of the registered capital. Such reserve can be used to reduce any losses incurred and to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

(c) Statutory public welfare fund

In accordance with the relevant PRC laws and financial regulations, the Company is required to transfer between 5% to 10% of the profit after taxation prepared in accordance with PRC accounting standards to the statutory public welfare fund every year. The use of this fund is restricted to capital expenditure for employee collective welfare facilities, the ownership in respect of which belongs to the Company. The statutory public welfare fund is not available for distribution to shareholders except under liquidation. Once the capital expenditure on staff welfare facilities has been made, an equivalent amount must be transferred from the statutory public welfare fund to the discretionary surplus reserve, a reserve which can be used to reduce any losses incurred or to increase share capital.

26. CONTINGENT LIABILITIES

As at 31 December 2004, the Company had a cross guarantee arrangement with Yima Electric Power Plant ("Yima"), a state-owned enterprise established in the PRC, under which the Company and Yima agreed to guarantee each other's bank loans to the maximum amount up to RMB50,000,000. As at 31 December 2004, the outstanding bank loans of Yima under such guarantee amounted to RMB48,500,000 (2003: Nil). The cross guarantee will expire on 26 August 2005.

**27. COMMITMENTS****(a) Capital commitments for fixed assets**

	2004 RMB'000	2003 <i>RMB'000</i>
Authorised but not contracted for	13,514	90,909
Contracted but not provided for	15,284	—
	28,798	90,909

(b) Commitments under operating leases

The Company had future aggregate minimum lease payments to the holding company in relation to land and buildings and plant and machinery under non-cancellable operating leases as follows:

	2004 RMB'000	2003 <i>RMB'000</i>
Land and buildings		
Not later than one year	684	696
Later than one year and not later than five years	2,671	2,688
Later than five years	20,699	21,367
	24,054	24,751
Plant and machinery		
Not later than one year	14,500	15,930
Later than one year and not later than five years	15,104	32,524
	29,604	48,454

**28. RELATED PARTY TRANSACTIONS**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decision. Parties are also considered to be related if they are subject to common control or common significant influence.

The Company is beneficially owned by the PRC government. Given that the PRC government still owns a significant portion of the productive assets in the PRC despite the continuous reform of the government structure, the majority of the Company's business activities had been conducted with enterprises directly or indirectly owned or controlled by the PRC government ("state-owned enterprises") in the ordinary course of business. The management of the Company are of the view that the Company is not to disclose transactions with state-owned enterprises whose relationships with the Company were merely by virtue of common control or significant influence by the PRC government as related party transactions.

The Company is part of a larger group of companies under Sanmenxia Tianyuan Aluminum Group Limited 三門峽天元鋁業集團有限公司, the holding company, and has extensive transactions and relationships with its members. Because of these relationships it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties.

**28. RELATED PARTY TRANSACTIONS** *(continued)*

Saved as disclosed elsewhere in this report, significant related party transactions, which were carried out in the normal course of the Company's business during the year are as follows:

		2004	2003
		RMB'000	RMB'000
Sales of materials and finished goods to	(a)		
– Holding company		94,340	168,272
– Fellow subsidiaries		2,646	2,566
– Other related companies		100,598	33,106
Purchases of key and auxiliary materials from	(b)		
– Holding company		31,121	17,024
– A fellow subsidiary		2,383	2,742
– Other related companies		34,344	16,301
Provision of utility services to	(c)		
– Holding company		3,471	3,119
– Fellow subsidiaries		221	524
– Other related companies		7,125	3,897
Provision of social services by the holding company	(d)	2,398	3,485
Provision of transportation services by a fellow subsidiary	(e)	7,052	9,754
Operating lease rentals charged by the holding company in respect of			
– Plant and machinery	(f)	14,500	15,560
– Land and buildings	(g)	696	696
Disposals of fixed assets to	(h)		
– Holding company		–	487
– A fellow subsidiary		5	–
Purchase of fixed assets from fellow subsidiaries	(i)	1,667	–
Interest income from a related company	(j)	1,420	–

**28. RELATED PARTY TRANSACTIONS** *(continued)*

- (a) Materials and finished goods sold to the holding company, fellow subsidiaries and other related companies during the year were set at terms in accordance with the underlying agreements.
- (b) Key and auxiliary materials purchased from the holding company, fellow subsidiaries and other related companies were at terms in accordance with the underlying agreements.
- (c) Utility, including electricity and water, were charged to the holding company 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. Pursuant to the agreement, the rentals are determined with reference to a formula agreed with the ultimate holding company but is subject to a minimum amount of RMB13,700,000 per annum.
- (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.
- (i) The consideration for the purchase of fixed assets was based on the net book value of the assets as at the date of purchase.
- (j) During the year, the Company received interest income of approximately RMB1,420,000 (2003: Nil) from Sanmenxia Jiashi Wheel Hubs Co., Ltd, a related company in respect of balance due to it as at 31 December 2004.
- (k) During the year, the Company made certain advances with an aggregate amount of RMB134,499,000 (2003: RMB700,000) to the holding company. Approximately RMB106,300,000 (2003: RMB429,000) of such advances were repaid by the holding company during the year.
- (l) Other than the balance due from a related company as mentioned in Note (j) above, all other balances with related companies are unsecured, non-interest bearing and repayable on demand.
- (m) As at the respective balance sheet dates, the holding company and certain related companies have given guarantee in favour of banks on certain of the Company's bills payable and bank loans (see Notes 22 and 23). In addition, certain of the Company's bank loans as at the respective balance sheet dates were secured by corporate guarantees given by certain third parties under cross-guarantee arrangements among the holding company and those third parties.

29. ULTIMATE HOLDING COMPANY

The Directors regard Sanmenxia Tianyuan Aluminum Group Limited 三門峽天元鋁業集團有限公司, a company incorporated in the PRC, as being the ultimate holding company.

30. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 30 March 2005.



NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 2004 Annual General Meeting (the "AGM") of Sanmenxia Tianyuan Aluminum Company Limited (the "Company") will be held at No. 10 South Dongfeng Road, Sanmenxia City, Henan Province, the People's Republic of China (the "PRC") at 2:00 p.m. (Beijing time) on Friday, 15 July 2005 to consider the following businesses:

A. As ordinary resolutions

1. To consider and approve the report of the board of directors (the "Board") of the Company for 2004;
2. To consider and approve the report of the supervisory committee of the Company for 2004;
3. To consider and approve the final dividend distribution proposal for 2004;
4. To consider and approve the audited financial statements and the auditors' report for 2004;
5. To consider and approve the re-appointment of PricewaterhouseCoopers and Beijing Xinghua Certified Public Accountants as the Company's international and PRC auditors respectively for 2005 and to authorize the Board to determine their remunerations; and
6. To authorize the Board to determine the remunerations of the directors and supervisors of the Company.

B. As special resolution

"THAT:

- (1) there be granted to the Board an unconditional general mandate to allot, issue and deal with additional shares in the capital of the Company (the "Shares"), whether domestic shares or H shares, and to make or grant offers or agreements in respect thereof, subject to the following conditions:
 - (a) such mandate shall not extend beyond the Relevant Period (as defined below) save that the Board may during the Relevant Period make or grant offers or agreements which might require the exercise of such powers after the end of the Relevant Period;



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- (b) the aggregate nominal amount of Shares allotted or agreed conditionally or unconditionally to be allotted by the Board, otherwise than pursuant to any scrip dividends or similar arrangement providing for the allotment of such Shares in lieu of the whole or part of a dividend on such Shares in accordance with the articles of association of the Company (“Articles of Association”), shall not exceed:
 - (i) 20 per cent of the aggregate nominal amount of domestic shares of the Company in issue at the date of the passing of this Resolution; and
 - (ii) 20 per cent of the aggregate nominal amount of H shares of the Company in issue at the date of the passing of this Resolution, in each case as at the date of this Resolution; and
- (c) the Board will only exercise its power under such mandate in accordance with the relevant provisions of the Company Law of the PRC (as amended from time to time) and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (as amended from time to time) and only if all necessary approvals from the China Securities Regulatory Commission and/or other relevant PRC government authorities are obtained.

For the purposes of this Resolution:

“**Relevant Period**” means the period from the passing of this Resolution until the earliest of:

- (a) the conclusion of the next annual general meeting of the Company following the passing of this Resolution; or
- (b) the expiration of the 12-month period following the passing of this Resolution; or
- (c) the date on which the authority set out in this Resolution is revoked or varied by a special resolution of the shareholders of the Company in a general meeting; and



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- (2) contingent on the Board resolving to issue Shares pursuant to sub-paragraph (1) of this Resolution, authorize the Board to:
- (a) approve, execute and do or procure to be executed and done, all such documents, deeds and things as it may consider necessary in connection with the issue of such new shares including, without limitation, the time, price, quantity and place of issue, making all necessary applications to the relevant authorities, entering into an underwriting agreement (or any other agreement);
 - (b) determine the use of proceeds and make all necessary filing to the relevant authorities in the PRC and/or Hong Kong (if required);
 - (c) to increase the registered capital of the Company in accordance with the actual increase of capital by issuing shares pursuant to sub-paragraph (1) of this Resolution, to register the increased capital with the relevant authorities in the PRC; and
 - (d) to make such amendments to the Articles of Association accordingly as it thinks fit so as to reflect the new capital and/or new capital structure of the Company."

By order of the Board
Sanmenxia Tianyuan Aluminum Company Limited
LI Yong Zheng
Chairman

Sanmenxia City, Henan Province, the PRC
27 May 2005

Notes:

1. The register of members of the Company will be closed from 15 June 2005 (Wednesday) to 15 July 2005 (Friday), both days inclusive, during which period no share transfer shall be effected. Shareholders whose names appear on the register of members of the Company at 4:00 p.m. on 14 June 2005 (Tuesday) shall be entitled to attend and vote at the annual general meeting.
2. Shareholders who are entitled to attend and vote at the annual general meeting convened by the above notice may appoint one or more proxies in writing to attend and vote at the annual general meeting on their behalf. A proxy need not be a member of the Company.
3. A proxy form for used at the annual general meeting is enclosed. In order to be valid, the proxy form shall be signed by the appointer or his attorney duly authorized in writing or, in case of a legal person, under the company seal or in person by its director or a duly authorized attorney.
4. Proxy forms shall be lodged 24 hours prior to the convening of the annual general meeting. In case of H shares, the proxy form shall be lodged at Computershare Hong Kong Investor Services Limited, the Company's H shares registrar, at 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. In case of domestic shares, the proxy form shall be lodged at the register address and principal place of business of the Company in the PRC at No. 10 South Dongfeng Road, Sanmenxia City, Henan Province, the PRC.



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5. Shareholders who wish to attend the annual general meeting shall complete and return the reply slip for the annual general meeting on or before 25 June 2005 (Saturday). In case of H shares, the reply slip shall be lodged at Computershare Hong Kong Services Limited, the Company's H shares registrar, at 1712-1716, 17th Floor, Hopewell Centre, 183 Queen 's Road East, Wanchai, Hong Kong. In case of domestic shares, the slip shall be lodged at the registered address and principal place of business of the Company in the PRC at No. 10 South Dongfeng Road, Sanmenxia City, Henan Province, the PRC.
6. The final dividend for the year ended 31 December 2004 is expected to be paid on or before 31 August 2005 (Wednesday) to shareholders whose names appear on the register of members of the Company at 4:00 p.m. on 27 May 2005 (Friday).
7. Shareholders or proxies attending the annual general meeting shall state clearly, in respect of each resolution requiring a vote, whether they are voting for or against a resolution. Abstention votes will not be regarded by the Company as having voting rights for the purpose of vote counts.
8. The annual general meeting is expected to last for about half a day. Shareholders or proxies attending the annual general meeting shall be responsible for their own traveling and accommodation expenses.