



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

Interim Report 2006



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* For identification only



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



Highlights

- Achieved a turnover of approximately RMB843,372,000 for the six months ended 30 June 2006.
- Net profit amounted to approximately RMB21,780,000 for the six months ended 30 June 2006, as compared to a net loss of approximately RMB6,259,000 for the corresponding period in 2005.
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006.



INTERIM RESULTS

The board of directors (the "Board") of Sanmenxia Tianyuan Aluminum Company Limited (the "Company") is pleased to announce the unaudited results of the Company for the three months ("three-month period") and the six months ("six-month period") ended 30 June 2006 together with the comparative unaudited figures for the corresponding periods in 2005. The interim report of six-month period has been reviewed by the audit committee of the Company.

PROFIT AND LOSS ACCOUNT (UNAUDITED)

Three months and six months ended 30 June 2006

	Note	Three months ended 30 June		Six months ended 30 June	
		2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Turnover	3	473,491	332,919	843,372	629,023
Cost of goods sold		(437,684)	(321,778)	(783,936)	(593,871)
Gross profit		35,807	11,141	59,436	35,152
Other revenue	3	5,367	3,101	12,960	5,373
Expenses related to other revenue	4	(4,258)	(1,881)	(7,310)	(3,436)
Other revenue, net		1,109	1,220	5,650	1,937
Selling and distribution expenses		(4,566)	(3,390)	(7,629)	(8,862)
General and administrative expenses		(10,488)	(9,562)	(17,911)	(18,765)
Operating profit/(loss)	5	21,862	(591)	39,546	9,462
Finance costs		(8,329)	(8,152)	(17,766)	(15,721)
Profit/(loss) before income tax		13,533	(8,743)	21,780	(6,259)
Income tax	6	-	820	-	-
Profit/(loss) for the period		13,533	(7,923)	21,780	(6,259)
Dividend		-	-	-	-
(Loss)/earnings per Share	7	RMB1.16 cents	RMB(0.68) cents	RMB1.86 cents	RMB(0.54) cents



BALANCE SHEET

As at 30 June 2006

		As at	
		30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
	Note		
ASSETS			
Non-current assets			
Property, plant and equipment		443,537	320,294
Debtenture		500	500
		<u>444,037</u>	<u>320,794</u>
Current assets			
Inventories		93,719	116,124
Trade and other receivables	8	31,718	54,916
Purchase deposits		209,332	229,498
Cash and cash equivalents			
– Pledged and restricted bank balances		279,320	267,540
– Cash on hand and in bank		129,175	179,649
		<u>743,264</u>	<u>847,727</u>
Total assets		<u>1,187,301</u>	<u>1,168,521</u>
EQUITY			
Share capital		116,820	116,820
Other reserves		83,190	83,190
(Accumulated losses)/Retained earnings			
– Proposed final dividend		–	–
– Others		(47,194)	(68,974)
Total equity		<u>152,816</u>	<u>131,036</u>
LIABILITIES			
Non-current liabilities			
Borrowings	10	–	62,500
		<u>–</u>	<u>62,500</u>
Current liabilities			
Trade and other payables	9	345,865	399,393
Borrowings	10	688,620	575,592
		<u>1,034,485</u>	<u>974,985</u>
Total liabilities		<u>1,034,485</u>	<u>1,037,485</u>
Total equity and liabilities		<u>1,187,301</u>	<u>1,168,521</u>
Net current liabilities		<u>(291,221)</u>	<u>(127,258)</u>
Total assets less current liabilities		<u>152,816</u>	<u>193,536</u>



CASH FLOW STATEMENT (UNAUDITED)

	Six months ended 30 June	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash inflow from operating activities	<u>2,841</u>	190,464
Net cash outflow from investing activities	<u>(65,364)</u>	(19,087)
Net cash inflow/(outflow) from financing activities	<u>12,049</u>	(143,470)
(Decrease)/increase in cash and cash equivalents	(50,474)	27,907
Cash and cash equivalents at beginning of the period	<u>179,649</u>	155,304
Cash and cash equivalents at end of the period, representing unpledged cash and bank balances	<u>129,175</u>	<u>183,211</u>

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

	Share Capital	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Retained earnings/ (Accu- mulated losses)	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2005	116,820	62,099	14,060	7,031	106,914	306,924
Loss for the period	—	—	—	—	(6,259)	(6,259)
At 30 June 2005	<u>116,820</u>	<u>62,099</u>	<u>14,060</u>	<u>7,031</u>	<u>100,655</u>	<u>300,665</u>
At 1 January 2006	116,820	62,099	14,060	7,031	(68,974)	131,036
Profit for the period	—	—	—	—	21,780	21,780
At 30 June 2006	<u>116,820</u>	<u>62,099</u>	<u>14,060</u>	<u>7,031</u>	<u>(47,194)</u>	<u>152,816</u>



NOTES TO THE ACCOUNTS

1. Organisation and principal operation

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

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

2. Basis of preparation and accounting policies

The unaudited interim report has been prepared on a basis consistent with the principal accounting policies adopted in the 2005 annual report. The interim report has been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants, the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules on The Stock Exchange of Hong Kong Limited.

3. Turnover, revenues and segment information

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

	Unaudited			
	Three months ended 30 June		Six months ended 30 June	
	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Turnover				
Sales of goods, net of value-added tax	<u>473,491</u>	<u>332,919</u>	<u>843,372</u>	<u>629,023</u>
Other revenue				
Sales of scrap and other materials	4,392	1,848	6,460	2,877
Supply of water and electricity	612	647	2,554	1,481
	<u>5,004</u>	<u>2,495</u>	<u>9,014</u>	<u>4,358</u>
Interest income	363	606	3,946	1,015
Total other revenue	<u>5,367</u>	<u>3,101</u>	<u>12,960</u>	<u>5,373</u>
Total revenue	<u><u>478,858</u></u>	<u><u>336,020</u></u>	<u><u>856,332</u></u>	<u><u>634,396</u></u>

Primary reporting format – business segments

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



Secondary reporting format – geographical segments

	Unaudited			
	Three months ended		Six months ended	
	30 June		30 June	
	2006	2005	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover				
– PRC	367,924	259,153	699,390	547,507
– Hong Kong	94,199	–	132,614	7,750
– Korea	11,368	–	11,368	–
– United Kingdom	–	43,647	–	43,647
– Singapore	–	30,119	–	30,119
	<u>473,491</u>	<u>332,919</u>	<u>843,372</u>	<u>629,023</u>

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

4. Expenses related to other revenue

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

5. Operating profit/(loss)

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

	Unaudited			
	Three months ended		Six months ended	
	30 June		30 June	
	2006	2005	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
After charging:				
Depreciation of fixed assets	7,724	6,237	14,171	12,170
Staff costs including directors' emoluments	13,318	10,988	24,882	23,180
Operating lease rental in respect of				
– plant and machinery	1,511	3,300	4,931	6,600
– land and buildings	167	167	334	334
Net exchange loss	<u>227</u>	<u>–</u>	<u>663</u>	<u>72</u>
After crediting:				
Unrealised gain on futures contracts	–	78	–	78
Interest income from bank deposits	363	606	3,946	1,015
Net exchange gain	–	246	–	–
Write back provision for doubtful debts	<u>680</u>	<u>–</u>	<u>849</u>	<u>–</u>



6. Taxation

The provision for current PRC enterprise income tax is based on the statutory rate of 33% of the assessable income of the Company as determined in accordance with the relevant PRC income tax rules and regulations during the three months and the six months ended 30 June 2005 and 2006.

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

	Unaudited			
	Three months ended		Six months ended	
	30 June 2006 RMB'000	2005 RMB'000	30 June 2006 RMB'000	2005 RMB'000
PRC enterprise income tax	<u>—</u>	<u>(820)</u>	<u>—</u>	<u>—</u>

7. Earnings/(loss) per share

Basic earnings per share for the three months and six months ended 30 June 2006 are based on the unaudited profit attributable to shareholders of RMB13,533,000 and RMB21,780,000 respectively (2005: loss of RMB7,923,000 and RMB6,259,000 respectively), and the weighted average number of 1,168,200,000 shares (2005: 1,168,200,000 shares) in issue during the respective periods.

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

8. Trade and other receivables

	As at	
	30 June 2006 Unaudited RMB'000	31 December 2005 Audited RMB'000
Trade receivables (Note (a))	12,043	19,746
Less: provision for impairment of receivables	<u>(3,309)</u>	<u>(4,158)</u>
Bills receivable (Note (b))	8,734	15,588
	<u>2,971</u>	<u>2,970</u>
Trade receivables – Net	11,705	18,558
Prepayments and other receivables	—	6,345
Receivables from related parties	<u>20,013</u>	<u>30,013</u>
	<u><u>31,718</u></u>	<u><u>54,916</u></u>

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:

	As at	
	30 June 2006 Unaudited RMB'000	31 December 2005 Audited RMB'000
1-60 days	5,732	12,804
61-90 days	1,281	132
91-120 days	2	3,128
121-365 days	3,536	3,682
Over 365 days	1,492	—
	12,043	19,746
Less: provision for impairment of receivables	(3,309)	(4,158)
	8,734	15,588

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

	As at	
	30 June 2006 Unaudited RMB'000	31 December 2005 Audited RMB'000
1-60 days	—	—
61-90 days	—	—
91-120 days	—	9,801
121-365 days	15,471	58,700
Over 365 days	43,030	—
	58,501	68,501
Less: provision for impairment of receivables	(38,488)	(38,488)
	20,013	30,013

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

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.

(b) *Bills receivable*

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



9. Trade and other payables

	As at	
	30 June 2006 Unaudited RMB'000	31 December 2005 Audited RMB'000
Trade payables (Note (a))	66,434	58,413
Bills payables (Note (b))	92,730	111,108
Other payable and accruals	120,326	181,260
Payables to related parties	66,375	48,612
	<u>345,865</u>	<u>399,393</u>

Notes:

(a) *Trade payables and payables to related parties*

The aging analysis of trade payables was as follows:

	As at	
	30 June 2006 Unaudited RMB'000	31 December 2005 Audited RMB'000
1-60 days	46,130	48,499
61-90 days	3,834	1,103
91-120 days	4,392	2,601
121-365 days	8,174	4,509
Over 1 year	3,904	1,701
	<u>66,434</u>	<u>58,413</u>

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

	As at	
	30 June 2006 Unaudited RMB'000	31 December 2005 Audited RMB'000
1-60 days	48,288	48,282
61-90 days	15,189	330
91-120 days	-	-
121-365 days	2,898	-
	<u>66,375</u>	<u>48,612</u>

(b) *Bills payable*

Bills payable are repayable within six months. Bills payable of RMB18,000,000 and RMB39,540,000 as at 30 June 2006 and 31 December 2005 respectively were supported by pledged bank deposit and guarantees from other state-owned companies.

**10. Borrowings**

Bank borrowings comprised:

	As at	
	30 June 2006 Unaudited RMB'000	31 December 2005 Audited RMB'000
Bank borrowings due –		
Within 1 year	688,620	575,592
Between 1 and 2 years	–	62,500
	<u>688,620</u>	<u>638,092</u>

Bank borrowings are supported by:

	As at	
	30 June 2006 Unaudited RMB'000	31 December 2005 Audited RMB'000
Guarantees provided by:		
Parent company	22,500	62,500
Others	303,000	158,000
	<u>325,500</u>	<u>220,500</u>
Secured by:		
Plant and machinery	54,500	40,000
Bank deposits	239,270	307,592
	<u>293,770</u>	<u>347,592</u>
Unsecured	<u>69,350</u>	<u>70,000</u>
	<u>688,620</u>	<u>638,092</u>



11. Related party transactions

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

Notes	Unaudited			
	Three months ended 30 June		Six months ended 30 June	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Continuing transactions:				
Sales of materials and finished goods to				
(a)				
– Parent company	12,703	23,749	12,703	42,324
– Fellow subsidiaries	–	1,468	–	2,995
– A related company	–	14,108	–	44,792
– Other state-controlled enterprises	74,266	94,371	134,072	160,449
Purchases of key and auxiliary materials from				
(b)				
– Fellow subsidiaries	–	259	–	830
– Other related companies	2,945	4,411	7,092	9,882
– Other state-controlled enterprises	124,748	40,781	187,086	145,765
Provision of utility services to				
(c)				
– Parent company	6	429	6	1,004
– Fellow subsidiaries	–	20	–	44
– Other related companies	–	(34)	–	68
Provision of utility services by – a state-controlled enterprise	(d) 115,957	111,740	225,255	222,056
Provision of social services by the Parent company	(e) –	600	–	1,200
Provision of transportation services by a fellow subsidiary	(f) –	1,022	–	2,267
Operating lease rentals charged by the holding company in respect of				
– Plant and machinery	(g) 1,511	3,300	4,931	6,600
– Land and buildings	(h) 167	167	334	334
Non-continuing transactions:				
Purchase of fixed assets from parent company	(i) 137,972	–	137,972	–
Purchase of key and auxiliary materials from the parent company	(b) –	–	–	31



Notes:

- (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 purchase of fixed assets was set at terms in accordance with the underlying agreements.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006 (2005: Nil).

BUSINESS SUMMARY

The aluminum industry of the PRC kept a steady growth and the Company actively expanded its business. For the period from January to June of 2006, production volume of aluminum and aluminum alloy increased by approximately 0.38% while turnover increased by approximately 34.08%, as compared to the corresponding period in 2005. For the period from April to June 2006, production volume of aluminum and aluminum ingots decreased by approximately 0.63% while turnover increased by approximately 42.22%, as compared to the corresponding period in 2005.



MANAGEMENT'S DISCUSSIONS AND ANALYSIS

Business Review

During the period under review, the operations of the Company maintain at a steady growth. Turnover for the six months ended 30 June 2006 reached approximately RMB843,372,000, representing an increase of approximately RMB214,349,000 or 34.08% against that of the corresponding period of the previous year of approximately RMB629,023,000. For the period from April to June of 2006, turnover reached approximately RMB473,491,000, representing an increase of approximately RMB140,572,000 or 42.22% against that of the corresponding period of the previous year of approximately RMB332,919,000. The increase in the turnover for the periods from January to June and from April to June was mainly due to the increase in market price and sales volume of both aluminum re-smelt ingots and aluminum alloy ingots.

For the period from January to June 2006, sales volume of aluminum and aluminum alloy ingots reached 48,816 tonnes, representing an increase of 4,718 tonnes or 10.70% against that of the corresponding period of 44,098 tonnes in 2005. For the period from April to June of 2005, the sales volume of aluminum re-smelt ingots and aluminum alloy ingots reached 26,542 tonnes, representing an increase of 3,689 tonnes or 16.14% against that of the corresponding period of the previous year of 22,853 tonnes.

For the period from January to June of 2006, production volume of aluminum and aluminum alloy ingots reached 52,823 tonnes, representing an increase of 201 tonnes or 0.38% against that of the corresponding period in 2005 of 52,622 tonnes. For the period from April to June of 2006, the production volume of aluminum re-smelt ingots and aluminum alloy ingots reached 26,928 tonnes, representing a decrease of 170 tonnes or 0.63% against that of the corresponding period of the previous year of 27,098 tonnes. Increase in production volume of the Company for the period from January to June of 2006 was mainly due to the increase in the production scale of the Company's recycle aluminum project, while the decrease in production volume for the period from April to June 2006 was mainly due to a minor damage for the alloy factory for the period from April to June of 2006 which reduced the production volume.

During the period under review, the Company strived to improve the structure of the products and to increase the production volume of aluminum alloy, a product with higher added-value.

During the period under review, the recycled aluminum project initialed in January 2005 had been under production, which helps improving the structure of the Company's products, and achieving diversified production of aluminum and aluminum alloys. As a result, the enterprise's core competitiveness is strengthened.

Financial Review

For the six months ended 30 June 2006:

The Company recorded turnover of approximately RMB843,372,000 for the six months ended 30 June 2006, a 34.08% or RMB214,349,000 increase from approximately RMB629,023,000 for the corresponding period of the previous year. The increase in turnover was mainly attributable to the increase in market price and sales volume of both aluminum and aluminum alloy ingots.

Of the total turnover amount, RMB719,953,000 or 85.37% was generated from sales of aluminum re-smelt ingots in the PRC and overseas, and RMB123,419,000 or 14.63% was generated from sales of aluminum alloys.



For the six months ended 30 June 2006, the cost of goods sold amounted to approximately RMB783,936,000, representing an increase of RMB190,065,000 or 32% against the corresponding period of the previous year of approximately RMB593,871,000. The increase was mainly due to the increase in the costs for raw materials – alumina and electricity, and the increase in sales volume of aluminum re-smelt ingots and aluminum alloy ingots.

The Company's gross profit for the six months ended 30 June 2006 was approximately RMB59,436,000, representing a gross profit margin of approximately 7.05%, against the gross profit margin of about 5.59% for the six months ended 30 June 2005. The increase in gross profit margin was mainly due to: (i) market price of the Company's major finished goods, aluminum ingots, has increased much more than the market price of the Company's major raw material, alumina; and (ii) the sales volume of aluminium re-smelt ingots and aluminum alloys ingots increased by 4,718 tonnes compared with the corresponding period in 2005.

Other revenue of the Company for the six months ended 30 June 2006 amounted to approximately RMB12,960,000, of which approximately RMB6,460,000 was derived from sales of scrap and other materials, approximately RMB2,554,000 from supply of water and electricity to the Company's related parties and other independent third parties and approximately RMB3,946,000 from interest income. This represented an increase of RMB7,587,000 or 141.21% against approximately RMB5,373,000 for the six months ended 30 June 2005. The increase was mainly due to (i) the sales of alumina and other major raw materials amounted to 3,572 tonnes, that contributed approximately RMB3,969,000 to other revenue for the six months ended 30 June 2006, as compared to the sales of 20.5 tonnes and which contributed approximately RMB83,000 to the other revenue for the corresponding period in 2005; (ii) the increase in average fixed deposit resulted in an increase the interest income of approximately RMB3,946,000 for the six months ended 30 June 2006 as compared to the interest income of approximately RMB1,015,000 for the corresponding period in 2005.

Expenses related to other revenue of the Company for the six months ended 30 June 2006 amounted to RMB7,310,000 (including expenses of approximately RMB4,681,000 from sales of scrap and other materials, approximately RMB2,200,000 from supply of water and electricity to the Company's related parties and other independent third parties, and approximately RMB429,000 from disposal of fixed assets), which represented an increase of approximately RMB3,874,000 or 112.75% against approximately RMB3,436,000 for the six months ended 30 June 2005. The increase in related expenses was mainly due to the increase in sales of alumina and other major raw materials from 3,572 tonnes to 20.5 tonnes from six months ended 30 June 2006 to corresponding period in previous year, with related expenses increased from approximately RMB4,014,000 for the six month ended 30 June 2006 to approximately RMB68,000 for the corresponding period in 2005.

The selling and distribution expenses of the Company amounted to approximately RMB7,629,000 or 0.90% of the turnover for the six months ended 30 June 2006, as compared to about RMB8,862,000 or 1.41% of the turnover for the same period of the previous year. Such decrease was due to the decrease in proportion of export sales to overseas countries excluding Hong Kong over total sales which was in turn a result of the decrease in the transportation cost.



For the six months ended 30 June 2006, general and administration expenses were approximately RMB17,911,000, representing a decrease of approximately RMB854,000 or 4.55% against approximately RMB18,765,000 for the same period in 2005. This decrease was mainly due to (i) the more stringent internal control on overseas travelling expenses; (ii) the decrease in number of employees and housing allowance; and (iii) improved collection of more receivables that reduced the provision for bad debts.

For the six months ended 30 June 2006, the finance costs amounted to approximately RMB17,766,000, representing an increase of RMB2,045,000 or 13.01% from approximately RMB15,721,000 for the corresponding period of 2005. The increase was mainly due to the increase in average loan balances.

Net profit for the six months ended 30 June 2006 was approximately RMB21,780,000, as compared to a net loss of approximately RMB6,259,000 for the corresponding period in 2005.

For the three months ended 30 June 2006:

The Company recorded a turnover of approximately RMB473,491,000 for the three months ended 30 June 2006, representing a 42.22% increase from approximately RMB332,919,000 for the corresponding period of the previous year. The increase in turnover was mainly attributable to the increase in market price and sales volume of both aluminum and aluminum alloy ingots for the period under review.

Of the total turnover amount, RMB414,217,000 or 87.48% was generated from the sales of aluminum ingots in the PRC and overseas, and RMB59,274,000 or 12.52% was generated from the sales of aluminum alloys.

For the three months ended 30 June 2006, the cost of goods sold amounted to approximately RMB437,684,000, representing an increase of RMB115,906,000 or 36.02% against approximately RMB321,778,000 for the corresponding period in 2005. The increase was mainly due to the increase in costs for raw materials – alumina and electricity and the increase in sales of aluminum re-smelt ingots and aluminum alloy ingots for April to June 2006.

The Company's gross profit for the three months ended 30 June 2006 was approximately RMB35,807,000, representing a gross profit margin of approximately 7.56%, against the gross profit margin of about 3.35% for the three months ended 30 June 2005. The increase in gross profit margin was mainly because (i) the market price of aluminum ingots has increased much more than the purchase price of its major raw material, alumina; and (ii) sales volume of aluminum re-smelt and aluminum alloys ingots increased by 3,689 tonnes compared with the same period of 2005.

Other revenue of the Company for the three months ended 30 June 2006 amounted to approximately RMB5,367,000, which comprised approximately RMB4,392,000 from sales of scrap and other materials, approximately RMB612,000 from supply of water and electricity to the Company's related parties and other independent third parties, and interest income of approximately RMB363,000. This represented an increase of 73.07% or RMB2,266,000 when compared to RMB3,101,000 for the three months ended 30 June 2005.



Expenses related to other revenue for the three months ended 30 June 2006 amounted to approximately RMB4,258,000 (including expenses of approximately RMB3,340,000 from sales of scrap and other materials and approximately RMB918,000 from supply of water and electricity to the Company's related parties and other independent third parties), representing an increase of approximately RMB2,377,000 or 126.37% against approximately RMB1,881,000 of the corresponding period in 2005. The increase is mainly due to the increase in sales of scrap and other materials.

The selling and distribution expenses of the Company amounted to about RMB4,566,000 or 0.96% of the turnover for the three months ended 30 June 2006, representing an increase of RMB1,176,000 or 34% when compare to about RMB3,390,000 or 1.02% of the turnover for the three months ended 30 June 2005. The increase was mainly due to the increase in export sales by using railway and highway, and the increase in agency fee as a result of the increase in export sales.

The general and administrative expenses were approximately RMB10,488,000 or 2.22% of the turnover for the three months ended 30 June 2006, representing an increase of RMB926,000 or 9.68% from about RMB9,562,000 for the three months ended 30 June 2005. The increase were mainly due to (i) the incur of professional fee of about RMB834,000 for the project of acquisition of certain production facilities and land use rights from Sanmenxia Tianyuan Aluminum Group Limited, its parent company for the three month ended 30 June 2006; and (ii) bank charges for the three month ended 30 June 2006 increased by about RMB502,000 against bank charges for the same period in 2005 due to increase in short term borrowings.

For the three months ended 30 June 2006, finance costs amounted to approximately RMB8,329,000, representing an increase of RMB177,000 or 2.17% from approximately RMB8,152,000 for the corresponding period in 2005. The increase was mainly due to the increase in average bank loans balance.

The net profit for the three months ended 30 June 2006 was RMB13,533,000, as compared to a net loss of approximately RMB7,923,000 for the same period of the previous year.

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.



Contingent Liabilities

As at 30 June 2006, 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. Details of the guarantees given are as follows:

	As at	
	30 June 2006 Unaudited RMB'000	31 December 2005 Audited RMB'000
Third parties	20,000	30,000
A related company	8,000	8,000
Other state-controlled enterprises	92,500	65,000
	120,500	103,000

The directors of the Company 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 of the Company are of the opinion that it is unlikely that these guarantees will crystallize as liabilities of the Company as at 30 June 2006.

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

As at 30 June 2006, the Company recorded trade receivables due from Sanmenxia Jiashi Wheel Hubs Co., Ltd. (三門峽佳適鋁合金輪轂有限公司) ("Jiashi") to the Company for approximately RMB58 million, of which approximately RMB38 million provision for doubtful debt had been made.

The trade receivables due from Jiashi to the Company arose from the sales in the Company's ordinary course of business and on normal commercial terms. The trade receivables due from Jiashi is unsecured and with 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.

Strategies and Plans

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



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

Liquidity and capital resources

The major source of liquidity of the Company for the first half of 2006 was generated from short-term bank borrowings. As at 30 June 2006, the Company's non-current assets were approximately RMB444,037,000. Non-current assets mainly comprised fixed assets of approximately RMB443,537,000.

As at 30 June 2006, the Company had net current liabilities of approximately RMB291,221,000. Current assets comprised cash and bank balances of approximately RMB408,495,000, inventories of approximately RMB93,719,000, trade receivables of approximately RMB11,705,000, due from related companies of approximately RMB20,013,000, purchase deposits of approximately RMB209,332,000. Current liabilities comprised short-term bank loans of approximately RMB688,620,000, trade and bills payables of approximately RMB159,164,000, due to related companies of approximately RMB66,375,000 and other payables and accruals of approximately RMB120,326,000.

Capital structure

As at 30 June 2006, 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 the capital structure in effective. As at 30 June, 2006, the Company had an aggregate outstanding borrowings of approximately RMB781,350,000 (including bills payables of RMB92,730,000). The gearing ratio was approximately 87.13% (2005: 75.67%) (total liabilities/total assets).

Employee information

The remuneration for the employees of the Company amounted to approximately RMB24,882,000, including the Directors' emoluments of approximately RMB245,619 during the six months ended 30 June 2006 (2005: approximately RMB23,180,000, including the Directors' emoluments of approximately RMB25,000). The increase in employee remuneration was resulted from the increase in salaries of employees for the period under reviewed. And also the Director's emoluments were revised and increased in August 2005. As at 30 June 2006, the Company has 2,162 employees (2005: 2,245).



Details of pledged assets of the Company

As at 30 June 2006, the Company has pledged bank balances and plant and machinery of approximately RMB246,000,000 and approximately RMB87,090,000 respectively for the purpose to obtain bank borrowings.

Foreign exchange risk

The income and expenses of the Company are mainly denominated in Renminbi. During the period under review, the Company has neither experienced any significant difficulties nor any operating capital or cash flow problems resulting from the fluctuation in the exchange rate. The Directors believe that having regard to the working capital position of the Company, it is able to meet its foreign exchange liabilities as they become due. However, part of the export sales is settled by United States dollar. Thus, the appreciation of RMB will have an effect on the financial results of the Company.

Share capital

As at 30 June 2006, the shareholders of the Company are as follows:

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



BUSINESS OBJECTIVES REVIEW

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

From 1 January 2006 to 30 June 2006

	Anticipated progress of projects	Actual progress of projects
Product development and enhancement of production facilities:	Building of heat exchangers to commence construction of production lines for aluminum foil for vehicle heat exchanges	Under planning stage
Research and development of new production technology:	Research on continuous anode (連續陽極) and inert anode (惰性陽極) which reduce anode consumption during the smelting process	Developed the integrated technology which has already entered the trial stage
Sales network development:	Continue to develop international aluminum alloy and foam aluminum (泡沫鋁) markets	Under planning stage
Staff training:	Staff internal training for senior technicians for product development	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 sales 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
	Recruitment program for management staff and technicians for product development	Under planning stage



Use of proceeds from the Placing

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

	For the six months ended 30 June 2006	
	Proposed total fundings required from net proceeds	Actual fundings spent
	<i>RMB'000</i>	<i>RMB'000</i>
Product development and enhancement of production facilities	6,019	103
Research and development of new production technology	777	–
Sales network development	291	98
Staff training	214	55
Total	<u>7,301</u>	<u>256</u>

During the period under review, due to the delay in building of heat exchangers for aluminum foil production, which resulted in significant decrease in actual fundings spent. And this production facilities are expected to be developed in second half of year 2006.

DISCLOSURE OF INTERESTS

Interests of the directors, supervisors and chief executives

As at 30 June 2006, none of the directors, supervisors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

**Substantial shareholders and other shareholder**

As at 30 June 2006, the persons (other than a director, supervisor or chief executive of the Company) who have an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Capacity	Class of Shares	Number of Shares (Long position)	Percentage in the total issued Domestic Shares	Percentage in the total issued H Shares	Approximate percentage in the entire issued share capital of the Company
Substantial shareholders						
三門峽天元鋁業集團有限公司 (Sanmenxia Tianyuan Aluminum Group Limited)	Beneficial owner	Domestic Shares	782,882,280	95.69%	-	67.02%
Other shareholders						
BCOM Securities Company Limited	Beneficial owner	H Shares	99,930,000	-	28.55%	8.55%
CCIB Opportunity Income Growth Fund	Beneficial owner	H Shares	33,000,000	-	9.43%	2.82%
Li Jun	Beneficial owner	H Shares	18,000,000	-	5.14%	1.54%
Chen Yamin	Beneficial owner	H Shares	17,660,000	-	5.05%	1.51%

Other persons who are required to disclose their interests

As at 30 June 2006, save for the persons described in the paragraph headed "Substantial shareholders 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 required to be kept under section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

During the six months ended 30 June 2006, none of the Directors was granted any option to subscribe for shares of the Company. As at 30 June 2006, none of the Directors had any rights to acquire shares in the Company.



SHARE OPTION SCHEME

Up to 30 June 2006, the Company had not adopted any share option scheme or granted any option.

COMPETING INTERESTS

As at 30 June 2006, none of the Directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Company.

COMPLIANCE ADVISER'S INTEREST

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

None of Oriental Patron, its directors, employees or associates had any interests in the securities of the Company or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company as at 30 June 2006.

CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2006, the Company was in compliance with the code provisions set out in the Code on Corporate Governance Practices in Appendix 15 of the GEM Listing Rules.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the three months ended 30 June 2006, there was no purchase, sales or redemption of the Company's listed securities by the Company.



AUDIT COMMITTEE

The Company established an audit committee on 13 June 2004 with written terms of reference in compliance with the requirements as set out in Rules 5.28 and 5.29 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and accounts, half-yearly report and quarterly reports and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the financial reporting process and internal control system of the Company. The audit committee comprises three independent non-executive directors, namely Mr. ZHU Xiao Ping, Dr. SONG Quan Qi and Mr. CHAN Nap Tuck.

The unaudited condensed interim accounts for the six months ended 30 June 2006 have been reviewed by the audit committee of the Company.

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

Henan Province, the PRC, 11 August 2006

As at the date of this report, the executive Directors are Mr. TAN Yu Zhong, Mr. XIAO Chong Xin and Mr. ZHAO Zheng Bin; the non-executive Directors are Mr. LI He Ping, Mr. LI Liu Fa and Mr. YAN Li Qi; and the independent non-executive Directors are Mr. ZHU Xiao Ping, Dr. SONG Quan Qi and Mr. CHAN Nap Tuck.