



Sanmenxia Tianyuan Aluminum Company Limited\*

三門峽天元鋁業股份有限公司

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

Interim Report 2005



Sanmenxia Tianyuan

Sanmenxia Tianyuan Aluminum Company Limited





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

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

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

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

*The Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

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



### Highlights

- Achieved a turnover of approximately RMB629,023,000 for the six months ended 30 June 2005.
- Net loss amounted to approximately RMB6,259,000 for the six months ended 30 June 2005, as compared to a net profit of approximately RMB13,436,000 for the corresponding period in 2004.
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2005.



## Interim Results

The board of directors (the "Board") of Sanmenxia Tianyuan Aluminum Company Limited (the "Company") is pleased to announce the unaudited results of the Company for the three months ("three-month period") and the six months ("six-month period") ended 30 June 2005 together with the comparative unaudited figures for the corresponding periods in 2004. The interim report of six-month period has been reviewed by the audit committee of the Company.

### Profit and loss account (unaudited)

Three months and six months ended 30 June 2005

	Note	Three months ended 30 June		Six months ended 30 June	
		2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Turnover	3	332,919	264,140	629,023	668,716
Cost of goods sold		<u>(321,778)</u>	<u>(252,088)</u>	<u>(593,871)</u>	<u>(618,076)</u>
Gross profit		----- 11,141	----- 12,052	----- 35,152	----- 50,640
Other revenue	3	3,101	5,066	5,373	24,250
Expenses related to other revenue	4	<u>(1,881)</u>	<u>(3,329)</u>	<u>(3,436)</u>	<u>(19,991)</u>
Other revenue, net		----- 1,220	----- 1,737	----- 1,937	----- 4,259
Selling and distribution expenses		(3,390)	(3,061)	(8,862)	(7,345)
General and administrative expenses		<u>(9,562)</u>	<u>(5,232)</u>	<u>(18,765)</u>	<u>(16,628)</u>
Operating (loss)/profit	5	(591)	5,496	9,462	30,926
Finance costs		<u>(8,152)</u>	<u>(5,809)</u>	<u>(15,721)</u>	<u>(10,872)</u>
(Loss)/profit before income tax		(8,743)	(313)	(6,259)	20,054
Income tax	6	<u>820</u>	<u>103</u>	<u>-</u>	<u>(6,618)</u>
(Loss)/profit for the period		<u>----- (7,923)</u>	<u>----- (210)</u>	<u>----- (6,259)</u>	<u>----- 13,436</u>
Dividend		<u>----- -</u>	<u>----- -</u>	<u>----- -</u>	<u>----- -</u>
(Loss)/earnings per Share	7	<u>RMB(0.68) cents</u>	<u>RMB(0.02) cents</u>	<u>RMB(0.54) cents</u>	<u>RMB1.58 cents</u>



## Balance sheet (unaudited)

		As at
		31 December
		2004
		(Audited)
		RMB'000
	Note	30 June
		2005
		(Unaudited)
		RMB'000
<b>Non-current assets</b>		
Fixed assets		331,713
Debenture		500
Deferred tax assets		5,260
		<u>337,473</u>
		<u>330,423</u>
<b>Current assets</b>		
Inventories		179,520
Accounts receivable	8	24,807
Due from related companies	9	80,863
Purchase deposits		204,759
Prepayments, deposits & other receivables		4,266
Bank balances and cash		
Pledged bank balances		220,938
Cash and other bank balances		183,211
		<u>898,364</u>
		<u>831,857</u>
<b>Current liabilities</b>		
Accounts payables	10	280,736
Due to related companies	11	4,579
Other payables and accruals		150,450
Taxation payable		743
Current portion of long-term bank loans	12	65,000
Short-term bank loans	13	436,907
		<u>872,672</u>
		<u>792,856</u>
<b>Net current assets</b>		<u>25,692</u>
		<u>39,001</u>
<b>Total assets less current liabilities</b>		<u>363,165</u>
		<u>369,424</u>
Financed by:		
<b>Share capital</b>		116,820
<b>Reserves</b>		190,104
		<u>306,924</u>
<b>Non-current liabilities</b>		306,924
Long-term bank loans	12	62,500
		<u>62,500</u>
		<u>363,165</u>
		<u>369,424</u>



## Cash flow statement (unaudited)

	Six months ended 30 June	
	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Net cash inflow/(outflow) from operating activities	<u>190,464</u>	<u>(2,217)</u>
Net cash outflow from investing activities	<u>(19,087)</u>	<u>(15,001)</u>
Net cash (outflow)/inflow from financing activities	<u>(143,470)</u>	<u>40,563</u>
Increase in cash and cash equivalents	27,907	23,345
Cash and cash equivalents at beginning of the period	<u>155,304</u>	<u>30,046</u>
Cash and cash equivalents at end of the period, representing unpledged cash and bank balances	<u>183,211</u>	<u>53,391</u>



## Statement of changes in equity (unaudited)

	Share Capital	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Share issuance costs	Retained earnings	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2004	85,000	28,324	11,664	5,833	(3,618)	87,759	214,962
Profit for the period	–	–	–	–	–	13,436	13,436
Share issuance costs	–	–	–	–	(9,856)	–	(9,856)
	<u>85,000</u>	<u>28,324</u>	<u>11,664</u>	<u>5,833</u>	<u>(13,474)</u>	<u>101,195</u>	<u>218,542</u>
At 30 June 2004	85,000	28,324	11,664	5,833	(13,474)	101,195	218,542
At 1 January 2005	116,820	62,099	14,060	7,031	–	106,914	306,924
Profit for the period	–	–	–	–	–	(6,259)	(6,259)
	<u>116,820</u>	<u>62,099</u>	<u>14,060</u>	<u>7,031</u>	<u>–</u>	<u>100,655</u>	<u>300,665</u>
At 30 June 2005	116,820	62,099	14,060	7,031	–	100,655	300,665



## Notes to the accounts

### 1. Organisation and principal operation

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

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

### 2. Basis of preparation

The unaudited interim accounts have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on GEM of the Exchange and Hong Kong Accounting Standard 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants.

### 3. Turnover, revenues and segment information

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

	Unaudited			
	Three months ended 30 June		Six months ended 30 June	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover				
Sales of goods, net of value-added tax	332,919	264,140	629,023	668,716
Other revenue				
Sales of scrap and other materials	1,848	738	2,877	16,377
Supply of water and electricity	647	3,912	1,481	7,206
	2,495	4,650	4,358	23,583
Interest income	606	416	1,015	667
Total other revenue	3,101	5,066	5,373	24,250
Total revenue	336,020	269,206	634,396	692,966





## Primary reporting format – business segments

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

## Secondary reporting format – geographical segments

	Unaudited			
	Three months ended		Six months ended	
	30 June		30 June	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover				
– PRC	259,153	246,274	547,507	622,649
– Hong Kong	–	17,866	7,750	46,067
– United Kingdom	43,647	–	43,647	–
– Singapore	30,119	–	30,119	–
	<u>332,919</u>	<u>264,140</u>	<u>629,023</u>	<u>668,716</u>

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

### 4. Expenses related to other revenue

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

### 5. Operating (loss)/profit

Operating (loss)/profit is stated after charging and crediting the following:

	Unaudited			
	Three months ended		Six months ended	
	30 June		30 June	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
After charging:				
Depreciation of fixed assets	6,237	5,411	12,170	10,798
Staff costs including directors' emoluments	10,988	9,160	23,180	23,372
Operating lease rental in respect of				
– plant and machinery	3,300	3,300	6,600	6,600
– land and buildings	167	167	334	334
Provision for doubtful debts	–	963	–	963
Net exchange loss	–	47	72	99
	<u>–</u>	<u>47</u>	<u>72</u>	<u>99</u>
After crediting:				
Unrealised gain on futures contracts	78	553	78	343
Interest income from bank deposits	606	416	1,015	667
Net exchange gain	246	–	–	–
	<u>246</u>	<u>–</u>	<u>–</u>	<u>–</u>



## 6. Taxation

The provision for current PRC enterprise income tax is based on the statutory rate of 33% of the assessable income of the Company as determined in accordance with the relevant PRC income tax rules and regulations during the three months and the six months ended 30 June 2004 and 2005.

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

	Unaudited			
	Three months ended		Six months ended	
	30 June		30 June	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
PRC enterprise income tax	(820)	996	–	7,716
Other temporary differences	–	(1,099)	–	(1,098)
	<u>(820)</u>	<u>(103)</u>	<u>–</u>	<u>6,618</u>

## 7. (Loss)/earnings per share

Basic loss per share for the three months and six months ended 30 June 2005 are based on the unaudited loss attributable to shareholders of RMB7,923,000 and RMB6,259,000 respectively (2004: loss of RMB210,000 and profit of RMB13,436,000 respectively), and the weighted average number of 1,168,200,000 shares (2004: 850,000,000 shares) in issue during the respective periods. In determining the number of shares in issue during the periods, the sub-division of shares in January 2004 were deemed to have occurred at the beginning of the earliest period presented.

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



## 8. Accounts receivable

	As at	
	30 June 2005 Unaudited RMB'000	31 December 2004 Audited RMB'000
Trade receivables (a)	17,606	4,028
Bills receivable (b)	7,201	63,492
	<u>24,807</u>	<u>67,520</u>

Notes:

(a) Trade receivables

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

	As at	
	30 June 2005 Unaudited RMB'000	31 December 2004 Audited RMB'000
1-60 days	16,468	3,475
61-90 days	1,837	143
91-120 days	1,893	189
121-365 days	458	433
	<u>20,656</u>	<u>4,240</u>
Less: Provision for doubtful debts	(3,050)	(212)
	<u>17,606</u>	<u>4,028</u>

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



## 9. Due from related companies

The amounts due from related companies are analysed as follows:

	As at	
	30 June 2005 Unaudited RMB'000	31 December 2004 Audited RMB'000
Due from:		
Holding company		
– Sanmenxia Tianyuan Aluminum Group Limited 三門峽天元鋁業集團有限公司	12,433	19,559
Other related company		
– Sanmenxia Jiashi Wheel Hubs Co., Ltd. 三門峽佳適鋁合金輪殼有限責任公司	68,430	48,240
	<u>80,863</u>	<u>67,799</u>

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

	As at	
	30 June 2005 Unaudited RMB'000	31 December 2004 Audited RMB'000
1-60 days	19,498	60,250
61-90 days	9,496	3,756
91-120 days	23,647	3,714
121-365 days	28,222	79
	<u>80,863</u>	<u>67,799</u>

All balances with related companies are mainly trade in nature, unsecured, non-interest bearing and are repayable according to the respective credit terms of the underlying agreements.



## 10. Accounts payables

	As at	
	30 June 2005 Unaudited RMB'000	31 December 2004 Audited RMB'000
Trade payables (Note (a))	29,856	12,719
Bills payable (Note (b))	250,880	144,000
	<u>280,736</u>	<u>156,719</u>

Notes:

### (a) Trade payables

The aging analyses of the trade payables are as follows:

	As at	
	30 June 2005 Unaudited RMB'000	31 December 2004 Audited RMB'000
1-60 days	17,465	5,024
61-90 days	885	694
91-120 days	739	970
121-365 days	7,559	2,709
Over 1 year	3,208	3,322
	<u>29,856</u>	<u>12,719</u>

### (b) Bills payable

Bills payable are repayable within six months. Bills payable of RMB55,900,000 and RMB12,000,000 as at 30 June 2005 and 31 December 2004 respectively were supported by guarantees provided by the holding company.



## 11. Due to related companies

The amounts due to related companies are analysed as follows:

	As at	
	30 June 2005 Unaudited RMB'000	31 December 2004 Audited RMB'000
Due to:		
Holding company		
– Sanmenxia Tianyuan Aluminum Group Limited 三門峽天元鋁業集團有限公司	–	29
Fellow subsidiaries		
– Sanmenxia Tianyuan Aluminum Group Transportation Company 三門峽天元鋁業集團有限公司運輸公司	1,486	1,359
– Sanmenxia Tianyuan Aluminum Group Yin Lu Company 三門峽天元鋁業集團有限公司銀鋁公司	130	532
– Sanmenxia Tianyuan Aluminum Decoration Co. Ltd. 三門峽天元鋁業裝飾有限公司	–	314
Other related companies		
– Baiyin Fluoride Salts Limited 白銀氟化鹽有限責任公司	274	64
– Jiaozuo City Dongxing Carbon Company Limited 焦作市東星炭素有限公司	2,633	1,539
– Jiaozuo City Duofuduo Chemical Company Limited 焦作市多氟多化工有限公司	56	262
	<u>4,579</u>	<u>4,099</u>

The aging analyses of the amounts due to related companies are as follows:

	As at	
	30 June 2005 Unaudited RMB'000	31 December 2004 Audited RMB'000
1-60 days	3,485	4,016
61-90 days	473	33
91-120 days	245	50
121-365 days	376	–
	<u>4,579</u>	<u>4,099</u>

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



## 12. Long-term bank loans

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

	As at	
	30 June 2005 Unaudited RMB'000	31 December 2004 Audited RMB'000
Within one year	–	65,000
In the second year	62,500	62,500
	62,500	127,500
Less: current portion included in current liabilities	–	(65,000)
	62,500	62,500

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

	As at	
	30 June 2005 Unaudited RMB'000	31 December 2004 Audited RMB'000
Holding company	22,500	127,500
Third party	40,000	–
	62,500	127,500

## 13. Short-term bank loans

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

	As at	
	30 June 2005 Unaudited RMB'000	31 December 2004 Audited RMB'000
Holding company	60,000	42,000
Third parties	215,607	276,207
The company	30,000	–
	305,607	318,207
Unsecured	131,300	131,300
	436,907	449,507



#### 14. Related party transactions

Save 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 periods are as follows:

	Notes	Unaudited			
		Three months ended		Six months ended	
		30 June		30 June	
	2005	2004	2005	2004	
		RMB'000	RMB'000	RMB'000	RMB'000
Continuing transactions:					
Sales of materials and finished goods to					
– Holding company	(a)	23,749	20,176	42,324	64,324
– Fellow subsidiaries		1,468	940	2,995	1,258
– A related company		14,108	32,750	44,792	48,127
Purchases of key and auxiliary materials from					
– A fellow subsidiary	(b)	259	846	830	1,395
– Other related companies		4,411	3,032	9,882	8,006
Provision of utility services to					
– Holding company	(c)	429	1,014	1,004	2,315
– Fellow subsidiaries		20	43	44	123
– Other related companies		(34)	2,436	68	3,952
Provision of social services by the holding company	(d)	600	600	1,200	1,200
Provision of transportation services by a fellow subsidiary	(e)	1,022	1,444	2,267	3,408
Operating lease rentals charged by the holding company in respect of					
– Plant and machinery	(f)	3,300	3,300	6,600	6,600
– Land and buildings	(g)	167	167	334	334

	Notes	Unaudited			
		Three months ended		Six months ended	
		30 June		30 June	
	2005	2004	2005	2004	
		RMB'000	RMB'000	RMB'000	RMB'000
Non-continuing transactions:					
Purchase of key and auxiliary materials from the holding company	(b)	–	20,080	31	28,180





Notes:

- (a) Sales of materials and finished goods to the holding company, fellow subsidiaries and a related company during the periods were set at terms in accordance with the underlying agreements.
- (b) Purchases of key and auxiliary materials from a fellow subsidiary and other related companies were at terms in accordance with the underlying agreements.
- (c) Utility fees, including electricity and water, were charged to the holding company, fellow subsidiaries and other related companies at terms in accordance with the underlying agreements.
- (d) Social services which were provided by the holding company in accordance with the terms of the underlying agreement, cover public security and fire services, education and training, school and hospital services, cultural and physical education, newspaper and magazines, publications and broadcasting and printing as well as property management, environment and hygiene, greenery, sanatoriums and canteens, guesthouses and offices, public transport and other services.
- (e) Transportation services were provided by a fellow subsidiary in accordance with the terms of the underlying agreements.
- (f) Operating lease rentals in respect of hire of plant and machinery were charged by the holding company in accordance with the terms of the underlying agreement.
- (g) Operating lease rentals in respect of land and buildings were charged by the holding company in accordance with the terms of the underlying agreements.



## **INTERIM DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2005 (2004: Nil).

## **BUSINESS SUMMARY**

The aluminum industry of the PRC kept a steady growth and the Company actively expanded its business. For the period from January to June of 2005, production volume of aluminum and aluminum alloy increased by 6.86% while turnover decreased by 5.94%, as compared to the corresponding period in 2004. For the period from April to June 2005, production volume of aluminum ingots increased by 10.43% while turnover increased by 26.04%, as compared to the corresponding period in 2004.

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

### **Business Review**

During the period under review, the operations of the Company maintain at a steady growth. Turnover for the six months ended 30 June 2005 reached RMB629,023,000, representing a decrease of RMB39,693,000 or 5.94% against that of the corresponding period of the previous year of RMB668,716,000. For the period from April to June of 2005, turnover reached RMB332,919,000, representing an increase of RMB68,779,000 or 26.04% against that of the corresponding period of the previous year. The decrease in the turnover for the period from January to June was mainly due to the decrease in sales caused by the drop in demand of aluminum ingots as a result of the implementation of macro-economic policies on the aluminum industry while the increase in turnover for the period from April to June was mainly due to the increase in export of aluminum ingots to 4,947 tonnes for the 3 months ended 30 June 2005, representing an increase of 3,714 tonnes or 301.22%, against the corresponding period of 1,233 tonnes in 2004. Since the third quarter of 2004, the Company devoted more resources on export sales and maintain a steady growth in the overseas markets sales.

For the period from January to June 2005, sales volume of aluminum and aluminum alloy ingots reached 44,098 tonnes, representing a decrease of 3,057 tonnes or 6.48% against the corresponding period of 47,155 tonnes in 2004. For the period from April to June of 2005, the sales volume of aluminum ingots reached 22,853 tonnes, representing an increase of 3,663 tonnes or 19.09% against that of the corresponding period of the previous year.

For the period from January to June of 2005, production volume of aluminum and aluminum alloy reached 52,622 tonnes, representing an increase of 3,378 tonnes or 6.86% against that of the corresponding period in 2004. For the period from April to June of 2005, the production volume of aluminum ingots reached 27,098 tonnes, representing an increase of 2,560 tonnes or 10.43% against that of the corresponding period of the previous year. Increase in production volume of the Company for the periods from January to June and from April to June of 2005 were mainly due to the initiation of the Company's recycle aluminum project in January 2005.



During the period under review, the Company strived to improve the structure of the products and to increase the production volume of aluminum alloy, a product with higher added-value. For the period from January to June of 2005, production volume of the aluminum alloy increased to an average of 6,650 tonnes from an average of 2,111 tonnes in the corresponding period of the previous year, representing an increase of 4,539 tonnes or 215.02%. For the period from April to June 2005, production volume of aluminum alloy increased to 3,880 tonnes from 1,927 tonnes of the corresponding period of the previous year, representing an increase of 1,953 tonnes or 101.35%.

During the period under review, the recycled aluminum project had been developed, which helps improve the structure of the Company's products, and achieves diversified production of aluminum and aluminum alloys. This strengthened the enterprise's core competitiveness.

### **Financial Review**

For the six months ended 30 June 2005:

The Company recorded turnover of approximately RMB629,023,000 for the six months ended 30 June 2005, a 5.94% or RMB39,693,000 decrease from approximately RMB668,716,000 for the same period of the previous year. The decrease in turnover was mainly attributable to the decrease in sales caused by the drop in demand of aluminum ingots as a result of the implementation of macro-economic policies on the aluminum industry.

Of the total turnover amount, RMB535,106,000 or 85.07% was generated from sales of aluminum re-smelt ingots in the PRC and overseas, and RMB93,917,000 or 14.93% was generated from sales of aluminum alloys.

For the six months ended 30 June 2005, the cost of goods sold amounted to RMB593,871,000, representing a decrease of RMB24,205,000 or 3.92% against the corresponding period of the previous year. The decrease was mainly due to the drop in sales of aluminum ingots for the period.

The Company's gross profit for the six months ended 30 June 2005 was approximately RMB35,152,000 representing a gross profit margin of approximately 5.59%, against the gross profit margin of about 7.57% for the six months ended 30 June 2004. The drop in gross profit margin was mainly due to: (i) The average market price of the Company's major finished goods, aluminum ingots, has not increased as much as the average market price of the Company's major raw material – alumina as a result of the implementation of macro-economic policies by the PRC central government. (ii) The 8% value added tax rebate for export sales had been canceled and the export duty had been increased by 5% on aluminum ingots by the PRC central government since 1 January 2005. (iii) Due to the influence of the country's inelastic supply of energy, the government increased the price of electricity in 2005.

Other revenue of the Company for the six months ended 30 June 2005 amounted to RMB5,373,000, of which approximately RMB2,877,000 was derived from sales of scrap and other materials, approximately RMB1,481,000 from supply of water and electricity to the Company's related parties and other independent third parties and approximately RMB1,015,000 from interest income. This represented a decrease of RMB18,877,000 or 77.84% against RMB24,250,000 for the six months ended 30 June 2004. The decrease was mainly due to the drop in sales of alumina and other major raw materials from 4,001 tonnes for the six months ended 30 June 2004 to 20.5 tonnes for the corresponding period in 2005.



Expenses related to other revenue of the Company for the six months ended 30 June 2005 amounted to RMB3,436,000 (including approximately RMB901,000 of the expenses from sales of scrap and other materials, approximately RMB2,497,000 from supply of water and electricity to the Company's related parties and other independent third parties), which represented a decrease of approximately 16,555,000 or 82.81% against the approximate amount RMB19,991,000 for the six months ended 30 June 2004. The decrease in related expenses was mainly due to the drop in sales of alumina and other major raw material from 4,001 tonnes for the six months ended 30 June 2004 to 20.5 tonnes for the corresponding period in 2005.

For the six months ended 30 June 2005, the finance costs amounted to RMB15,721,000, representing an increase of RMB4,849,000 or 44.60% from RMB10,872,000 for the corresponding period of 2004. The increase was mainly due to the increase in banking interest rate from 5.3% to 5.6% by the PRC central bank, and due to the increase of loan amount. At 30 June 2005, the loan amounted to RMB499,407,000, representing an increase of RMB136,508,000 or 37.62% as compared to the corresponding date of 2004.

The selling and distribution expenses of the Company amounted to approximately RMB8,862,000 or 1.41% of the turnover for the six months ended 30 June 2005, as compared to about RMB7,345,000 or 1.1% of the turnover for the same period of the previous year. Such increase was due to the increase in transportation cost which was in turn a result of the increase in the proportion of export sales over total sales.

For the six months ended 30 June 2005, general and administration expenses were approximately RMB18,765,000, representing an increase of approximately RMB2,137,000 or 12.85% against RMB16,628,000 for the same period 2004. This was due to the increase in salaries expenses.

Net loss for the six months ended 30 June 2005 was RMB6,259,000, as compared to a net profit of approximately RMB13,436,000 for the corresponding period in 2004.

For the three months ended 30 June 2005:

The Company recorded a turnover of approximately RMB332,919,000 for the three months ended 30 June 2005, a 26.04% increase from approximately RMB264,140,000 for the same period of the previous year. The increase in turnover was mainly attributable to the increase in export volume of aluminum ingots to 4,947 tonnes for the three months ended 30 June 2005, representing an increase of 3,714 tonnes or 301.22% from the corresponding period of the previous year. This increased turnover of RMB55,288,000.

Of the total turnover amount, RMB276,165,000 or 82.95% was generated from the sales of aluminum ingots in the PRC and overseas, and RMB56,754,000 or 17.05% was generated from the sales of aluminum alloys.

For the 3 months ended 30 June 2005, the cost of goods sold amounted to RMB321,778,000, representing an increase of RMB69,690,000 or 27.65% against RMB252,088,000 for the corresponding period in 2004. The increase was mainly due to the increase in sales of aluminum ingots for April to June 2005.



The Company's gross profit for the three months ended 30 June 2005 was approximately RMB11,141,000, representing a gross profit margin of approximately 3.35%, against the gross profit margin of about 4.56% for the three months ended 30 June 2004. The drop in gross profit margin was mainly because (i) the implementation of macro-economic policies on the aluminum industry by the PRC central government, and (ii) the cancellation of 8% value-added tax rebate for export sales and the increase of export duty by 5% on aluminum ingots by the PRC central government since 1 January 2005 (iii) due to the PRC's inelastic supply of energy, the government increased the price of electricity in May 2005.

Other revenue of the Company for the three months ended 30 June 2005 amounted to RMB3,101,000, which comprised approximately RMB1,848,000 from sales of scrap and other materials, approximately RMB647,000 from supply of water and electricity to the Company's related parties and other independent third parties, and interest income of approximately RMB606,000. This represented a decrease of 38.79% or RMB1,965,000 when compared to RMB5,066,000 for the three months ended 30 June 2004.

Expenses related to other revenue for the 3 months ended 30 June 2005 amounted to RMB1,881,000, including RMB1,222,000 expenses from sales of electricity, representing a decrease of RMB1,448,000 or 43.50% against RMB3,329,000 of the corresponding period in 2004.

For the 3 months ended 30 June 2005, finance costs amounted to RMB8,152,000, representing an increase of RMB2,343,000 or 40.33% from RMB5,809,000 for the same period in 2004. The increase was mainly due to the increase in banking interest rates from 5.3% to 5.6% by the PRC central bank, and the increase amount of loan.

The selling and distribution expenses of the Company amounted to about RMB3,390,000 or 1.02% of the turnover for the three months ended 30 June 2005, which was comparable to about RMB3,061,000 or 1.16% of the turnover for the three months ended 30 June 2004. The increase was mainly due to the increase in export sales which in turn increased the warehouse storage expenses.

The general and administrative expenses were approximately RMB9,562,000 or 2.87% of the turnover for the three months ended 30 June 2005, representing an increase of RMB4,330,000 or 82.76% from about RMB5,232,000 for the three months ended 30 June 2004. The increase was mainly due to the increase in salaries expenses.

The net loss for the three months ended 30 June 2005 was RMB7,923,000, representing a drop of RMB7,713,000 or 3,672.86% from loss of approximately RMB210,000 for the same period of the previous year.

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

The Company has not held any significant investment for the three months ended 30 June 2005 and made no material acquisitions or disposals during the current period. At 30 June 2005, the Company had no material capital commitments. The Company is committed to expand its business and maintain competitiveness, and has been exploring investment opportunities and the possibility of acquiring assets which can create synergy for its development by using its internal resources or other sources of funding.



## Contingent Liabilities

As at 30 June 2005, 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. The cross guarantee arrangement will expire on 26 August 2005.

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

As at 30 June 2005, the Company recorded trade receivables due from Jiashi to the Company for approximately RMB68.43 million.

The trade receivables due from Jiashi to the Company arose from the sales in the Company's ordinary course of business and on normal commercial terms. The trade receivables 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 period ended 30 June 2005, 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 30 days after accepting delivery of the products pursuant to the relevant agreement entered into between the Company and Jiashi on 25 May 2005.

## Strategies and Plans

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

The Company believes that the economy of the PRC will keep its growth steadily in the second half of 2005 and in the foreseeable future. The electrolytic aluminum industry and the Company will be benefited from the continuous growth of the PRC economy, the grand development of the western region, and the rapid development of the construction and building industry, the transportation industry and the packaging industry.

In the second half of 2005, the Company is committed to expand its business and further enhance the quality of its products. In this respect, the Company has established the following development strategies:

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



## **Liquidity and capital resources**

The major source of liquidity of the Company for the first half of 2005 was operating cash income. As at 30 June 2005, the Company's non-current assets were approximately RMB337,473,000. Non-current assets mainly comprised fixed assets of approximately RMB331,713,000.

As at 30 June 2005, the Company had net current assets of approximately RMB25,692,000. Current assets comprised cash and bank balances of approximately RMB404,149,000, inventories of approximately RMB179,520,000, account receivables of approximately RMB24,807,000, due from related companies of approximately RMB80,863,000, purchase deposits of approximately RMB204,759,000 and prepayments, deposits and other receivables of approximately RMB4,266,000. Current liabilities comprised short-term bank loans of approximately RMB436,907,000, trade and bills payables of approximately RMB280,736,000, due to related companies of approximately RMB4,579,000, other payables and accruals of approximately RMB150,450,000. The Company has obtained letters of intent from four banks to continue the provision of bank loans (which will fall due between June 2005 and May 2007) to the Company, such letters of intent cannot be served as evidence of the existence of the bank loans.

## **Capital structure**

As at 30 June 2005, borrowings of the Company were mainly denominated in Renminbi, and other cash equivalents were mainly held in Renminbi.

The Company intended to maintain an appropriate share capital and debt portfolio to ensure the capital structure in effective. As at 30 June, 2005, the Company had an aggregate outstanding borrowings of RMB750,287,000 (including bills payables of RMB250,880,000). The gearing ratio was 75.67% (2004: 73.59%) (total liabilities/total assets).

## **Employee information**

The remuneration for the employees of the Company amounted to approximately RMB23,180,000, including the Directors' emoluments of approximately RMB25,000 during the six months ended 30 June 2005 (2004: approximately RMB23,372,000, including the Directors' emoluments of approximately RMB25,033). The increase in employee remuneration resulted from the increase in number of employees from 2,167 to 2,245.

## **Details of pledged assets of the Company**

As at 30 June 2005, the Company has pledged bank balances of RMB220,938,000 for the purpose to obtain bank borrowings.

## **Financial assistance**

The Company had provided financial assistance in an aggregate sum of approximately RMB77.9 million to Sanmexia Tianyuan Aluminum Group Limited ("Tianyuan Group") for the period from 1 January 2005 to 31 March 2005. Tianyuan Group repaid part of the advances to the Company from time to time, the highest amount outstanding was approximately RMB77.3 million on 4 March 2005. As at 29 March 2005, Tianyuan Group had settled in full the amount advanced by the Company. Details of the transactions have been set out in the circular of the Company dated 22 July 2005.



## Foreign exchange risk

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

## Share capital

As at 30 June 2005, the shareholders of the Company are as follows:

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

## BUSINESS OBJECTIVES REVIEW

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

	Anticipated progress of projects	Actual progress of projects
Product development and enhancement of production facilities:	Purchase 1 set of electromagnetic stirrer and various auxiliary and environmental protection equipment to strengthen the production facilities for aluminum alloy casting	Facilities had been purchased, installation was completed and entered into trial stage
	Purchase auxiliary and environmental protection equipment to strengthen the production facilities for aluminum rod casting	Facilities had been purchased, installation was completed and entered into trial stage
	Continue to build production facilities for aluminum square-ingots by purchasing 2 sets of furnace, 1 set of casting machine, 1 set of refining machine	Facilities had been purchased, installation was completed and entered into trial stage





	<b>Anticipated progress of projects</b>	<b>Actual progress of projects</b>
Research and development of new production technology:	Continue to enhance the integrated technology for energy conservation and durability of large-scale aluminum smelting cells, in particular the pilot test on the use of low-temperature and high efficiency smelting technology	Developed the integrated technology which has entered the trial stage
	Continue the 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 entered the trial stage
Sales network development:	Develop international aluminum markets	Under planning stage
Information system set up:	Set up of Internet based e-commerce systems	Under development
	Set up of investment project management and decision support systems	Under development
	Set up of aluminum alloy CAD/CAM design manufacturing systems	Under development
Staff training:	Staff internal training for production staff, managers and technicians to learn aluminum alloy production technique	Several courses had been held
	Staff external training for technicians to learn up-to-date production technology and the recycle processing technique	Several courses had been held
	Recruitment program to recruit technicians for aluminum alloy production	Completed



## Use of proceeds from the Placing

For the 6 months ended 30 June 2005, the use of the net proceeds received from the Placing in accordance with the Prospectus were as follows:

	<b>For the 6 months ended 30 June 2005</b>	
	<b>Proposed total fundings required from net proceeds</b>	<b>Actual fundings spent</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Product development and enhancement of production facilities	14,082	8,958
Research and development of new production technology	1,060	1,034
Sales network development	318	–
Information system set up	530	150
Staff training	254	301
Total	<u>16,244</u>	<u>10,443</u>

During the period under review, the Company utilized its own resources for the installation and testing for the production facilities, which resulted in actual fundings spents was less than the proposed fundings required .

## DISCLOSURE OF INTERESTS

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

As at 30 June 2005, none of the directors, supervisors and chief executive of the Company has any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Exchange pursuant to the required standard of dealings by directors of listed issuer as referred to in Rule 5.46 of the GEM Listing Rules.



## Substantial shareholder

As at 30 June 2005, the persons (other than a director, supervisor or chief executive of the Company) who have an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Interests in Domestic Shares (long positions):

Name	Capacity	Number of Domestic Shares	Approximate percentage of shareholding in the relevant class of securities	Approximate percentage of shareholding in the entire issued share capital of the Company
三門峽天元鋁業集團有限公司 (Sanmenxia Tianyuan Aluminum Group Limited)	Beneficial owner	782,882,280	95.69%	67.02%

Interests in H Shares (long positions):

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

## Other persons who are required to disclose their interests

As at 30 June 2005, save for the person described in the paragraph headed "Substantial shareholder" above, no other person has an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.



## **DIRECTORS' RIGHTS TO ACQUIRE SHARES**

During the six months ended 30 June 2005, none of the Directors was granted any option to subscribe for shares of the Company. As at 30 June 2005, none of the Directors had any rights to acquire shares in the Company.

## **SHARE OPTION SCHEME**

Up to 30 June 2005, the Company had not adopted any share option scheme or granted any option.

## **COMPETING INTERESTS**

As at 30 June 2005, none of the Directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Company.

## **COMPLIANCE ADVISER'S INTEREST**

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

None of the Company's compliance adviser, their directors, employees or associates had any interests in the securities of the Company or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company as at 30 June 2005.

## **BOARD PRACTICE AND PROCEDURES**

The Company has complied with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the 6 months ended 30 June 2005.

## **CORPORATE GOVERNANCE PRACTICES**

The Company has established a remuneration committee and a nomination committee on 12 August 2005 with written terms of reference in accordance with Appendix 15 to the GEM Listing Rules. Save as disclosed aforesaid, for the six months ended 30 June 2005, the Company was in compliance with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

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



## PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 30 June 2005, there was no purchase, sales or redemption of the Company's listed securities by the Company.

## AUDIT COMMITTEE

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

The unaudited condensed interim financial statements for the six months ended 30 June 2005 have been reviewed by the audit committee.

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

Henan, the PRC, 12 August 2005

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

*(\* resigned on 12 August 2005)*