



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)*

Stock Code : 8253

First Quarterly Report 2006

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\* For identification only



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

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



### **HIGHLIGHTS**

- Achieved a turnover of approximately RMB369,881,000 for the three months ended 31 March 2006.
- Net profit amounted to approximately RMB8,247,000 for the three months ended 31 March 2006, as compared to a net profit of approximately RMB1,664,000 for the corresponding period in 2005.
- The Directors do not recommend the payment of dividend for the three months ended 31 March 2006.



## FIRST QUARTERLY RESULTS

The board of Directors (the "Board") of the Company is pleased to announce the unaudited results of the Company for the three months ended 31 March 2006 ("three-month period") together with the comparative unaudited figures for the corresponding period in 2005. The first quarterly unaudited results of the three-month period have been reviewed by the audit committee of the Company.

### PROFIT AND LOSS ACCOUNT (UNAUDITED)

Three months ended 31 March 2006

		<b>Three months ended</b>	
		<b>31 March</b>	
		<b>2006</b>	2005
	<i>Note</i>	<b>RMB'000</b>	<i>RMB'000</i>
Turnover	3	<b>369,881</b>	296,104
Cost of goods sold		<b>(346,252)</b>	(272,093)
		<hr/>	<hr/>
Gross profit		<b>23,629</b>	24,011
		<hr/>	<hr/>
Other revenue	3	<b>7,593</b>	2,272
Expenses related to other revenue		<b>(3,052)</b>	(1,555)
		<hr/>	<hr/>
Other revenue, net		<b>4,541</b>	717
		<hr/>	<hr/>
Selling and distribution expenses		<b>(3,063)</b>	(5,472)
General and administrative expenses		<b>(7,423)</b>	(9,203)
		<hr/>	<hr/>
Operating profit		<b>17,684</b>	10,053
Finance costs		<b>(9,437)</b>	(7,569)
		<hr/>	<hr/>
Profit before income tax		<b>8,247</b>	2,484
Income tax	4	<b>-</b>	(820)
		<hr/>	<hr/>
Profit for the period		<b>8,247</b>	1,664
		<hr/>	<hr/>
Dividend		<b>-</b>	-
		<hr/>	<hr/>
Earnings per Share	5	<b>RMB0.71 cents</b>	RMB0.14 cents
		<hr/>	<hr/>

**STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**

	<b>Share capital</b>	<b>Capital reserve</b>	<b>Statutory surplus reserve</b>	<b>Statutory public welfare fund</b>	<b>Retained earnings</b>	<b>Total</b>
	<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 2005	116,820	62,099	14,060	7,031	106,914	306,924
Profit for the period	—	—	—	—	1,664	1,664
At 31 March 2005	<u>116,820</u>	<u>62,099</u>	<u>14,060</u>	<u>7,031</u>	<u>100,578</u>	<u>308,588</u>
At 1 January 2006	116,820	62,099	14,060	7,031	(69,486)	130,524
Profit for the period	—	—	—	—	8,247	8,247
At 31 March 2006	<u>116,820</u>	<u>62,099</u>	<u>14,060</u>	<u>7,031</u>	<u>(61,239)</u>	<u>138,771</u>



## NOTES TO THE ACCOUNTS

### 1. Organisation and principal operation

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

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

### 2. Basis of preparation

The unaudited results of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

### 3. Turnover, revenues and segment information

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

	<b>Unaudited</b>	
	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2006</b>	2005
	<b>RMB'000</b>	RMB'000
Turnover		
Sales of goods, net of value-added tax	<b>369,881</b>	296,104
Other revenue		
Sales of scrap and other materials	<b>2,068</b>	1,029
Supply of water and electricity	<b>1,942</b>	834
Interest income	<b>4,010</b>	1,863
	<b>3,583</b>	409
Total other revenue	<b>7,593</b>	2,272
Total revenue	<b>377,474</b>	298,376

#### *Primary reporting format – business segments*

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



Secondary reporting format – geographical segments

	<b>Unaudited</b>	
	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2006</b>	<b>2005</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Turnover		
– The PRC	<b>331,466</b>	288,354
– Hong Kong	<b>38,415</b>	7,750
	<b><u>369,881</u></b>	<b><u>296,104</u></b>

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

#### 4. Taxation

The provision for current PRC enterprise income tax is based on the statutory rate of 33% of the assessable income of the Company as determined in accordance with the relevant PRC income tax rules and regulations during the three months ended 31 March 2006 and 2005.

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

	<b>Unaudited</b>	
	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2006</b>	<b>2005</b>
	<b>RMB'000</b>	<b>RMB'000</b>
PRC enterprise income tax	<b><u>-</u></b>	<b><u>820</u></b>

#### 5. Earnings per share

Basic earnings per share for the three months ended 31 March 2006 are based on the unaudited profit attributable to shareholders of RMB8,247,000 (2005: profit of RMB1,664,000), and the weighted average number of 1,168,200,000 shares (2005: 1,168,200,000 shares) in issue during the respective periods.

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



## **DIVIDEND**

The Directors do not recommend the payment of any dividend for the three months ended 31 March 2006 (2005: Nil).

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

### **Business Review**

During the period under review, the operations of the Company maintain at a steady growth. For the period from January to March 2006, production volume of aluminum ingots reached 25,895 tonnes, representing an increase of 372 tonnes or 1.46% against that of the corresponding period in 2005. Turnover for the three months ended 31 March 2006 reached approximately RMB369,881,000 representing an increase of approximately RMB73,777,000 or 24.92% against that of the corresponding period in previous year.

Increase in production volume of the Company for the period from January to March 2006 was mainly due to the increase in the production scale of the Company's re-cycle aluminum project initiated in January 2005. The increase in the turnover for the period from January to March 2006 was mainly driven by the increase in the average selling price of aluminum ingots and aluminum alloys and the increase in sales volume.

During the period under review, the Company strived to improve the structure of the products and to increase the production volume of aluminum alloy, a product with higher added-value. For the period from January to March of 2006, production volume of the aluminum alloy increased to 3,794 tonnes from 2,770 tonnes in the corresponding period in previous year, representing an increase of 1,024 tonnes or 36.97%.

### **Financial Review**

For the three months ended 31 March 2006:

The Company recorded a turnover of approximately RMB369,881,000 for the three months ended 31 March 2006, representing an increase of approximately 24.92% when compared with that of approximately RMB296,104,000 for the same period in pervious year. The increase in turnover was mainly attributable to the increase in average selling price of aluminum ingots and aluminum alloys and the increase in sales volume of aluminum alloys during the first quarter of the year 2006.

Of the total turnover amount, approximately RMB305,736,000 or 82.66% was generated from the sale of aluminum re-smelt ingots in the PRC and overseas, and approximately RMB64,145,000 or 17.34% was generated from the sale of aluminum alloy ingots.

The Company's gross profit for the three months ended 31 March 2006 was approximately RMB23,629,000, representing a gross profit margin of approximately 6.39%, against the gross profit margin of about 8.11% for the three months ended 31 March 2005. The drop in gross profit margin was mainly due to the fact that the average market price of the Company's major finished goods, aluminum ingots, has not increased as much as the average market price of the Company's major raw material, alumina, as they were subject to different levels of demand and supply during the period under review.



Other revenue of the Company for the three months ended 31 March 2006 amounted to approximately RMB7,593,000, which comprised approximately RMB2,068,000 from sale of scrap and other materials, approximately RMB1,942,000 from supply of water and electricity to the Company's related parties and other independent third parties, and approximately RMB3,583,000 of interest income. This represented an increase of 234.2% or RMB5,321,000 when compared to RMB2,272,000 for the three months ended 31 March 2005. The increase was mainly due to (i) the increase in sales of raw materials for aluminum alloy amounted to approximately RMB1 million, (ii) the increase in income from the supply of electricity to independent third parties of approximately RMB1.1 million, (iii) the increase in bank interest income of approximately RMB2.1 million due to the increase in average deposits in banks.

Expenses related to other revenue for the three months ended 31 March 2006 amounted to approximately RMB3,052,000, representing an increase of approximately RMB1,497,000 or 96.27% against RMB1,555,000 of the corresponding period in 2005. The increase was mainly due to the increase of the cost of sales of raw materials for aluminum alloy during the period.

For the three months ended 31 March 2006, finance costs amounted to approximately RMB9,437,000, representing an increase of approximately RMB1,868,000 or 24.68% from RMB7,569,000 for the same period in 2005. The increase was mainly due to the increase in bank interest rates and the increase in average loan balances during period under review.

The selling and distribution expenses of the Company amounted to about RMB3,063,000 or 0.83% of the turnover for the three months ended 31 March 2006, representing a decrease of approximately RMB2,409,000 or 44.02% from about RMB5,472,000 or 1.85% of the turnover for the three months ended 31 March 2005. The decrease was mainly due to the fact that more of the products were delivered by its customers who bears its own transportation cost when compared with the corresponding period in year 2005.

The general and administrative expenses were approximately RMB7,423,000 or 2.0% of the turnover for the three months ended 31 March 2006, representing a decrease of RMB1,780,000 or 19.34% from about RMB9,203,000 for the three months ended 31 March 2005. The decrease was mainly due to the more stringent internal control on overseas travelling expenses.

Net profit for the three months ended 31 March 2006 was RMB8,247,000, representing an increase of approximately RMB6,583,000 from net profit of approximately RMB1,664,000 for the same period in previous year.

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

The Company has not held any significant investment for the three months ended 31 March 2006.



### **Acquisition of Production Facilities and Land Use Rights from Tianyuan Group**

It was publicly announced on 27 October 2005 that the Company had entered into an agreement with Sanmenxia Tianyuan Aluminum Group Limited ("Tianyuan Group") on the same date (the "Agreement"), pursuant to which the Company agreed to acquire from Tianyuan Group certain production facilities and land use rights ("Acquisition") at a total consideration of approximately RMB390.78 million. The consideration shall be satisfied by the Company on completion of the Acquisition as to (i) RMB149.45 million by assuming bank borrowings of an equivalent amount owed by Tianyuan Group to two PRC commercial banks and a PRC urban credit (城市信用社); (ii) RMB40.00 million by the assignment of the Company's trade receivables of an equivalent amount; (iii) RMB162.28 million by the assignment of the Company's purchase deposits of an equivalent amount; and (iv) the remaining balance of RMB39.05 million by cash and/or, at the option of the Company, the transfer of aluminum ingots of an equivalent amount to Tianyuan Group, the price of which is determined based on the average daily closing price of aluminum ingots on the last five trading days before the completion date as quoted on the Shanghai Futures Exchange.

Pursuant to Chapter 19 of the GEM Listing Rules, the Acquisition constitutes a very substantial acquisition for the Company. Tianyuan Group is a promoter, an initial management shareholder and a substantial shareholder of the Company holding approximately 67.02% of its issued share capital, hence, Tianyuan Group is a connected person (as defined under the GEM Listing Rules) of the Company. Accordingly, the Acquisition also constitutes a connected transaction for the Company under Chapter 20 of the GEM Listing Rules. The Agreement and the transactions contemplated thereunder were therefore subject to approval by shareholders of the Company other than Tianyuan Group ("Independent Shareholders") at the general meeting of the Company convened on 10 March 2006 ("EGM"). All resolutions in respect of the Agreement and the transactions contemplated thereunder were duly passed by the Independent Shareholders voting by way of poll at the EGM. For details, please refer to the information set out in the circular issued by the Company on 23 January 2006.

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

As at 31 March 2006, the Company recorded trade receivables due from Sanmenxia Jiashi Wheel Hubs Co., Ltd. (三門峽佳適鋁合金輪轂有限公司) ("Jiashi") to the Company for approximately RMB68.49 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 31 March 2006, 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 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.

In the year 2006, the Company will still face challenges both in production and management including the increase pressure on product cost and operation cost, mainly due to the intensity of competition in aluminum market, the high prices of raw materials and energy sources after the implementation of macro-economic policies on the aluminum industry. The Company will continue to focus on its principal business, carry out a cost objective management model to effectively control cost and strive to increase the returns for Shareholders by, inter alia, reducing energy consumption, improving internal management and enhancing production efficiency and quality.

### 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 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. However, part of the export sales is settled by United States dollar. Thus, the appreciation of RMB in July 2005, will have an effect on the financial results of the Company.

### Share capital

As at 31 March 2006, the shareholders of the Company are as follows:

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

## DISCLOSURE OF INTERESTS

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

As at 31 March 2006, none of the directors, supervisors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

### Interests of substantial shareholders and other persons

As at 31 March 2006, 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):

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

#### **Other persons who are required to disclose their interests**

As at 31 March 2006, save for the persons described in the paragraph headed "Interests of substantial shareholder and other persons" 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 three months ended 31 March 2006, none of the Directors was granted any option to subscribe for shares of the Company. As at 31 March 2006, none of the Directors had any right to acquire shares in the Company.

#### **SHARE OPTION SCHEME**

Up to 31 March 2006, the Company had not adopted any share option scheme or granted any option.

#### **COMPETING INTERESTS**

As at 31 March 2006, 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, Oriental Patron Asia Limited 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 Oriental Patron Asia Limited, their directors, employees or associates had any interests in the securities of the Company or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company as at 31 March 2006.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

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

During the three months ended 31 March 2006, 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 and 5.29 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and accounts, half-yearly 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, Mr. CHAN Nap Tuck.

The unaudited first quarterly accounts for the three months ended 31 March 2006 have been reviewed by the audit committee.

By Order of the Board  
**Sanmenxia Tianyuan Aluminum Company Limited**  
**Li He Ping**  
*Chairman*

Henan Province, the PRC, 15 May 2006

*As at the date of this report, the executive Directors are Mr. Tan Yu Zhong, Mr. Xiao Chong Xin and Mr. Zhao Zheng Bin; the non-executive Directors are Mr. Li He Ping, Mr. Li Liu Fa and Mr. Yan Li Qi; and the independent non-executive Directors are Mr. Zhu Xiao Ping, Mr. Song Quan Qi and Mr. Chan Nap Tuck.*