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

Annual Report 05

* For identification only

Characteristics of The Growth Enterprise Market ("GEM") of The Stock 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 Stock Exchange. Listed companies are not generally required to issue paid reports in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

The Stock 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 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.

Contents

Corporate Information

Executive Directors
Mr. TAN Yu Zhong
Mr. XIAO Chong Xin
Mr. ZHAO Zheng Bin

Non-executive Directors
Mr. LI He Ping *(Chairman)*
Mr. LI Liu Fa
Mr. YAN Li Qi

Independent non-executive Directors
Dr. SONG Quan Qi
Mr. ZHU Xiao Ping
Mr. CHAN Nap Tuck

Registered address and principal place of business in the PRC
No. 10 South Dongfeng Road
Sanmenxia City
Henan Province
The PRC

Principal place of business in Hong Kong
Suites 1002-03
10th Floor
Aon China Building
29 Queen's Road Central
Hong Kong

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

Authorised representatives
Mr. TAN Yu Zhong
Mr. YAO Yan Ping

Principal bankers
Agricultural Bank of China
Sanmenxia Branch
Hubin District Sub-branch
1st Floor, Employment Bureau Building
Huanghe Road Central
Sanmenxia City
Henan Province
The PRC

China Construction Bank
Sanmenxia Branch
No. 52, Yaoshan Road Central
Sanmenxia City
Henan Province
The PRC

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

Bank of Communication
Zhengzhou Branch
Jianwen Sub-branch
No. 25, Wenhua Road
Zhengzhou City
The PRC

Corporate Information *(Continued)*

Hong Kong H Share registrar and transfer office
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

Compliance adviser
Oriental Patron Asia Limited
27th Floor
Two Exchange Square
8 Connaught Place Central
Hong Kong

Legal advisers
As to Hong Kong law:
Tsun & Partners
Suites 1002-03
10th Floor
Aon China Building
29 Queen's Road Central
Hong Kong

As to PRC law:
Broad & Ken Partners
13th Floor, East Tower
Si Chuan Mansion
No. 1 Fuchengmenwai Street
Xi Cheng District
Beijing 100039
The PRC

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

Financial Highlights

Profit and loss account	For the year ended 31 December **2005** ***RMB'000***	 2004 *RMB'000*	 2003 *RMB'000*
Turnover	**1,326,256**	1,416,839	1,191,930
Cost of goods sold	**(1,343,019)**	(1,315,781)	(1,056,328)
Gross (loss)/profit	**(16,763)**	101,058	135,602
Other revenue	**12,332**	33,966	12,093
Expenses related to other revenue	**(7,828)**	(25,238)	(8,639)
Other revenue, net	**4,504**	8,728	3,454
Selling and distribution expenses	**(22,659)**	(19,851)	(19,763)
General and administrative expenses	**(83,980)**	(30,808)	(37,290)
Operating (loss)/profit	**(118,898)**	59,127	82,003
Finance costs	**(40,048)**	(24,888)	(18,992)
(Loss)/profit before income tax	**(158,946)**	34,239	63,011
Income tax	**(5,260)**	(11,490)	(6,688)
(Loss)/profit after income tax	**(164,206)**	22,749	56,323
(Loss)/profit attributable to shareholders	**(164,206)**	22,749	56,323
Dividend	**–**	11,682	–
(Loss)/earnings per share	**(RMB0.14)**	RMB0.023	RMB0.066

Assets and liabilities	**As at 31 December 2005** ***RMB'000***	As at 31 December 2004 *RMB'000*	As at 31 December 2003 *RMB'000*
Total assets	**1,168,521**	1,162,280	906,069
Total liabilities	**1,037,485**	855,356	691,107
Net assets	**131,036**	306,924	214,962

Chairman's Statement

Dear Shareholders,

The year 2005 is a formidable year for both Sanmenxia Tianyuan Aluminum Company Limited (the "Company") and I. With the aim to enhance return to our shareholders, the Company has adopted effective measures by strengthening our management, implementing more flexible operations and reducing energy consumption and operating costs. However, coupled with the high price of raw materials and energy as well as the State's macro-economic policies, we, together with most of the industry players, have suffered from difficulties with a loss recorded in the financial results of 2005.

I am pleased to present to our shareholders the annual report of the Company for the financial year ended 31 December 2005 and, on behalf of the board of directors (the "Board") and all the employees of the Company, express our sincere gratitude to our shareholders for their dedication and support to the Company.

Review of Operating Results

Turnover and other revenues of the Company for 2005 amounted to approximately RMB1,338,588,000, representing a decrease of approximately 7.73% over the corresponding period in last year. Loss for the year was approximately RMB164,206,000, representing a decrease of approximately RMB186,955,000 when compared with a profit of approximately RMB22,749,000 for 2004. Loss per share reached RMB0.14.

The change from a gain to a loss from 2004 to 2005 was primarily attributed to the deteriorating of alumina, one of the major raw materials for the production of aluminum re-smelt ingots and external operating environment caused by the implementation of macro-economic policies on aluminum industry by the PRC central government since 2004. Shortage of supply had for a time occurred with price surge, resulting in an increase of average alumina purchase costs compared with 2004. Other factors contributing to the increase of cost of sales included (i) increase in electricity rate; (ii) cancellation of the 8% tax refund for export sales; and (iii) the introduction of 5% export duty on aluminum ingots by the PRC central government since 1 January 2005. In addition, the rise in finance cost was caused by the increase of bank financing and the interest rate of loan and the adjustment on international exchange rate.

2006 Business Prospect

Following the growth rate of global economy, the international aluminum market in 2006 will maintain a stable growth. It is expected that the demand for aluminum will increase by more than 5% in 2006, while the growth rate of its supply will fall below 5% and the London Metal Exchange (LME) storage will be at a record low level. As a result, a shortage of supply will occur. Asia regions such as the PRC, Japan and Korea will be the main drivers of aluminum consumption, while the demand of aluminum in North America, India and Southeast Asia will also maintain a strong growth.

While the aluminum industry of the PRC is benefited from the State's macro-economic policies, the in-depth problem of the whole industry has been exposed. With the high prices of electricity and alumina, the operating environment of the entire industry will continue to be very difficult. Fortunately, there are new opportunities amidst the gloomy condition.

In 2006, facing both challenges and opportunities, we are committed to increase the Company's profit and return to shareholders by implementing energy and costs saving measures, maintaining efficient internal management, reducing production costs and increasing both production capacity and product quality. In this respect, the Company has established the following operation strategies for the year 2006:

1. Achieving all economic and technology standards to ensure a continuous stable production of electrolytic aluminum. Firstly, we will continue to ascertain the implementation of electricity supply contracts, and to expand the scale of the contractual electricity supply so as to reduce costs of electricity, and thus the cost of sales. Secondly, we will strengthen our relationships with domestic and overseas alumina suppliers, in particular, those alumina companies which have just commenced production, in order to ensure an adequate supply of the major raw material. Thirdly, we will maintain our well established relationships with the financial institutions so that sufficient working capitals can be obtained for the normal operations of the Company.

2. Operating in compliance with the GEM Listing Rules and other relevant requirements. With on-going operation mode as our prime focus, we will integrate operating resources so as to enhance effectiveness. Focusing on financing, we will establish a cash flow-oriented capital operation system, contributing to a proper budget management as well as increasing the efficiency of capital utilization.

3. Exploring aluminum alloy market. We are dedicated to accomplish a production capacity of 50,000 tons of aluminum alloy so as to generate a new profit stream for the Company.

4. Adjusting product structure flexibly based on market-oriented approach, enhancing production technology, dedicating to product development and technology innovation, improving efficiency and benefit from technology reform.

5. Establishing a computerized logistic management system with features of purchase, sales and inventory by integrating resources and optimizing specifications so as to enhance efficiency of management.

Despite the challenges ahead of us, I am confident that with our 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 He Ping
Chairman

Sanmenxia City, Henan Province, the PRC
9 June 2006

Business Objectives Review

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 3: From 1 July 2005 to 31 December 2005

	Anticipated progress of projects	**Actual progress of projects**
Product development and enhancement of production facilities:	Complete building of the production facilities for aluminum alloy casting	Completed and production commenced
	Complete building of the production facilities for aluminum rod casting	Completed and production commenced
	Complete building of production facilities for aluminum square-ingots	Completed and production commenced
Research and development of new production technology:	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 have already entered the trial stage
Sales network development:	Develop domestic and international foam aluminum (泡沫鋁) markets	Under planning stage

Business Objectives Review *(Continued)*

	Anticipated progress of projects	Actual progress of projects
Staff training:	Staff internal training for the marketing staff	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 the management staff and senior technicians	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 the production staff and marketing staff	Under planning stage

Management's Discussion and Analysis of Financial Condition and Results of Operations for the year 2005

The Company is principally engaged in the production and sale of aluminum re-smelt ingots and aluminum alloy ingots. The Company currently owns two smelting facilities, and one aluminum alloy production facility. The Company has a total annual production capacity of about 100,000 tonnes of aluminum re-smelt ingots and 50,000 tonnes aluminum alloy ingots respectively. The Company had manufactured about 89,803 tonnes of aluminum re-smelt ingots in 2005, representing a reduction of 5.65%, from 95,180 tonnes for 2004. Production volume of the aluminum alloy ingots amounted to 13,284 tonnes, representing an increase of 152.79%, from 5,255 tonnes for 2004.

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 loss amounted to approximately RMB164,206,000 for 2005, representing a decrease of RMB186,955,000, when compared with a profit of about RMB22,749,000 for 2004.

The change from a gain to a loss from 2004 to 2005 was primarily due to the implementation of macro-economic policies on aluminum industry by the PRC central government since 2004; continuous increase in cost of the major raw materials, alumina and electricity; the cancellation of the 8% tax refund for export sales and the imposition of 5% export duty on aluminum ingots by the PRC government since 1 January 2005 and a provision for doubtful debt of approximately RMB38 million.

Turnover

The Company's total turnover amounted to approximately RMB1,326,256,000 for 2005, representing a decrease of 6.39%, from about RMB1,416,839,000 for 2004. The decrease in turnover was mainly due to the decease in sales caused by the decrease in demand of aluminum ingots as a result of the implementation of macro-economic policies. The average production costs for aluminum ingots was 11.27% higher than those for 2004, with only 2.81% increase in the average market price of aluminum ingots. In order to reduce the loss as a result of the rapid increase in production costs, the production and the sales volume of aluminum was reduced by 5.65% and 17.54% respectively.

During 2005, of the total turnover amount, approximately RMB1,133,591,000 or 85.47% was generated from the sale of aluminum re-smelt ingots, and about RMB192,665,000 or 14.53% was generated from the sale of aluminum alloy ingots.

The sales of aluminum re-smelt ingots amounted to approximately RMB1,133,591,000 in 2005, representing a decrease of 15.51%, from about RMB1,341,764,000 in 2004.

The sales of aluminum alloy ingots amounted to approximately RMB192,665,000 for 2005, representing an increase of 1.57 times, from about RMB75,075,000 for 2004.

Sales volume of aluminum re-smelt ingots and aluminum alloy ingots amounted to 92,221 tonnes for 2005, representing a decrease of 9,016 tonnes or 8.91%, from 101,237 tonnes for 2004; the average price was RMB14,381 per tonne for 2005, representing an increase of RMB386 per tonnes or 2.76%, from RMB13,995 per tonne for 2004. Of the total sales volume, the sales volume of aluminum re-smelt ingots was 79,143 tonnes for 2005, representing a decrease of 16,839 tonnes or 17.54%, from 95,981 tonnes for 2004; the average selling price of aluminum re-smelt ingots amounted to RMB14,323 per tonne for 2005, representing an increase of RMB344 per tonne or 2.46%, from RMB13,979 per tonne for 2004; the sales volume of aluminum alloy ingots was 13,078 tonnes for 2005, representing an increase of 7,822 tonnes or 148.82%, from 5,256 tonnes for 2004; the average selling price of aluminum alloy ingots amounted to RMB14,732 per tonne for 2005, representing an increase of RMB447 per tonne or 3.13% from RMB14,285 per tonne for 2004.

Cost of sales

The Company's total cost of sales amounted to approximately RMB1,343,019,000 in 2005, representing an increase of 2.00%, from about RMB1,315,781,000 in 2004. The increase was mainly due to the increase in the price of major raw material, alumina, and the introduction of 5% export duty on aluminum ingots by the PRC Central government since 1 January 2005.

The average selling costs for aluminum re-smelt ingots were RMB14,460 per tonne in 2005, representing an increase of RMB1,449 per tonne or 11.13% from RMB13,011 per tonne in 2004.

The average selling costs for aluminum alloy were RMB15,102 per tonne, representing an increase of RMB2,413 per tonne or 19.02%, from RMB12,689 per tonne in 2004.

The average purchase price for alumina was RMB4,581.7 per tonne (excluding tax) for 2005, increased by RMB930.7 per tonne or 25.49%, from RMB3,651 per tonne (excluding tax) for 2004. Average price for electricity amounted to RMB0.3267 per degree (excluding tax), increased by RMB0.0069 per degree or 3.13%, from RMB0.3168 per degree (excluding tax) in 2004.

Gross (loss)/profit

The Company's gross loss for the year ended 31 December 2005 was approximately RMB16,763,000, when compared with a gross profit of approximately RMB101,058,000 for 2004. The change from a gain to a loss from 2004 to 2005 was mainly due to: (1) the increase in the cost of its major raw material, i.e. alumina, cannot be absorbed by raising the selling price of the aluminum re-smelt ingots due to fierce market competition as a result of abundant supply following the duplicated construction of production facilities for aluminum re-smelt ingots prior to the implementation of regulatory policies by the PRC central government in early 2004. Average market price for aluminum re-smelt ingots amounted to RMB14,323 per tonne, representing an increase of 2.46% from that of the previous year. Cost of sales for aluminum re-smelt ingots amounted to RMB14,460 per tonne, representing an increase of 11.13% from that of the previous year; and (2) the cancellation of the 8% value-added tax rebate for export sales, and the imposition of 5% tariff for export increased the selling costs of the Company.

The export of aluminum re-smelt ingots amounted to 16,176 tonnes, representing an increase of 5,026 tonnes or 45.08%, from 11,150 tonnes in 2004. Due to the increase in export duty on aluminum re-smelt ingots since 1 January 2005, tariff for 2005 was increase by approximately RMB12,143,340 from 2004.

Selling and Distribution Expenses

The Company's selling and distribution expenses were approximately RMB22,659,000 or 1.71% of turnover in 2005, increased by 14.15%, from about RMB19,851,000 or 1.4% of turnover in 2004. The increase was mainly due to the increase in commission expenses for export sales amounted to about RMB2,300,000.

General and Administrative Expenses

The Company's general and administrative expenses were approximately RMB83,980,000 in 2005, representing an increase of RMB53,172,000 or 172.59%, from about RMB30,808,000 for 2004. The increase was mainly attributable to: (1) the provision for bad debts provided in 2005 amounted to RMB38,856,000; (2) the increase of professional fee for assets valuation arising from the acquisition of the 31,000 tonne production line from Sanmenxia Tianyuan Aluminum Group Limited ("Tianyuan Group").

Other Revenue

Other revenue of the Company amounted to approximately RMB12,332,000 for 2005, representing a decrease of RMB21,634,000 or 63.69%, from about RMB33,966,000 in 2004. The decrease was due to: (1) the sales of alumina amounted to 200 tonnes, representing a decrease of 3,800 tonnes or 95%, from 4,000 tonnes in 2004; and (2) reduction in the sales of electricity which reduced the income by approximately RMB9,465,000 in 2005.

Expenses related to other revenues

The Company's expenses related to other revenues for 2005 were approximately RMB7,828,000, representing a decrease of RMB17,410,000 or 68.98%, from about RMB25,238,000 for 2004. The decrease was due to: (1) the reduction of the sales of alumina resulting in the selling costs for alumina reduced by approximately RMB13,366,000 in 2005 from that in the previous year; and (2) the reduction in sales of electricity resulting in the selling cost for electricity reduced by approximately RMB8,407,000 in 2005.

Finance Costs

The finance costs for the Company in 2005 were approximately RMB40,048,000, representing an increase of RMB15,160,000 or 60.91%, from about RMB24,888,000 in 2004. The increase of interest expenses was mainly due to the increase of average outstanding loan balance and discount paid for financing from bills payable in order to improve the tightened cash flow situation. Also, the 2% appreciation of RMB lead to the foreign exchange loss in 2005.

Net Profit

As a result of the foregoing, the Company's net loss for the year was approximately RMB164,206,000, when compared with a net profit of about RMB22,749,000 in 2004.

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 2005.

Acquisition of Production Facilities and Land use Rights from Tianyuan Group

It was announced on 27 October 2005 that the Company had entered into an agreement with Tianyuan Group on the same date, 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 then Tianyuan Group ("Independent Shareholders"). 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 extraordinary general meeting of the Company convened on 10 March 2006. For details, please refer to the information set out in the circular issued by the Company on 23 January 2006.

Working Capital and Liabilities

As of 31 December 2005, the Company's current assets amounted to approximately RMB847,727,000, representing an increase of RMB15,870,000 from about RMB831,857,000 for 2004. The increase was due to the increase of pledged and restricted bank balances of approximately RMB97,766,000 for the increment of the bills payables for the purpose of purchasing the raw material. A portion of the above increase was affected by the decrease in inventory amounted to about RMB75,018,000.

As of 31 December 2005, the Company's current liabilities amounted to approximately RMB974,985,000, representing an increase of RMB182,129,000, from about RMB792,856,000 for 2004. The increase was mainly attributable to the increase of trade and other payables and bank borrowings for the purpose of purchasing raw materials. At the end of 2005, trade and other payables amounted to about RMB399,393,000, representing an increase of RMB121,787,000 from RMB277,606,000 in 2004, and short term bank borrowings amounted to about RMB575,592,000, representing an increase of approximately RMB61,085,000 from RMB514,507,000 in 2004.

Capital Structure

As of 31 December 2005, 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 2005, the Company had an aggregate outstanding borrowings of approximately RMB749,200,000 (including bills payables of about RMB111,108,000). The gearing ratio was 571.75% (being the aggregate outstanding borrowings of RMB749,200,000 divided by the total net assets of RMB131,036,000).

Contingent Liabilities

Please refer to note 24 to the financial statements for details.

Capital Commitments

Please refer to note 25 to the financial statements for details.

Cash and Cash Equivalents

Total cash of the Company as of 31 December 2005 (including foreign currency-denominated deposits) amounted to approximately RMB447,189,000. Since pledged and restricted cash does not fall into the definition of cash equivalents, cash and cash equivalent of the Company as at 31 December 2005 amounted to RMB179,649,000.

Cash Flow

As at 31 December 2005, the Company had cash, bank balances and deposits in bank of approximately RMB179,649,000 (2004: approximately RMB155,304,000), representing an increase of approximately RMB24 million from the beginning of the year. This was mainly attributable to the extension of payment period in trade payables for the purchase of raw materials. During the year, the Company had net cash inflow from operating activities of approximately RMB60 million (2004: RMB87 million of net cash outflow), net cash inflow from investing activities of approximately RMB15 million (2004: RMB43 million of net cash outflow), and net cash outflow from financing activities of approximately RMB48 million (2004: RMB255 million of net cash inflow).

Details of Pledged Assets of the Company

As at 31 December 2005, the Company has pledged bank balances and plant and machinery amounted to approximately RMB228,000,000 and approximately RMB45,332,000 respectively for the purpose of obtaining bank financing.

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. 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.

Information of Employees

As at 31 December 2005, the Company has 2,210 employees (2004: 2,178). Staff costs, including directors' remuneration, was approximately RMB50 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 18(a) to the financial statements.

Directors' and Supervisors' Profile

Executive Directors

Mr. TAN Yu Zhong (譚豫忠), aged 42, 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 21 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.

Mr. XIAO Chong Xin (肖崇信), aged 40, is the deputy chairman 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.

Mr. Zhao Zheng Bin (趙正斌), aged 48, was appointed as executive Director of the Company on 10 March 2006. He 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.

Non-executive Directors

Mr. LI He Ping (李和平), aged 50, is the chairman of the Company. He has served as the General Manager of Tian Rui Group (天瑞集團) since 2004. Mr. Li had served consecutively as the head of the finance department, head of the corporate management department and the chief accountant of Mining Machinery Factory of Luoyang (洛陽礦山機器廠). From 1993 to 1995, he served as the deputy head of the Commission for Restructuring the Economic System of Henan Province (河南省經濟體制改革委員會). From 1995 to 2004, he served as the general manager of Zhongxin Heavy-duty Machinery Company Limited (中信重型機器有限公司). Mr. Li graduated from the Tsinghua University with a Master's degree in Management and the Huazhong University of Science and Technology (華中科技大學) with a Doctor's degree in Management. Mr. Li is a professor level engineer and accountant.

Mr. LI Liu Fa (李留法), aged 49, was appointed as non-executive Director of the company on 10 March 2006. He is the managing director of Tian Rui Group (天瑞集團). Mr. Li was named "Modal Worker of Henan Province" (河南省勞動模範) in 2002. In 2003, he was elected a member of the 10th National People's Congress of the People's Republic of China. In January 2005, Mr. Li was awarded "Star Entrepreneur" (明星企業家) by the Henan Provincial People's Government. Mr. Li graduated from the Peking University with a Master's degree in Business Management and is a senior economist.

Mr. YAN Li Qi (閆利啟), aged 52, was appointed as 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

Dr. SONG Quan Qi (宋全啟), aged 41, 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. ZHU Xiao Ping (朱小平), aged 57, 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 63, was appointed independent non-executive Director in June 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.

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 47, 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 48, 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 32, 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 47, 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 37, 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 3 years and, being eligible, the directors and supervisors may offer themselves for re-election.

SENIOR MANAGEMENT

Mr. Chen Ying Guang (陳應廣), aged 43, 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 32, 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 Jiaxing 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 41, 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 36, 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.

Report of the Directors

The Board submits to the Company the report together with the audited financial statements for the year ended 31 December 2005.

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 2005 are set out on page 48 of this report.

Dividend

The Directors do not propose any dividend for the year ended 31 December 2005.

Reserves

Movements in the reserves of the Company during the year are set out in the statement of changes in equity on page 49 of this report and note 12 to the financial statements.

Fixed Assets

Details of the movements in fixed assets of the Company are set out in note 6 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. Accumulated losses of the Company as of 31 December 2005, calculated based on the above principle, amounted to approximately RMB68,974,000.

Use of Proceeds From the Placing

The Company was listed on GEM on 13 July 2004. As at 31 December 2005, the Company had received the net proceeds from the placing of 318,200,000 H shares of approximately RMB69 million after deducting the proceeds of the 31,820,000 sale H shares and the relevant administrative expenses.

As of 31 December 2005, the usages of the net proceeds received from the Placing in accordance with the Prospectus were as follows:

	As at 31 December 2005	
	Proposed total fundings required from net proceeds	**Actual fundings spent**
	RMB'000	*RMB'000*
Product development and enhancement of production facilities *(note 1)*	54,342	34,804
Research and development of new production technology	2,257	4,854
Sales network development	1,040	194
Information system set up	1,040	233
Staff training	707	403
Total	59,386	40,488

Note 1: Actual fundings spent on the product development and enhancement of production facilities reduced by approximately RMB15 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 in 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 2005 are set out in note 20 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 2005, 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 senior management's remuneration and the five highest paid individuals of the Company are set out in Note 18 to the financial statements.

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

As at 31 December 2005, 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 2005, 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 2005, none of the Directors was granted any option to subscribe for shares of the Company. As at 31 December 2005, none of the Directors had any right to acquire shares in the Company.

Remuneration Policy

Remuneration of the employees of the Company is set on the basis of their merits, qualifications and experience.

The remuneration of the Directors are decided having regard to the Company's operating results, individual performance and comparable market statistic.

Share Option Scheme

Up to 31 December 2005, 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 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 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.

Interests of Substantial Shareholders and Other Shareholders

As at 31 December 2005, 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	Class of Shares	Number of Shares held (Long Position)	Capacity	Percentage in Domestic Shares	Percentage in H Shares	Percentage in Total Issued Share Capital
Substantial shareholders						
Sanmenxia Tianyuan Aluminum Group Limited	Domestic Shares	782,882,280	Beneficial Owner	95.69%	–	67.02%
Other shareholders						
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%
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%

As at 31 December 2005, save for the person described in the paragraph headed "Interests of substantial shareholder and other shareholders" 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 of interest required to be kept by the Company pursuant to Section 336 of the SFO.

Purchase, Sale or Redemption of the Company's Shares

The Company had not purchased, sold or redeemed any of the Company's listed shares in the year ended 31 December 2005.

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 approximately 18.09% and approximately 52.46%, respectively, of the Company's total primary aluminum revenue for the year ended 31 December 2005.

The amount of raw materials (including electricity) provided by the largest supplier and the five largest suppliers of the Company accounted for approximately 36.03% and approximately 68.05%, 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) 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 2005.

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), 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. 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.

3. Sanmenxia Jiashi Wheel Hubs Co., Ltd. (三門峽佳適鋁合金輪轂有限責任公司) ("Jiashi"), a limited liability company established in the PRC on 19 November 1996 and is owned as to 48% by Tianyuan Group.

4. 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.

Connected Transactions *(continued)*

Connected Persons (continued)

5. 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. As a result of on-going restructuring of the parent company, Tianyuan Group disposed its shareholding in Transportation Company in December 2005.

6. 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. As a result of on-going restructuring of the parent company, Tianyuan Group disposed its shareholding in Yin Lu in October 2005.

Connected Transactions

1. The Company has provided financial assistance in an aggregate sum of approximately RMB212,399,000 to Tianyuan Group at various time from July 2004 to March 2005, all of which was fully repaid in the year ended 31 December 2005. 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 failed to comply with such requirements.

2. The Company has acquired from Tianyuan Group certain land use rights and production facilities at a total consideration of approximately RMB390.78 million, details of which have been disclosed in the circular of the Company dated 23 January 2006.

3. The Company has provided guarantee for the amount of RMB8 million to Jiashi pursuant to a cross guarantee arrangement. Such transaction should have been subject to the reporting and announcement requirements but were exempt from the independent shareholders' requirement under Chapter 20 of the GEM Listing Rules. However, the Company failed to comply with such requirements.

Connected Transactions *(continued)*

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 RMB14,396,301.

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 RMB70,991,802, RMB19,223,694 and RMB1,768,381 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 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 RMB2,400,000 and RMB1,392,294 respectively.

4. The provision of transportation service by Transportation Company to the Company under the Transportation Service Agreement dated 13 June 2004 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 RMB2,964,307.

5. The supply of ancillary materials by Yin Lu to the Company under the Ancillary Materials Purchase Agreement dated 13 June 2004 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 RMB1,478,063.

6. The supply of fluoride salt by Baiyin to the Company under the Raw Material Purchase Agreement dated 15 June 2004 entered into between the Company and Baiyin. The sum paid by the Company to Baiyin under this transaction during the year amounted to RMB848,718.

Connected Transactions *(continued)*

Continuing Connected Transactions (continued)

7. The supply of pre-baked carbon anode by Dongxing to the Company under the Pre-baked Carbon Anode Agreement dated 25 May 2005 entered into between the Company and Dongxing. The sum paid by the Company to Dongxing under this transaction during the year amounted to RMB14,203,330.

8. The Company has sold aluminum alloy ingots to Jiashi under the Aluminum Alloy Ingots Agreement dated 25 May 2005 entered into between the Company and Jiashi. The aggregate amount of the transaction during the year amounted to RMB35,054,516.

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, where applicable, independent shareholders' approval requirements relating to the non-exempt continuing connected transactions set out in Chapter 20 of the GEM Listing Rules.

In respect of transaction no. 7 and 8 set out in the paragraph headed "Continuing Connected Transactions" above, the Company has obtained independent shareholder's approval on the transactions and their respective annual caps for each of the three years ending 31 December 2007 at the extraordinary general meeting held on 9 September 2005.

The aforesaid continuing connected transaction has been reviewed by independent non-executive directors of the Company. The independent non-executive directors confirmed that the aforesaid connected transaction were entered into;

(a) in the ordinary and usual course of business of the Company;

(b) either on normal commercial terms or on terms no less favourable to the Company than terms available to or from independent third parties; and

(c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In accordance with paragraph 20.38 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the Board of Directors engaged the auditors of the Company to perform certain factual finding procedures on the above continuing connected transaction on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported their factual findings on the selected samples based on the agreed procedures to the Board of Directors.

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

As at 31 December 2005, the Company recorded trade receivables due from Jiashi to the Company for approximately RMB68,000,000, of which, approximately RMB38,000,000 provision for doubtful debt had been made.

The trade receivables due from Jiashi to the Company arosed from the sales in the Company's ordinary course of business and on normal commercial terms. The trade receivables due from Jiashi are unsecured and with no finance charge on the outstanding amount. 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 25 May 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 2005.

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 5.29 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 reporting process and internal control system of the Company to the Board. During the year, five 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 2005. A resolution for the appointment and/or re-appointment of international auditors and PRC auditors to the Company will be proposed at the forthcoming annual general meeting to be held on 11 August 2006.

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

Sanmenxia City, Henan Province, the PRC
9 June 2006

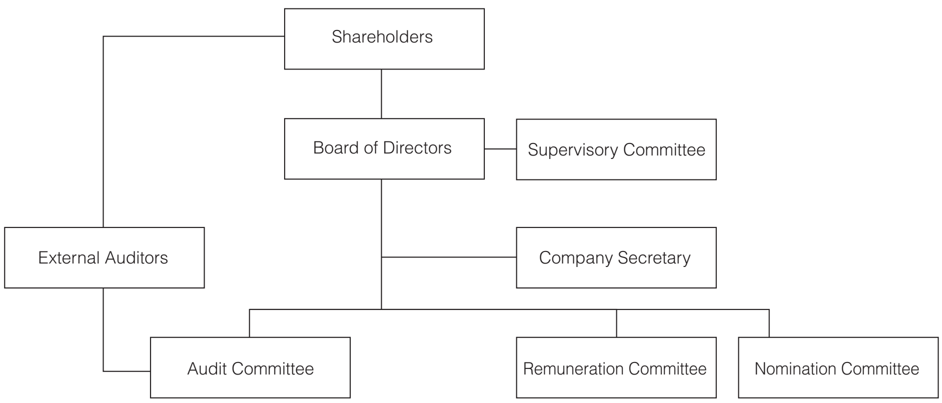
Corporate Governance Report

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the code provisions in the Code on Corporate Governance Practice (the "Code") set out in Appendix 15 of the GEM Listing Rules in the financial year ended 31 December 2005.

The Company attaches great importance to the excellence, soundness and reasonableness of its corporate governance structure. Effort will be made to comply with the principles and practices set out in the Code in order to protect and enhance the benefits of shareholders. We will continue to monitor and revise the Company's governance policies in order to ensure that such policies meet the general rules and standards required by the shareholders.

Organization structure in relation to corporate governance



DIRECTORS' SECURITIES TRANSACTION

Since the listing of the Company on GEM in July 2004, the Company adopted its own code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings.

Having made specific enquiry of all Directors, the Directors have complied with the required standard of dealing and its code of conduct regarding Directors' securities transactions.

BOARD

(a) Board Composition

The Board currently comprises three executive Directors, three non-executive Directors and three independent non-executive Directors, serving the important function of guiding the management.

The Board members for the year ended 31 December 2005 and up to the date of the report were:

Executive directors

Mr. Li Yong Zheng	(resigned on 28 November 2005)
Mr. Tan Yu Zhong	
Mr. Xiao Chong Xin	
Mr. Zhao Zheng Bin	(appointed on 10 March 2006)

Non-executive directors

Mr. Yan Li Qi	
Mr. Li He Ping *(Chairman)*	(appointed on 10 March 2006)
Mr. Li Liu Fa	(appointed on 10 March 2006)
Mr. Zhu Qiang	(resigned on 12 August 2005)
Ms. Yang Chun Lian	(resigned on 12 August 2005)

Independent non-executive directors

Mr. Zhu Xiao Ping	
Dr. Song Quan Qi	
Mr. Chan Nap Tuck	
Mr. Wu Cheng	(resigned on 30 March 2005)

(b) Role and function

The Board is responsible for formulating the strategic business development, reviewing and monitoring the business performance of the Company, as well as preparing and approving financial statements. The Directors, collectively and individually, are aware of their responsibilities to shareholders, and responsible for the manner in which the affairs of the Company are managed and operated. In the appropriate circumstances and as and when necessary, the Directors will consent to the seeking of independent professional advice at the Company's expense, ensuring that the Board procedures, and all applicable rules and regulations, are followed.

The Board gives clear directions as to the powers delegated to the management for the management and administration functions of the Company, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company. The Board will review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Company.

For the year ended 31 December 2005, the Board:–

i. reviewed the performance of the Company and formulated business strategy of the Company;

ii. reviewed and approved the annual, interim and quarterly results of the Company;

iii. reviewed and approved the appointment of auditors of the Company;

iv. reviewed and approved the resignation of directors of the Company;

v. reviewed and approved connected transactions of the Company;

vi. reviewed effective internal controls taken by the Company;

vii. reviewed the amendments to the Articles of Association of the Company;

viii. reviewed and approved the notifiable and connected transactions of the Company as set out below:–

Date of Announcement	**Type of Transaction**	**Description**
26 May 2005	Major, Connected and Continuing and Connected Transactions	Financial assistance, major, connected & continuing connected transactions, disclosure of trade receivables pursuant to Rules 17.15 and 17.16 GEM Listing Rules, non-compliance with GEM Listing Rules.
27 October 2005	Very Substantial Acquisition and Connected Transaction	Acquisition of production facilities and land use rights and resumption of trading.

To the best knowledge of the Company, there is no financial, business and family relationship among the Directors and between the Chairman and the general manager.

(c) Meeting Records

There were 8 Board meetings held for the year ended 31 December 2005.

The following was an attendance record of the Board meetings held by the Board during the year:

Board Members	**Attendance at meetings held in the year ended 31 December 2005**
Mr. Li Yong Zheng (resigned on 28 November 2005)	8/8
Mr. Tan Yu Zhong	8/8
Mr. Xiao Chong Xin	7/8
Mr. Yan Li Qi	8/8
Mr. Zhu Qiang (resigned on 12 August 2005)	4/8
Ms. Yang Chun Lian (resigned on 12 August 2005)	4/8
Mr. Zhu Xiao Ping	8/8
Dr. Song Quan Qi	8/8
Mr. Chan Nap Tuck	8/8
Mr. Wu Cheng (resigned on 30 March 2005)	0/8

(d) Independent Non-executive Directors

All independent non-executive directors are independent from the Company.

The Company confirmed with all non-executive directors as to their independence with reference to the applicable factors as set out in Rule 5.09 of the GEM Listing Rules.

(e) Term of appointment of non-executive Directors

Each of the non-executive and independent non-executive Directors has entered into a service contract with the Company for a term of three years commencing from 12 June 2004.

CHAIRMAN AND GENERAL MANAGER

The former Chairman of the Company, Mr. Li Yong Zheng, resigned on 28 November 2005. Mr. Li He Ping was appointed as the Chairman of the Company on 10 March 2006. The General Manager of the Company is Mr. Tan Yu Zhong.

The Chairman's responsibility is to manage the Board and the General Manager's responsibility is to manage the Company's business.

BOARD COMMITTEES

The Board has also established the following committees with defined terms of reference:–

- Audit Committee
- Remuneration Committee
- Nomination Committee

Each Board Committee makes decisions on matters within its term of reference and applicable limits of authority. The terms of reference as well as the structure and membership of each committee will be reviewed from time to time.

(a) Audit Committee

On 13 June 2004, the audit committee had been established. It currently consists of three independent non-executive Directors.

Composition of audit committee members

Mr. Zhu Xiao Ping (chairman of audit committee)
Dr. Song Quan Qi
Mr. Chan Nap Tuck

Role and function

The audit committee is mainly responsible for:

i. to discuss with the external auditors before the audit commences, the nature and scope of audit;

ii. to review the Company's draft annual, half yearly and quarterly report and accounts before submission and provide advice and comments thereon to the Board;

iii. to consider the appointment of external auditors, their audit fees and questions of resignation or dismissal; and

iv. to discuss problems and reservations arising from audits and matters that the external auditors may wish to discuss (in the absence of the management, where necessary).

Meeting Record

The audit committee met five times during the year, particular in reviewing the interim, quarterly and annual results of the Company.

The following was an attendance record of the of the audit committee meetings for the year ended 31 December 2005:

Committee member	**Attendance at meetings held in the year ended 31 December 2005**
Mr. Zhu Xiao Ping	5/5
Mr. Song Quan Qi	5/5
Mr. Chan Nap Tuck	5/5
Mr. Wu Cheng (resigned on 30 March 2005)	0/1

During the meetings, the audit committee would discuss the following matters:–

(1) Financial Reporting

The audit committee met with the external auditors to discuss the interim, quarterly and annual financial statements and system of control of the Company. The auditors, the general manager, the company secretary and the financial controller of the Company were also in attendance to answer questions on the financial results.

Where there were questions on the financial statements and system of control of the Company reviewed by the audit committee, the management of the Company would provide breakdown, analysis and supporting documents to the audit committee members in order to ensure that the audit committee members were fully satisfied and make proper recommendation to the Board.

(2) External Auditors

The appointment of the external auditors and the audit fee were considered by the audit committee and recommendations were made to the Board on the selection of external auditors of the Company.

(b) Remuneration Committee

The remuneration committee was established on 12 August 2005. It currently consists of three independent non-executive Directors.

Composition of remuneration committee members

Mr. Zhu Xiao Ping (chairman of the remuneration committee)
Dr. Song Quan Qi
Mr. Chan Nap Tuck

Role and function

The remuneration committee is mainly responsible for:

1. making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

2. determining the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive Directors;

3. reviewing and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

4. reviewing and approving the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

5. reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

6. ensuring that no Director or any of his associates is involved in deciding his own remuneration; and

7. advising the shareholders on how to vote in respect of any service contract of Director which shall be subject to the approval of shareholders (in accordance with the provisions of Rule 17.90 of the GEM Listing Rules).

Where circumstances are considered appropriate, remuneration committee decisions will be approved by way of written resolutions passed by all the committee members.

For the year ended 31 December 2005, there was one meeting held. The following was an attendance record of the remuneration committee meeting for the year ended 31 December 2005:

Committee member	**Attendance at meeting held in the year ended 31 December 2005**
Mr. Zhu Xiao Ping	1/1
Mr. Song Quan Qi	1/1
Mr. Chan Nap Tuck	1/1

During the meeting, the remuneration committee reviewed the remuneration of each of the Directors.

(c) Nomination Committee

The nomination committee was established on 12 August 2005. It currently consists of two independent non-executive Directors.

Composition of nomination committee members

Dr. Song Quan Qi (chairman of the nomination committee)
Mr. Chan Nap Tuck

Role and function

(1) reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;

(2) identifying individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(3) assessing the independence of independent non-executive Directors; and

(4) making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the chairman and the chief executive officer.

Where circumstances are consider appropriate, remuneration committee decisions will be approved by way of written resolutions passed by all the committee members.

For the year ended 31 December 2005, the nomination committee did not hold any meeting.

SHAREHOLDERS' RIGHTS

It is the Company's responsibility to ensure shareholders' interest is well protected. To do so, the Company maintains on-going dialogue with shareholders, to communicate with them and encourage their participation through annual general meetings or other general meetings.

Registered shareholders are notified by post for the shareholders' meetings. Notices of meeting which contains the proposed resolutions are despatched to the shareholders with proxy forms.

Registered shareholders are entitled to attend the annual and extraordinary general meetings, provided that their shares have been recorded in the Register of Shareholders.

Shareholders who are unable to attend a general meeting may complete and return the proxy form enclosed with the notice of meeting to give proxy to their representatives, another shareholder or chairman of the meetings.

EXTERNAL AUDITORS

It is the auditor's responsibility to form an independent opinion, based on their audit, on those financial statements and to report their opinion to the Company.

For the year ended 31 December 2005, PricewaterhouseCoopers and Beijing Xinghua Certified Public Accountants, the external auditors provided the following services to the Group:–

	PricewaterhouseCoopers
Annual audit services	HK$1,430,000
Non-audit services	HK$600,000

	Beijing Xinghua
Annual audit services	RMB850,000

FINANCIAL REPORTING

The Directors acknowledge their responsibility for preparing the Company's financial statements which give a true and fair view.

INTERNAL CONTROL

The Board is responsible for maintaining an adequate system of internal control and for reviewing its effectiveness. During the year 2005, the Board has reviewed the effectiveness of the current system of internal control.

INVESTOR RELATIONS

To enhance its transparency, the Company encourages dialogue with institutional investors and analysts. Extensive information about the Company's activities is provided in its interim, quarterly and annual reports, which are sent to shareholders, analysts and interested parties.

For the year ended 31 December 2005, the following shareholder meeting was held by the Company:–

Date	Venue	Type of Meeting	Particulars	Way of voting at the Meeting
15 July 2005	No. 10 South Dongfeng Road, Sanmenxia City, Henan Province, The PRC.	Annual General Meeting	1. To consider and approve the report of 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	By show of hands

Date	Venue	Type of Meeting	Particulars	Way of voting at the Meeting
			6. To authorize the Board to determine the remunerations of the directors and supervisors of the Company.	
9 September 2005	No. 10 South Dongfeng Road, Sanmenxia City, Henan Province, The PRC.	Extraordinary General Meeting	1. To approve the Alloy Agreement and the annual caps; 2. To approve the Anode Agreement and the annual caps.	By poll

Amendment of Articles of Association

To align with changes of the Company Law of the PRC, the Articles of Association of the Company were amended accordingly and approved by shareholders at extraordinary general meeting held on 10 March 2006. The relevant amendments of the changes of the Articles of Association of the Company can be found in the circular of the Company dated 23 January 2006.

Report of the Supervisors

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 and audited financial statements 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 2005 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
9 June 2006

Report of the Auditors

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 financial statements on pages 47 to 94 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 financial statements which give a true and fair view. In preparing financial statements 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 financial statements 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 Hong Kong Standards on Auditing 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Material Uncertainty in Relation to Going Concern Assumption

Without qualifying our opinion, we draw attention to Note 2 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As at and for the year ended 31 December 2005, the company had net loss and net current liabilities amounting to approximately RMB164,206,000 and RMB127,258,000, respectively. The net current liabilities will further increase by approximately RMB390,780,000 as a result of a very substantial acquisition of certain property, plant and equipment from the company's parent company subsequent to 31 December 2005. In addition, as at 31 December 2005 and 9 June 2006, the company has given guarantees in favour of certain third parties and related companies amounting to approximately RMB103,000,000 and RMB121,500,000 in respect of the borrowings of those companies. These conditions, along with the company's ability to obtain the continuing support from the company's bankers, the company's capability to ensure the success of its future operations and the directors' assessment that the company will not be required to honour its guarantee obligations upon default by the borrowers, as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubts about the company's ability to continue as a going concern.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2005 and of its loss 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, 9 June 2006

Balance Sheet

As at 31 December 2005

	Note	As at 31 December 2005 RMB'000	2004 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**320,294**	324,663
Debenture		**500**	500
Deferred tax assets	15	**–**	5,260
		320,794	330,423
Current assets			
Inventories	7	**116,124**	191,142
Trade and other receivables	8	**54,916**	148,499
Purchase deposits	9	**229,498**	167,138
Cash and cash equivalents	10		
– Pledged and restricted bank balances		**267,540**	169,774
– Cash on hand and in bank		**179,649**	155,304
		847,727	831,857
Total assets		**1,168,521**	1,162,280
EQUITY			
Share capital	11	**116,820**	116,820
Other reserves	12	**83,190**	83,190
(Accumulated losses)/Retained earnings			
– Proposed final dividend		**–**	11,682
– Others		**(68,974)**	95,232
Total equity		**131,036**	306,924
LIABILITIES			
Non-current liabilities			
Borrowings	14	**62,500**	62,500
		62,500	62,500
Current liabilities			
Trade and other payables	13	**399,393**	277,606
Income tax payable		**–**	743
Borrowings	14	**575,592**	514,507
		974,985	792,856
Total liabilities		**1,037,485**	855,356
Total equity and liabilities		**1,168,521**	1,162,280
Net current (liabilities)/assets		**(127,258)**	39,001
Total assets less current liabilities		**193,536**	369,424

The notes on pages 51 to 94 are an integral part of these financial statements

Income Statement

For the year ended 31 December 2005

	Note	Year ended 31 December 2005 RMB'000	2004 RMB'000
Sales	5	**1,326,256**	1,416,839
Cost of goods sold	17	**(1,343,019)**	(1,315,781)
Gross (loss)/profit		**(16,763)**	101,058
Other gains – net	16	**4,504**	8,728
Selling and marketing costs	17	**(22,659)**	(19,851)
Administrative expenses	17	**(83,980)**	(30,808)
Operating (loss)/profit		**(118,898)**	59,127
Finance costs	19	**(40,048)**	(24,888)
(Loss)/Profit before income tax		**(158,946)**	34,239
Income tax expense	20	**(5,260)**	(11,490)
(Loss)/Profit for the year and attributable to shareholders		**(164,206)**	22,749
(Loss)/Earnings per share for (loss)/profit attributable to the shareholders of the Company during the year (expressed in RMB per share)			
– basic and diluted	21	**(0.14)**	0.02
Dividends	23	**–**	11,682

The notes on pages 51 to 94 are an integral part of these financial statements

Statement of Changes in Equity

For the year ended 31 December 2005

		Attributable to shareholders of the Company			
	Note	Share capital	Other reserves	Retained earnings/ (Accumulated losses)	Total
Balance at 1 January 2004		85,000	42,203	87,759	214,962
Issue of shares		31,820	69,480	–	101,300
Share issue cost		–	(32,087)	–	(32,087)
Profit for the year		–	–	22,749	22,749
Transfer to					
– Statutory surplus reserve		–	2,396	(2,396)	–
– Statutory public welfare fund		–	1,198	(1,198)	–
Balance at 31 December 2004		116,820	83,190	106,914	306,924
Balance at 1 January 2005		116,820	83,190	106,914	306,924
Dividend relating to 2004	*23*	–	–	(11,682)	(11,682)
Loss for the year		–	–	(164,206)	(164,206)
Balance at 31 December 2005		116,820	83,190	(68,974)	131,036

The notes on pages 51 to 94 are an integral part of these financial statements

Cash Flow Statement

For the year ended 31 December 2005

	Note	Year ended 31 December 2005 RMB'000	2004 RMB'000
Cash flows from operating activities			
Cash generated from/(used in) operations	22	**96,866**	(51,917)
Interest paid		**(36,399)**	(24,888)
Income tax paid		**(743)**	(10,207)
Net cash generated from/(used in) operating activities		**59,724**	(87,012)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**99**	270
Interest received	16	**2,704**	2,938
Purchase of property, plant and equipment		**(16,353)**	(17,979)
Advance to parent company		**(77,900)**	(134,499)
Repayment from parent company		**106,099**	106,300
Net cash generated from/(used in) investing activities		**14,649**	(42,970)
Cash flows from financing activities			
Net proceeds from issuance of ordinary shares		**–**	69,213
Increase in pledged cash		**(97,766)**	(13,081)
Proceeds from borrowings		**575,592**	542,317
Repayments of borrowings		**(514,507)**	(343,209)
Dividends paid to shareholders		**(11,682)**	–
Net cash (used in)/generated from financing activities		**(48,363)**	255,240
Net increase in cash		**26,010**	125,258
Cash at beginning of the year		**155,304**	30,046
Foreign exchange losses on cash		**(1,665)**	–
Cash at end of the year	10	**179,649**	155,304

The notes on pages 51 to 94 are an integral part of these financial statements

Notes to Financial Statements

1. GENERAL INFORMATION

Sanmenxia Tianyuan Aluminium Company Limited (the "Company") is principally engaged in production and distribution of aluminium ingots. All of the Company's operating assets are located in the People's Republic of China (the "PRC").

The Company is a joint stock company with limited liability incorporated in the People's Republic of China. The address of its registered office is 10 Dong Feng Nan Road, Sanmenxia City, Henan Province, the PRC.

The Company's H shares have been listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited since July 2004.

These financial statements are presented in thousands of units of Renminbi (RMB'000), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 9 June 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of Sanmenxia Tianyuan Aluminium Company Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The financial statements have been prepared under the historical cost convention.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

As at 31 December 2005, the current liabilities of the Company exceeded the current assets by approximately RMB127,258,000 and the Company had loss attributable to shareholders of approximately RMB164,206,000 for the year then ended. In addition, as described in Note 27(i), subsequent to 31 December 2005, the Company's shareholders approved a very substantial acquisition to be completed, under which the Company will acquire from the parent company certain property, plant and equipment at total consideration of RMB390,780,000. The entire consideration is to be settled by (i) cash and other current assets of RMB241,330,000 and (ii) assumption of certain short-term bank loans of approximately RMB149,450,000 originally owed by the parent company. As a result of the acquisition, the Company's net current liabilities will increase at the date of the acquisition by RMB390,780,000. In addition, as at 31 December 2005 and 9 June 2006 (date of issuance of these financial statements), the Company has given guarantees in favour of certain third parties and related companies amounting to approximately RMB103,000,000 and RMB121,500,000, respectively in respect of these companies' bank borrowings. The Company's ability to continue its business depends upon the continued support from its bankers, the success of its future operation and whether the Company will be required to honour its guarantee obligations upon default by the borrowers. The directors are confident that the Company's operating results will improve in 2006. Based on the revolving history of the bank loans and the signed letters of intent from the Company's bankers, the directors are confident that the bank loans will be renewed by its bankers. The directors have reviewed the available financial information of certain of those third parties and related companies to which the Company has given the guarantees, and the Company has not been notified by any banks to honour its guarantee obligations and repay the relevant borrowings on behalf of the borrowers. Accordingly, the directors are satisfied that the Company will be able to meet its financial obligations in the next twelve months and the financial statements have been prepared on a going concern basis.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. The areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

The adoption of new/revised HKFRS

In 2005, the Company adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives been amended as required, if necessary, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS Int 15	Operating Leases – Incentives

The impact of the adoption of new/revised HKFRS is as follows:

- HKAS 1 has effect on the presentation of the disclosure notes.

- HKASs 2, 7, 8, 10, 16, 17, 23, 32, 33, 36, 39 and HKAS Int 15 had no material effect on the Company's policies.

- HKAS 21 has no material effect on the Company's policy. The functional currency of the Company has been re-evaluated based on the guidance to the revised standard.

- HKAS 24 has affected the identification of related parties and some other related- party disclosures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

The adoption of new/revised HKFRS (continued)

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Company require retrospective application other than:

– HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1 January 2005.

There was no impact on opening retained earnings at 1 January 2004 from the adoption of new/revised HKFRS.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2006 or later periods but which the Company has not early adopted, as follows:

- **HKAS 19 (Amendment), Employee Benefits (effective from 1 January 2006).** This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. These amendments are not relevant to the Company's operation as it does not maintain any defined benefit plan during the years ended 31 December 2005 and 2004.

- **HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006).** The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant to the Company's operations, as the Company is a single entity and does not have any intragroup transactions as of 31 December 2005 and 2004.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

Standards, interpretations and amendments to published standards that are not yet effective *(continued)*

- **HKAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006).** This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Company believes that this amendment should not have a significant impact on the classification of financial instruments. The Company will apply this amendment from annual periods beginning 1 January 2006.

- **HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006).** This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognized at their fair value, and subsequently measured at the higher of (a) the unamortized balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management considered this amendment to HKAS 39 and concluded that it is very likely that the Company will continue to have cross guarantee arrangement with other companies. As this stage, the Company is not able to assess the fair value of the potential financial guarantees for initial recognition.

- **HKFRS 1 (Amendment), First-time Adoption of Hong Kong Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006).** These amendments are not relevant to the Company's operations, as it is not a first-time adopter and does not carry out exploration for and evaluation of mineral resources.

- **HKFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006).** HKFRS 6 is not relevant to the Company's operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

Standards, interpretations and amendments to published standards that are not yet effective *(continued)*

- **HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007).** HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces HKAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in HKAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under HKFRS. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Company assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. The Company will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January 2007.

- **HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006).** HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of HKFRS-Int 4 on the Company's operations.

- **HKFRS-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006).** HKFRS-Int 5 is not relevant to the Company's operations.

- **HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective from 1 December 2005).** HK(IFRIC)-Int 6 is not relevant to the Company's operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in Renminbi, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

2.4 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Property, plant and equipment *(continued)*

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Buildings	9-40 years
Plant and machinery	2-20 years
Motor vehicles and transportation facilities	3-15 years
Office and other equipment	3-8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.5).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

2.5 Impairment of non-financial assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.6 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.7 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and deferral or delinquency in payments are considered indicators that the trade receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within "administrative expenses".

2.8 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.9 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.10 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.11 Deferred income tax

Deferred income tax 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 financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

2.12 Employee benefits

(a) Pension obligations

The Company participates in a government organised defined contribution pension scheme whereby it is required to contribute to the scheme, at present, at 20% of the wages of existing permanent employees subject to certain salary ceiling.

These schemes are intended to cover the retirement benefit obligations. The government agency is responsible for providing pension to these employees on their retirement. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefit relating to employee service in the current or prior periods. The contributions of pension fund are recognized as employee benefit expense when they are due.

(b) Other benefits

The Company participates in other employee social security plans, including housing and other welfare benefits, organized and administered by the governmental authorities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.12 Employee benefits *(continued)*

(b) Other benefits (continued)

According to the relevant regulations, the premiums and welfare benefit contributions that should be borne by the Company are calculated based on percentages of the total salary of employees, subject to a certain ceiling, and are paid to the labour and social welfare authorities. The Company has no further obligation in relation to these benefits for existing and retired employees once contributions are made. Contributions to the plans are charged to production costs, selling and marketing costs or administrative expenses as incurred.

(c) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve months after balance sheet date are discounted to present value.

2.13 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessment of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.14 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, rebates and discounts. Revenue is recognized as follows:

(a) *Sales of goods*

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.

(b) *Interest income*

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

2.15 Government grants

Grants from the government are recognized at fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are recognized in the income statement on a straight line basis over the expected lives of the related assets.

2.16 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the income statement on a straight-line basis over the period of the lease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.17 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are proposed by the Company's directors.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. Risk management is carried out by the finance department under the supervision of management team.

(a) Market risk

(i) Foreign exchange risk

The Company has a large amount of sales and purchase with overseas customers and vendors and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities. The Company currently does not use any financial instruments to manage its foreign exchange risk.

(ii) Price risk

The Company is exposed to commodity price risk as the majority of the contract prices are link to the spot price index because of its end product. The Company currently does not use any financial instruments to manage its commodity price risk.

(b) Credit risk

The Company has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Management team aims to maintain flexibility in funding by keeping committed credit lines available.

(d) Cash flow and fair value interest rate risk

As the Company has no significant interest-bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

The Company's interest rate risk arises from bank borrowings. Borrowings issued at variable rates expose the Company to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Company to fair value interest-rate risk. At the year end, all of borrowings were at fixed rates. The Company currently does not use any financial instruments to manage its interest rate risk.

3.2 Fair value estimation

The nominal value less impairment provision or trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purpose is estimated by discounting the future contractual cash flow at the current market interest rate that is available to the Company for similar financial instruments. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of property, plant and equipment

The Company tests annually whether property, plant and equipment have suffered any impairment, in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on the higher of its fair value to sell and its value-in-use calculations.

In absence of an active market for the property, plant and equipment of the Company, the Company used depreciated replacement cost method to determine the fair value. In making its judgement, the Company assumes that the property, plant and equipment will continue to be used in its present existing state in the business of the Company. In addition, physical depreciation and cost to sell under the replacement cost method require significant estimates.

The principal assumption underlying management's calculation of value-in-use are those related to purchase price of key materials, expected future aluminium price and appropriate discount rates.

(b) Recoverability of deferred tax assets

The Company did not recognized any deferred tax assets in respect of its tax loss and other temporary differences as at 31 December 2005 based on the assumption that the Company will not have adequate future taxable profits against which the temporary differences can be utilized prior to the expiry date of those tax loss and other temporary differences given the uncertainty associated with the industry in which the Company operates.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

4.2 Critical judgements in applying the Company's accounting policies

Except for the going concern assumption applied in the preparation of the financial statements (see Note 2.1), the directors are of the opinion that there are no critical judgements in applying the Company's accounting policies.

5. SEGMENT INFORMATION

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 aluminium related products including aluminium ingots and alloy aluminium ingots, which is considered as a single business segment.

Secondary reporting format – geographical segments

The Company operates in the PRC. The Company's sales are mainly made to customers in the following territories/countries:

	2005	2004
	RMB'000	*RMB'000*
The PRC	**1,091,205**	1,252,544
The United Kingdom	**160,880**	–
Hong Kong	**44,052**	46,073
Singapore	**30,119**	–
The United States of America	**–**	14,054
Republic of Korea	**–**	104,168
	1,326,256	1,416,839

Sales are allocated based on the territories/countries in which customers are located.

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.

Notes to Financial Statements *(Continued)*

6. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Buildings	Plant and machinery	Motor Vehicles and transportation facilities	Office and other equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004						
Cost	73,836	54,966	213,839	5,348	27,730	375,719
Accumulated depreciation	–	(6,581)	(32,478)	(1,123)	(6,882)	(47,064)
Net book amount	73,836	48,385	181,361	4,225	20,848	328,655
Year ended 31 December 2004						
Opening net book amount	73,836	48,385	181,361	4,225	20,848	328,655
Additions	15,451	407	–	1,022	1,099	17,979
Transfer	(8,764)	3,455	3,941	–	1,368	–
Disposals	–	–	(32)	(21)	(73)	(126)
Depreciation	–	(1,927)	(16,825)	(577)	(2,516)	(21,845)
Closing net book amount	80,523	50,320	168,445	4,649	20,726	324,663
At 31 December 2004						
Cost	80,523	58,828	217,532	6,260	29,923	393,066
Accumulated depreciation	–	(8,508)	(49,087)	(1,611)	(9,197)	(68,403)
Net book amount	80,523	50,320	168,445	4,649	20,726	324,663
Year ended 31 December 2005						
Opening net book amount	80,523	50,320	168,445	4,649	20,726	324,663
Additions	18,067	31	–	3,103	268	21,469
Transfer	(85,334)	46,151	16,792	619	21,772	–
Disposals	–	–	(97)	(669)	–	(766)
Depreciation	–	(3,292)	(17,309)	(723)	(3,748)	(25,072)
Closing net book amount	13,256	93,210	167,831	6,979	39,018	320,294
At 31 December 2005						
Cost	13,256	105,010	233,937	8,895	51,963	413,061
Accumulated depreciation	–	(11,800)	(66,106)	(1,916)	(12,945)	(92,767)
Net book amount	13,256	93,210	167,831	6,979	39,018	320,294

6. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Depreciation expense of RMB23,973,000 (2004: RMB20,764,000) has been expensed in cost of goods sold, and of RMB1,099,000 (2004: RMB1,081,000) in administrative expenses.

All of the Company's buildings (located in the PRC) are built on land which was leased by the Company from Sanmenxia Tianyuan Aluminium Group Limited, the parent company (see Note 26).

As at 31 December 2005, the Company's bank borrowings were secured by certain plant and machinery with carrying amount of RMB45,332,000 (2004: RMB49,336,000) (see Note 14).

7. INVENTORIES

	2005	2004
	RMB'000	*RMB'000*
Raw materials	**26,752**	110,846
Work in process	**46,322**	34,131
Finished goods	**43,050**	46,165
	116,124	191,142

The cost of inventories recognised as expenses and included in cost of goods sold amounted to RMB1,251,210,000 (2004: RMB1,234,677,000)

The Company has recognized a provision for impairment of inventories of RMB1,094,000 (2004: Nil) for its raw materials. The provision has been included in cost of goods sold in the income statement.

8. TRADE AND OTHER RECEIVABLES

	2005 RMB'000	2004 RMB'000
Trade receivables *(Note (a))*	**19,746**	4,240
Less: provision for impairment of receivables	**(4,158)**	(212)
	15,588	4,028
Bills receivable *(Note (b))*	**2,970**	63,492
Trade receivables – Net	**18,558**	67,520
Prepayments and other receivables *(Note (c))*	**6,345**	13,180
Receivables from related parties *(Note (a), Note 26)*	**30,013**	67,799
	54,916	148,499

The carrying amounts of trade and other receivables approximate their fair value.

(a) Trade receivables and receivables from related parties

Aging analysis of trade receivables was as follows:

	2005 RMB'000	2004 RMB'000
1-30 days	**12,747**	1,388
31-60 days	**57**	2,087
61-90 days	**132**	143
91-120 days	**3,128**	189
121-365 days	**3,682**	433
	19,746	4,240
Less: provision for impairment of receivables	**(4,158)**	(212)
	15,588	4,028

8. TRADE AND OTHER RECEIVABLES *(continued)*

(a) Trade receivables and receivables from related parties *(continued)*

Aging analysis of receivables from related parties (trade-related) was as follows:

	2005	2004
	RMB'000	*RMB'000*
1-30 days	**–**	53,007
31-60 days	**–**	–
61-90 days	**–**	3,710
91-120 days	**9,801**	11,003
121-365 days	**58,700**	79
	68,501	67,799
Less: provision for impairment of receivables	**(38,488)**	–
	30,013	67,799

There is no concentration of credit risk with respect to trade receivables as the Company has a large number of customers.

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.

The Company has recognized a loss of RMB38,856,000 (2004: reversal of prior year provision at RMB1,529,000) for the impairment of its trade receivables and balances due from related parties during the year ended 31 December 2005. The loss has been included in administrative expenses in the income statement.

(b) Bills receivable

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

8. TRADE AND OTHER RECEIVABLES *(continued)*

(c) Prepayments and other receivables

	2005	2004
	RMB'000	*RMB'000*
Prepaid operating expenses	**1,295**	3,775
Value-added tax recoverable	**1,216**	–
Futures deposits	**699**	5,118
Other deposits and receivables	**3,135**	4,287
	6,345	13,180

9. PURCHASE DEPOSITS

	2005	2004
	RMB'000	*RMB'000*
Purchase deposits to third parties	**189,218**	119,809
Purchase deposits to related parties	**40,280**	47,329
	229,498	167,138

10. CASH AND CASH EQUIVALENTS

	2005	2004
	RMB'000	*RMB'000*
Pledged bank deposits *(Note(a))*	**267,540**	87,009
Restricted bank deposits *(Note(b))*	**–**	82,765
	267,540	169,774
Cash at banks and in hand	**179,649**	155,304
	447,189	325,078

10. CASH AND CASH EQUIVALENTS *(continued)*

(a) All 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. Also, the exchange rate is determined by the PRC government.

As at 31 December 2005, the Company's bank borrowings were secured by bank deposits of RMB228,000,000 (2004: nil).

The effective interest rate of bank deposits is 1.656% per annum. (2004: 1.656%).

(b) As at 31 December 2004, the Company had restricted 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. No such bank deposits existed as at 31 December 2005.

Notes to Financial Statements *(Continued)*

11. SHARE CAPITAL

	Registered, issued and fully paid					
	Domestic shares of RMB0.10 each		**H shares of RMB0.10 each**		**Total**	
	No. of shares	*RMB'000*	*No. of shares*	*RMB'000*	*No. of shares*	*RMB'000*
At 1 January 2004 (nominal value of RMB1.00 each)	85,000,000	85,000	–	–	85,000,000	85,000
Sub-division of shares *(Note a)*	765,000,000	–	–	–	765,000,000	–
Issue of H shares *(Note b)*	–	–	318,200,000	31,820	318,200,000	31,820
Conversion of shares *(Note c)*	(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
At 31 December 2005	818,180,000	81,818	350,020,000	35,002	1,168,200,000	116,820

(a) 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.

(b) In July 2004, 318,200,000 H shares with a par value of RMB0.10 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 the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "IPO"). Net proceeds from such issues, amounting to RMB69,213,000, have been used to provide working capital for the Company.

(c) 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 during the IPO of the Company's shares in 2004.

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

12. OTHER RESERVES

	Capital reserve *Note (a)*	Statutory surplus reserve *Note (b)*	Statutory public welfare fund *Note (c)*	Share issue costs	Total other reserves
At 1 January 2004	28,324	11,664	5,833	(3,618)	42,203
Premium of new shares issued	69,480	–	–	–	69,480
Share issue costs	–	–	–	(32,087)	(32,087)
Transfer from share issue cost to capital reserve	(35,705)	–	–	35,705	–
Transfer to					
– Statutory surplus reserve	–	2,396	–	–	2,396
– Statutory public welfare fund	–	–	1,198	–	1,198
At 31 December 2004	62,099	14,060	7,031	–	83,190
As 31 December 2005	62,099	14,060	7,031	–	83,190

(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. There was no transfer to statutory surplus reserve for the year ended 31 December 2005.

12. OTHER RESERVES *(continued)*

(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. There was no transfer to statutory welfare fund for the year ended 31 December 2005.

13. TRADE AND OTHER PAYABLES

	2005	2004
	RMB'000	*RMB'000*
Trade payables *(Note (a))*	**58,413**	12,219
Bills payables *(Note (b))*	**111,108**	144,000
Other payable and accruals *(Note (c))*	**181,260**	110,972
Payables to related parties *(Note (a), Note 26)*	**48,612**	10,415
	399,393	277,606

13. TRADE AND OTHER PAYABLES *(continued)*

(a) Trade payables and payables to related parties

The aging analysis of trade payables was as follows:

	2005	2004
	RMB'000	*RMB'000*
1-60 days	**48,499**	4,524
61-90 days	**1,103**	694
91-120 days	**2,601**	970
121-365 days	**4,509**	2,709
Over 1 year	**1,701**	3,322
	58,413	12,219

The aging analysis of payables to related parties was as follows:

	2005	2004
	RMB'000	*RMB'000*
1-60 days	**48,282**	9,831
61-90 days	**330**	584
	48,612	10,415

(b) Bills payable

Bills payable are repayable within six months and are supported by pledged bank deposit of RMB39,540,000 (2004: RMB87,009,000) and by guarantees from other state-owned companies.

13. TRADE AND OTHER PAYABLES *(continued)*

(c) Other payables and accruals

	2005	2004
	RMB'000	*RMB'000*
Receipts in advance from customers	**136,412**	90,393
Payables to the National Social Security Fund *(Note (i))*	**7,289**	7,289
Staff welfare payables	**19,402**	5,619
Accrued construction costs	**8,702**	3,586
Others	**9,455**	4,085
	181,260	110,972

(i) 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 Aluminium Group Limited, the parent company, should be remitted to the National Social Security Fund. As at 31 December 2005, such proceeds were kept by the Company pending to be remitted on behalf of the parent company.

14. BORROWINGS

Bank borrowings comprised:

	2005	2004
	RMB'000	*RMB'000*
Bank borrowings due –		
Within 1 year	**575,592**	514,507
Between 1 and 2 years	**62,500**	–
Between 2 and 3 years	**–**	62,500
	638,092	577,007

14. BORROWINGS *(continued)*

The effective interest rate during the year was 5.78% (2004: 5.20%).

The carrying amounts of both current and non-current borrowings approximate their fair value.

As at 31 December 2005, the Company did not have undrawn borrowing facilities.

Bank borrowings are supported by:

	2005	2004
	RMB'000	*RMB'000*
Guarantees provided by:		
Parent company *(Note 26)*	**62,500**	169,500
Others *(Note 24)*	**158,000**	276,207
	220,500	445,707
Secured by:		
Plant and machinery *(Note (a) and Note 6)*	**40,000**	40,000
Bank deposits *(Note (a) and Note 10)*	**307,592**	–
	347,592	40,000
Unsecured	**70,000**	91,300
	638,092	577,007

(a) The Company's borrowings are secured by plant and machinery of the Company with carrying value of RMB45,332,000 (2004: RMB49,336,000) and bank deposits of RMB228,000,000 (2004: Nil).

15. DEFERRED TAX

Movement on the deferred tax assets is as follows:

	2005	2004
	RMB'000	*RMB'000*
Beginning of the year	**5,260**	5,800
Recognized in the income statement	**(5,260)**	(540)
End of the year	**–**	5,260

The movement in deferred tax assets during the year is as follows:

	Provision of assets	**Impairment losses**	**Tax Credit**	**Accruals**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004	1,523	365	3,594	318	5,800
Recognized in the income statement	(399)	–	(756)	615	(540)
At 31 December 2004	1,124	365	2,838	933	5,260
Recognized in the income statement	(1,124)	(365)	(2,838)	(933)	(5,260)
At 31 December 2005	–	–	–	–	–

Owing to the material uncertainty relating to the Company's operations, the directors are not able to determine whether the Company will have adequate future taxable profits against which the temporary difference can be utilized. As a result, the Company wrote off the deferred tax assets of RMB5,260,000 brought forward from 2004 and also did not recognise deferred income tax assets of RMB31,915,000 and RMB4,564,000, respectively, in respect of tax loss incurred and other temporary differences during the year ended 31 December 2005.

16. OTHER GAINS, NET

	2005	2004
	RMB'000	*RMB'000*
Profit on sales of scrap and other materials	**3,021**	4,068
(Loss)/profit on supply of water and electricity	**(1,824)**	542
Interest income from bank deposits	**2,704**	2,938
Government grants	**10**	1,180
Others	**593**	–
	4,504	8,728

17. EXPENSES BY NATURE

Expenses included in cost of goods sold, selling and marketing costs and administrative expenses are analyzed as follows:

	2005	2004
	RMB'000	*RMB'000*
Cost of materials and consumables sold *(Note 7)*	**1,251,210**	1,234,677
Staff costs *(Note 18)*	**50,201**	43,519
Depreciation on property, plant and equipment *(Note 6)*	**25,072**	21,845
Transportation	**15,991**	15,263
Operating lease rental in respect of		
– Plant and machinery *(Note 26)*	**13,700**	14,500
– Land and buildings *(Note 26)*	**696**	696
Auditors' remuneration	**2,068**	1,618
Provision for impairment of inventories *(Note 7)*	**1,094**	–
Provision/(write-back) for impairment of receivables	**38,856**	(1,529)
Others	**50,770**	35,851
	1,449,658	1,366,440

18. EMPLOYEE BENEFIT EXPENSES

	2005	2004
	RMB'000	*RMB'000*
Wages and salaries	**34,787**	30,146
Pension costs – defined contribution plans *(Note a)*	**7,394**	6,375
Housing benefits	**1,776**	1,456
Staff welfare	**6,244**	5,542
	50,201	43,519

(a) Pensions – defined contribution plans

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 the rate of 20% 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 2005, the Company had outstanding payable to the retirement scheme amounting to approximately RMB7,038,000 (2004: RMB3,056,000), which was included in other payables and accruals.

18. EMPLOYEE BENEFIT EXPENSES *(continued)*

(b) Directors' and senior management's emoluments

The remuneration of every director for the year ended 31 December 2005 is set out below:

Name of Director	Fees	Salary	Other benefits	Employer's contribution to pension scheme	Total
Executive directors					
Mr. Li Yong Zheng	–	–	–	–	–
Mr. Tan Yu Zhong	–	28	1	6	35
Mr. Xiao Chongxin	–	27	1	6	34
Non-executive directors					
Mr. Zhu Qiang	–	–	–	–	–
Ms. Yang Chun Lian	–	–	–	–	–
Mr. Yan Li Qi	–	–	–	–	–
Independent and non-executive directors					
Mr. Wu Cheng	–	–	–	–	–
Dr. Song Quan Qi	50	–	–	–	50
Mr. Zhu Xiao Ping	50	–	–	–	50
Mr. Chan Lap Tuck	120	–	–	–	120

18. EMPLOYEE BENEFIT EXPENSES *(continued)*

(b) Directors' and senior management's emoluments *(continued)*

The remuneration of every director for the year ended 31 December 2004 is set out below:

Name of Director	Fees	Salary	Other benefits	Employer's contribution to pension scheme	Total
Executive directors					
Mr. Li Yong Zheng	–	–	–	–	–
Mr. Tan Yu Zhong	–	24	2	5	31
Mr. Xiao Chongxin	–	23	2	5	30
Non-executive directors					
Mr. Zhu Qiang	–	–	–	–	–
Ms. Yang Chun Lian	–	–	–	–	–
Mr. Yan Li Qi	–	–	–	–	–
Independent and non-executive directors					
Mr. Wu Cheng	50	–	–	–	50
Dr. Song Quan Qi	50	–	–	–	50
Mr. Zhu Xiao Ping	50	–	–	–	50
Mr. Chan Lap Tuck	70	–	–	–	70

Mr. Li Yong Zheng resigned as executive director in November 2005. Mr. Zhu Qiang and Ms. Yang Chun Lian resigned as non-executive director in August 2005. Mr. Wu Cheng resigned as independent non-executive directors in May 2005.

In addition to the directors' emoluments disclosed above, Mr. Li Yong Zheng received emoluments from the parent company, which amounted to approximately RMB45,000 (2004: RMB45,000) in 2005, 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 parent company.

During the year, no directors waived any emoluments (2004: Nil).

18. EMPLOYEE BENEFIT EXPENSES *(continued)*

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Company for the year include 3 (2004: 5) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two individuals during the year are as follows:

	2005	2004
	RMB'000	*RMB'000*
Basic salaries	**80**	–
Contributions to the retirement scheme	**12**	–
Contributions to other statutory welfare funds	**3**	–
	95	–

All of the five highest paid individuals had emoluments within the band of Nil to RMB1,030,000 (equivalent to HK$1,000,000).

19. FINANCE COSTS

	2005	2004
	RMB'000	*RMB'000*
Interest expense on bank borrowings	**36,159**	24,888
Net foreign exchange losses	**3,889**	–
	40,048	24,888

20. INCOME TAX EXPENSE

The PRC enterprise income tax has been provided at the rate of 33% (2004: 33%) on the estimated assessable profit for the year.

	2005	2004
	RMB'000	*RMB'000*
Current income tax	**–**	10,950
Deferred income tax *(Note 15)*	**5,260**	540
	5,260	11,490

The tax on the Company's (loss)/profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Company as follows:

	2005	2004
	RMB'000	*RMB'000*
(Loss)/Profit before tax	**(158,946)**	34,239
Tax calculated at a tax rate of 33%	**(52,452)**	11,299
Expenses not deductible for tax purposes	**3,272**	574
Write-off of deferred tax assets *(Note 15)*	**5,260**	–
Tax loss not recognized *(Note 15)*	**31,915**	–
Other temporary differences with no deferred tax recognised	**17,265**	–
Others	**–**	(383)
Tax expense	**5,260**	11,490

The applicable tax rate was 33% (2004: 33%).

21. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the (loss)/profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2005	2004
	RMB'000	*RMB'000*
(Loss)/Profit attributable to shareholders of the Company	**(164,206)**	22,749
Weighted average number of ordinary shares in issue (in thousand shares)	**1,168,200**	999,946
Basic (loss)/earnings per share (RMB per share)	**(0.14)**	0.02

(b) Diluted

The Company did not have any dilutive potential ordinary shares during 2005 and 2004.

22. CASH GENERATED FROM OPERATIONS

	2005	2004
	RMB'000	*RMB'000*
(Loss)/Profit for the year	**(164,206)**	22,749
Adjustments for:		
– Income tax	**5,260**	11,490
– Depreciation	**25,072**	21,845
– Profit on disposal of property, plant and equipment	**(413)**	(144)
– Provision for impairment of receivables	**38,856**	(1,529)
– Provision for impairment of inventories	**1,094**	–
– Unrealized foreign exchange loss	**1,665**	–
– Interest income	**(2,704)**	(2,938)
– Interest expense	**36,159**	24,888
Changes in working capital		
– Inventories	**73,924**	30,323
– Trade and other receivables	**26,529**	(32,687)
– Purchase deposits	**(62,360)**	(118,511)
– Trade and other payables	**117,990**	(7,403)
Cash generated from/(used in) operations	**96,866**	(51,917)

23. DIVIDENDS

	2005	2004
	RMB'000	*RMB'000*
Proposed final dividend	**–**	11,682

The Annual General Meeting held on 15 July 2005 approved the 2004 final dividend of RMB0.01 per share proposed by the board of directors. The dividend was reflected as an appropriation of retained earnings in 2005.

The directors do not propose any dividend for the year ended 31 December 2005.

24. CONTINGENT LIABILITIES

As at 31 December 2005, the Company had given guarantees in favour of certain third parties and related companies in respect of these companies' bank facilities in the PRC. These companies also provided reciprocal guarantees in respect of the Company's borrowings (see Note 14). Details of the guarantees given are as follows:

	2005	2004
	RMB'000	*RMB'000*
Third parties	**30,000**	50,000
A related company	**8,000**	–
Other state-controlled enterprises	**65,000**	–
	103,000	50,000

The directors have reviewed the available financial information of some of the above companies to which the Company has given the guarantees. In addition, the Company has not been notified by any banks to honour its guarantee obligations and repay the relevant borrowings on behalf of the borrowers. Accordingly, the directors are of the opinion that it is unlikely that these guarantees will crystallize as liabilities of the Company as at 31 December 2005.

25. COMMITMENTS

(a) Capital commitments

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	2005	2004
	RMB'000	*RMB'000*
Property, plant and equipment		
Contracted but not provided for	**–**	13,514
Authorised but not contracted for	**–**	15,284
	–	28,798

25. COMMITMENTS *(continued)*

(b) Operating lease commitments

As at 31 December 2005, the Company had future aggregate minimum lease payments to the parent company in relation to land and buildings and plant and machinery under non cancellable operating leases as follows:

	2005	2004
	RMB'000	*RMB'000*
Land use rights and buildings		
Not later than 1 year	**696**	684
Later than 1 year and not later than 5 years	**2,671**	2,671
Later than 5 years	**20,032**	20,699
	23,399	24,054
Plant and machinery		
Not later than 1 year	**13,700**	14,500
Later than 1 year and not later than 5 years	**–**	15,104
	13,700	29,604

The Company proposed to acquire the production facilities including buildings, plant and machinery and land use rights currently leased from Sanmenxia Tianyuan Group Limited, the parent company as at 31 December 2005. This proposed acquisition was subsequently approved by the shareholders in March 2006 (Note 27). The Company will have no operating lease commitment in connection with the above operating leases after the completion of the purchase of these assets.

26. RELATED-PARTY TRANSACTIONS

Sanmenxia Tianyuan Aluminium Group Limited (incorporated in the PRC), the immediate parent of the Company, which owns 67% of the Company's shares, is directly controlled by the PRC government. The PRC government is the Company's ultimate controlling party. State-controlled enterprises and their subsidiaries, in addition to the group companies under Sanmenxia Tianyuan Aluminium Group Limited, directly or indirectly controlled by the PRC government are also related parties of the Company. Neither Sanmenxia Tianyuan Aluminium Group Limited nor the PRC government publishes financial statements for public use.

The Company has transactions with other members of the group under Sanmenxia Tianyuan Aluminium Group Limited. Because of the relationship, it is possible that the terms of the transactions between the Company and other members of the group of Sanmenxia Tianyuan Aluminium Group Limited are not same as those that would result from transactions with other related parties or wholly unrelated parties.

Saved as disclosed elsewhere in these financial statements, significant related party transactions, which were carried out in the normal course of the Company's business as at and for the year ended 31 December 2005 are as follows:

26. RELATED-PARTY TRANSACTIONS *(continued)*

		2005 RMB'000	2004 RMB'000
Transactions –			
Sales of materials and finished goods to	(a)		
– Parent company		**70,992**	94,340
– Fellow subsidiaries		**4,035**	2,646
– Other related companies		**54,278**	100,598
– Other state-controlled enterprises		**337,792**	340,350
Purchases of key and auxiliary materials from:	(b)		
– Parent company		**31**	31,121
– Fellow subsidiaries		**3,264**	2,383
– Other related companies		**15,052**	34,344
– Other state-controlled enterprises		**330,962**	396,189
Provision of utility services to	(c)		
– Parent company		**1,392**	3,471
– Fellow subsidiaries		**64**	221
– Other related companies		**134**	7,125
Provision of utility services by			
– a state-controlled enterprise	(d)	**438,556**	456,333
Provision of social services by			
– the parent company	(e)	**2,400**	2,398
Provision of transportation services by			
– a fellow subsidiary	(f)	**2,964**	7,052
Operating lease rentals charged by the parent company in respect of			
– Plant and machinery	(g)	**13,700**	14,500
– Land and buildings	(h)	**696**	696

26. RELATED-PARTY TRANSACTIONS *(continued)*

		2005	2004
		RMB'000	*RMB'000*
Transactions –			
Disposals of fixed assets to	*(i)*		
– the parent company		**1,081**	–
– fellow subsidiaries		**–**	5
Purchase of fixed assets from	*(j)*		
– the parent company		**1,302**	–
– fellow subsidiaries		**248**	1,667
– Other state-controlled enterprises		**18,901**	9,731
Interest income from			
– a related company	*(k)*	**–**	1,420
– state-controlled banks		**2,704**	2,938
Interest expenses to state-controlled banks		**36,159**	24,888
Balances –			
Bank deposits balances			
– State-controlled banks		**447,189**	325,078
Receivables from related parties *(Note 8)*:			
– Parent company		**–**	19,559
– Fellow subsidiaries		**13**	–
– Other related companies		**68,488**	48,240
		68,501	67,799
Less: Provision for impairment of receivable	*(m)*	**(38,488)**	–
		30,013	67,799
Purchase deposits *(Note 9)*			
– Other state-controlled enterprises		**40,280**	47,329
Payables to related parties *(Note 13)*:			
– Parent company		**5,553**	29
– Fellow subsidiaries		**–**	2,205
– Other related companies		**4,876**	1,865
– Other state-controlled enterprises		**38,183**	6,316
		48,612	10,415
Borrowings –			
– State-controlled banks *(Note 14)*		**638,092**	577,007

26. RELATED-PARTY TRANSACTIONS *(continued)*

(a) Materials and finished goods sold to the parent company, fellow subsidiaries, other related companies and other state-controlled enterprises during the year were set at terms in accordance with the underlying agreements.

(b) Key and auxiliary materials purchased from the parent company, fellow subsidiaries, other related companies and other state-controlled enterprises were at terms in accordance with the underlying agreements.

(c) Utility, including electricity and water, were charged to the parent company at terms in accordance with the underlying agreements.

(d) Provision of utility services by a state-controlled enterprise principally represents the purchases of electricity and was charged at terms in accordance with the underlying agreements.

(e) Social services which were provided by the parent company in accordance with the terms of the underlying agreement.

(f) Transportation services were provided by a fellow subsidiary in accordance with the terms of the underlying agreements.

(g) Operating lease rentals in respect of hire of plant and machinery were charged by the parent 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 parent company but is subject to a minimum amount of RMB13,700,000 per annum.

(h) Operating lease rentals in respect of land and buildings were charged by the parent company in accordance with the terms of the underlying agreements.

(i) The consideration for the sales of fixed assets was set at terms in accordance with the underlying agreements.

(j) The consideration for the purchase of fixed assets was set at terms in accordance with the underlying agreements.

(k) In 2004, the Company received interest income of approximately RMB1,420,000 from a related company in respect of trade balance due to it. No such interest income was received for the year ended 31 December 2005.

26. RELATED-PARTY TRANSACTIONS *(continued)*

(l) During the year, the Company made certain advances with an aggregate amount of RMB77,900,000 (2004: RMB134,499,000) to the parent company. Approximately RMB106,099,000 (2004: RMB106,300,000) of such advances were repaid by the parent company during the year.

(m) During the year, the Company made provision for impairment of receivables amounting to RMB38,488,000 (2004: Nil) in respect of trade balance due from a related company.

(n) As at 31 December 2005, all balances with related companies are unsecured, non-interest bearing and repayable on demand.

(o) As at 31 December 2005, the parent company and certain related companies have given guarantee in favour of the Company's borrowings and bills payable (see Note 14). 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 parent company and those third parties.

27. EVENTS AFTER THE BALANCE SHEET DATE

(i) On 10 March 2006, the Company's shareholders approved a very substantial acquisition to be completed under which the Company will acquire certain production facilities and land use rights from Sanmenxia Tianyuan Aluminium Group Limited, the parent company, at a total consideration of RMB390,780,000. The consideration will be settled by the Company by (i) assuming bank borrowings of RMB149,450,000 originally owed by the parent company; (ii) assignment of the Company's trade receivables and balances due from related companies of RMB40,000,000 to the parent company; (iii) assignment of purchase deposits of RMB162,280,000; and (iv) cash or inventory (at the option of the Company) of RMB39,050,000.

(ii) Subsequent to 31 December 2005 and before date of issuance of these financial statements, the Company obtained additional bank loans of RMB90,000,000 from three state-controlled banks in the PRC.

(iii) Subsequent to 31 December 2005 and up to the date of issuance of these financial statements, the Company gave guarantees in favour of certain third parties in respect of the third parties' bank facilities amounting to approximately RMB102,920,000. Approximately RMB84,420,000 of such guarantees have been released prior to the date of issuance of these financial statements.

28. RECLASSIFICATION OF COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year presentation.

Notice of Annual General Meeting

Notice is hereby given that the 2005 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, 11 August 2006 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 2005;

2. To consider and approve the report of the supervisory committee of the Company for 2005;

3. To consider and approve the audited financial statements and the auditors' report for 2005;

4. To consider and approve the appointment and/or the re-appointment of the Company's international and PRC auditors respectively for 2006 and to authorize the Board to determine their remunerations; and

5. 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;

(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

(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 He Ping
Chairman

Sanmenxia City, Henan Province, the PRC
16 June 2006

Notes:

1. The register of members of the Company will be closed from 12 July 2006 (Wednesday) to 11 August 2006 (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 11 July 2006 (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.

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 21 July 2006 (Friday). 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. 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.

7. 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.