



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

Third Quarterly Report 2006

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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.

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

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



Highlights

- Achieved a turnover of approximately RMB1,229,770,000 for the nine months ended 30 September 2006.
- Net profit amounted to approximately RMB42,922,000 for the nine months ended 30 September 2006, as compared to a net loss of approximately RMB40,884,000 for the corresponding period in 2005.
- The Directors do not recommend the payment of dividend for the nine months ended 30 September 2006.



THIRD QUARTERLY 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 nine months ("nine-month period") ended 30 September 2006 together with the comparative unaudited figures for the corresponding periods in 2005. The unaudited results of nine-month period have been reviewed by the audit committee of the Company.

PROFIT AND LOSS ACCOUNTS (UNAUDITED)

Three months and nine months ended 30 September 2006

	Note	Three months ended 30 September		Nine months ended 30 September	
		2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Turnover	3	386,398	350,741	1,229,770	979,764
Cost of goods sold		(345,829)	(353,479)	(1,129,765)	(947,350)
Gross (loss)/profit		40,569	(2,738)	100,005	32,414
Other revenue	3	7,445	2,741	20,405	8,114
Expenses related to other revenue		(2,846)	(1,818)	(10,156)	(5,254)
Other revenue, net		4,599	923	10,249	2,860
Selling and distribution expenses		(1,923)	(5,339)	(9,552)	(14,201)
General and administrative expenses		(8,073)	(9,843)	(25,984)	(28,608)
Operating profit/(loss)		35,172	(16,997)	74,718	(7,535)
Finance costs		(14,030)	(17,628)	(31,796)	(33,349)
Profit/(loss) before income tax		21,142	(34,625)	42,922	(40,884)
Income tax	4	-	-	-	-
Profit/(loss) for the period		21,142	(34,625)	42,922	(40,884)
Dividend		-	-	-	-
Earnings/(loss) per Share	5	RMB1.81 cents	RMB(2.96) cents	RMB3.67 cents	RMB(3.50) cents

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

	Share capital	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Retained earnings	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2005	116,820	62,099	14,060	7,031	106,914	306,924
Loss for the period	–	–	–	–	(40,884)	(40,884)
Dividend paid	–	–	–	–	(11,682)	(11,682)
At 30 September 2005	<u>116,820</u>	<u>62,099</u>	<u>14,060</u>	<u>7,031</u>	<u>54,348</u>	<u>254,358</u>
At 1 January 2006	116,820	62,099	14,060	7,031	(68,974)	131,036
Profit for the period	–	–	–	–	42,922	42,922
At 30 September 2006	<u>116,820</u>	<u>62,099</u>	<u>14,060</u>	<u>7,031</u>	<u>(26,052)</u>	<u>173,958</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 aluminum 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 on 13 July 2004. Details of the restructuring have been set out in the prospectus of the Company dated 30 June 2004 ("Prospectus").

2. Basis of preparation and accounting policies

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

3. Turnover, revenues and segment information

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

	Unaudited			
	Three months ended		Nine months ended	
	30 September		30 September	
	2006	2005	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover				
Sales of goods, net of value-added tax	386,398	350,741	1,229,770	979,764
Other revenue				
Sales of scrap and other materials	3,787	1,363	10,247	4,240
Supply of water and electricity	887	532	3,441	2,013
	4,674	1,895	13,688	6,253
Interest income	2,771	846	6,717	1,861
Total other revenue	7,445	2,741	20,405	8,114
Total revenue	393,843	353,482	1,250,175	987,878

Primary reporting format – business segments

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



Secondary reporting format – geographical segments

	Unaudited			
	Three months ended 30 September		Nine months ended 30 September	
	2006	2005	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover				
– The PRC	309,934	272,084	1,009,324	827,341
– Korea	59,988	–	71,356	–
– Hong Kong	16,476	–	149,090	–
– United Kingdom	–	78,657	–	122,304
– Singapore	–	–	–	30,119
	<u>386,398</u>	<u>350,741</u>	<u>1,229,770</u>	<u>979,764</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. 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 nine months ended 30 September 2005 and 2006.

For the nine months ended 30 September 2006, the estimated assessable profits is wholly absorbed by unrelieved tax losses brought forward from last year.

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

	Unaudited			
	Three months ended 30 September		Nine months ended 30 September	
	2006	2005	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
PRC enterprise income tax	–	–	–	–
Other temporary differences	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

5. Earnings/(loss) per share

Basic earnings per share for the three months and nine months ended 30 September 2006 are based on the unaudited profit attributable to shareholders of RMB21,142,000 and RMB42,922,000 respectively (2005: loss of RMB34,625,000 and RMB40,884,000 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 per share.



DIVIDEND

The Directors do not recommend the payment of dividend for the nine months ended 30 September 2006 (2005: Nil).

MANAGEMENT'S DISCUSSIONS AND ANALYSIS

Business Review

Turnover for the nine months ended 30 September 2006 recorded RMB1,229,770,000, representing an increase of RMB250,006,000 or 25.52% against that of the corresponding period of the previous year. For the period from July to September of 2006, turnover reached RMB386,398,000, representing an increase of RMB35,657,000 or 10.17% against that of the corresponding period of the previous year. The increase in turnover for the periods from January 2006 to September 2006 and from July 2006 to September 2006 were mainly due to an increase in market price of both aluminum re-smelt ingots and aluminum alloy ingots.

For the period from January to September 2006, sales volume of aluminum re-smelt ingots and aluminum alloy ingots reached 71,356 tonnes, representing an increase of 2,519 tonnes or 3.66% against that of the corresponding period of 68,837 tonnes in 2005. For the period from July to September of 2006, the sales volume of aluminum re-smelt ingots and aluminum alloy ingots reached 22,540 tonnes, representing a decrease of 2,199 tonnes or 8.89% against that of the corresponding period of the previous year.

For the period from January to September of 2006, production volume of aluminum re-smelt ingots and aluminum alloy ingots reached 81,671 tonnes, representing an increase of 2,663 tonnes or 3.37% against that of the corresponding period in 2005. For the period from July to September of 2006, the production volume of aluminum re-smelt ingots and aluminum alloy ingots reached 28,848 tonnes, representing an increase of 2,462 tonnes or 9.33% against that of the corresponding period of the previous year. Increase in production volume of the Company for the periods from January to September and from July to September 2005 were mainly due to the Company's recycled aluminum project initiated in January 2005.

During the period under review, the Company strived to improve the structure of the products and to increase the production volume of aluminum alloy, a product with higher added-value. For the period from January to September of 2006, production volume of the aluminum alloy increased to an average of 12,204 tonnes from an average of 10,541 tonnes in the corresponding period of the previous year, representing an increase of 1,663 tonnes or 15.78%. For the period from July to September 2006, production volume of aluminum alloy increased to 5,250 tonnes from 3,890 tonnes of the corresponding period of the previous year, representing an increase of 1,360 tonnes or 34.96%.



During the year of 2006 the building of recycled aluminum production facilities had been completed, which helped to extend the product mix of the Company and strengthened the Company's core competitiveness.

Financial Review

For the nine months ended 30 September 2006:

The Company recorded turnover of approximately RMB1,229,770,000 for the nine months ended 30 September 2006, an 25.52% or RMB250,006,000 increase from approximately RMB979,764,000 for the same period of the previous year. The increase in turnover was mainly attributable to the increase in market price of both aluminum re-smelt and aluminum alloy ingots.

Of the total turnover amount, RMB1,020,205,000 or 82.96% was generated from sales of aluminum re-smelt ingots in the PRC and overseas, and RMB209,565,000 or 17.04% was generated from sales of aluminum alloy ingots.

The Company's gross profit for the nine months ended 30 September 2006 was approximately RMB100,005,000, representing a gross profit margin of approximately 8.13%, against the gross profit margin of about 3.31% for the nine months ended 30 September 2005. The increase in gross profit margin was mainly due to: (i) the market price of aluminum re-smelt and alloy ingots have increased; (ii) the purchase price of its major raw materials, alumina have decreased during the period; and (iii) the sales volume of aluminum ingots increased by 2,519 tonnes as compared with the corresponding period in 2005.

Other revenue of the Company for the nine months ended 30 September 2006 amounted to RMB20,405,000, of which approximately RMB10,247,000 was derived from sale of scrap and other materials, approximately RMB3,441,000 from supply of water and electricity to the Company's related parties and other independent third parties and approximately RMB6,717,000 from interest income. This represented an increase of RMB12,291,000 or 151.48% against RMB8,114,000 for the nine months ended 30 September 2005. The increase was mainly due to the sales of alumina and other major raw materials including electrodes from 21 tonnes for the nine months ended 30 September 2005 to 5,808 tonnes for the corresponding period in 2006.

Expenses related to other revenue of the Company for the nine months ended 30 September 2006 amounted to RMB10,156,000 which represented an increase of approximately RMB4,902,000 or 93.30% against the approximate amount of RMB5,254,000 for the nine months ended 30 September 2005. The increase in related expenses was mainly due to the sales of alumina and other major raw material from 21 tonnes for the nine months ended 30 September 2005 to 5,808 tonnes for the corresponding period in 2006.



The selling and distribution expenses of the Company amounted to approximately RMB9,552,000 or 0.78% of the turnover for the nine months ended 30 September 2006, as compared to about RMB14,201,000 or 1.45% of the turnover for the same period of the previous year. Such decrease was due to more customers arrange their own transportation.

For the nine months ended 30 September 2006, general and administration expenses were approximately RMB25,984,000, representing a decrease of approximately RMB2,624,000 or 9.17% against RMB28,608,000 for the same period 2005. This decrease was mainly due to (i) the more stringent internal control on overseas travelling expenses; (ii) improved collection of receivables that reduced the provision for bad debts; and (iii) reduced service fee paid to the holding company for provision of staff accommodation management and other staff benefits.

For the nine months ended 30 September 2006, the finance costs amounted to RMB31,796,000, representing a decrease of RMB1,553,000 or 4.66% from RMB33,349,000 for the corresponding period of 2005. The decrease was mainly due to the decrease in average bank loan balances during the period.

Net profit for the nine months ended 30 September 2006 was RMB42,922,000, as compared to a net loss of approximately RMB40,884,000 for the corresponding period in 2005.

For the three months ended 30 September 2006:

The Company recorded a turnover of approximately RMB386,398,000 for the three months ended 30 September 2006, representing a 10.17% increase from approximately RMB350,741,000 for the same period in the previous year. The increase in turnover was mainly attributable to the increase in market price of the aluminum re-smelt and aluminum alloy ingots.

Of the total turnover amount, RMB300,252,000 or 77.71% was generated from the sales of aluminum ingots in the PRC and overseas, and RMB86,146,000 or 22.29% was generated from the sales of aluminum alloy ingots.

The Company's gross profit for the three months ended 30 September 2006 was approximately RMB40,569,000, as compared to a gross loss of about RMB2,738,000 for the three months ended 30 September 2005. The change from a gross loss to a gross profit was mainly due to the market price of aluminum re-smelt and alloy ingots have increased and the purchase price of its major raw materials, alumina have been decreased during the period.

Other revenue of the Company for the three months ended 30 September 2006 amounted to RMB7,445,000, which comprised approximately RMB3,787,000 from sale of scrap and other materials, approximately RMB887,000 from supply of water and electricity to the Company's related parties and other independent third parties, and interest income of approximately RMB2,771,000. This represented an increase of 171.62% or RMB4,704,000 when compared to RMB2,741,000 for the three months ended 30 September 2005. The increase is mainly due to the increase in sales of raw materials including alumina and electrodes.

Expenses related to other revenue for the 3 months ended 30 September 2006 amounted to RMB2,846,000, representing an increase of RMB1,028,000 or 56.55% against RMB1,818,000 of the corresponding period in 2005.



The selling and distribution expenses of the Company amounted to about RMB1,923,000 or 0.50% of the turnover for the three months ended 30 September 2006, representing a decrease of approximately RMB3,416,000 or 64% when compared to about RMB5,339,000 or 1.52% of the turnover for the three months ended 30 September 2005. The decrease was mainly due to more customers arranged their own transportation which reduced in transportation cost during the period.

The general and administrative expenses were approximately RMB8,073,000 or 2.00% of the turnover for the three months ended 30 September 2006, representing a decrease of approximately RMB1,770,000 or 17.98% from about RMB9,843,000 for the three months ended 30 September 2005. The decrease was mainly due to (i) the more stringent internal control on overseas travelling expenses; (ii) improved collection of more receivables that reduced the provision for bad debts; and (iii) reduced service fee paid to the holding company for provision of staff accommodation management and other staff benefits.

For the three months ended 30 September 2006, finance costs amounted to approximately RMB14,030,000, representing a decrease of RMB3,598,000 or 20.41% from approximately RMB17,628,000 for the same period in 2005. The decrease was mainly due to the decrease in average bank loan balances during the period.

The net profit for the three months ended 30 September 2006 was approximately RMB21,142,000, as compared to a net loss of approximately RMB34,625,000 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 investments other than cash and other short-term bank deposits are currently permitted.

The Company has not held any significant investment for the three months ended 30 September 2006 and made no material acquisitions or disposals during the current period. At 30 September 2006, the Company had no material capital commitments.



POSSIBLE CHANGE OF CONTROLLING SHAREHOLDER

It was publicly announced on 29 September 2006 that the Board had been informed by Sanmenxia Tianyuan Aluminum Group Limited ("Tianyuan Group") and Tianrui Group Company Limited ("Tianrui Group") that, on 11 September 2006, State-owned Assets Supervision and Administration Commission of the State Council has granted its approval on the proposed terms on which Tianyuan Group will sell and Tianrui Group will purchase a total of 782,882,280 domestic shares of the Company ("Sale Shares"), representing approximately 67% of the existing issued share capital of the Company. The proposed Consideration for the Sale Shares is RMB123,460,535.56 (equivalent to approximately RMB0.1577 per Domestic Share).

The transfer of Sale Shares shall take legal effect upon fulfillment of the conditions referred to in the section headed "Legal effect" of the announcement.

Upon the effective transfer of the Sale Shares, Tianrui Group and parties acting in concert with it will own in aggregate a total of 782,882,280 Domestic Shares, representing approximately 67% of the existing issued share capital of the Company as at the date of the announcement. Accordingly, Tianrui Group will be required under Rule 26.1 of the Takeovers Code to make a mandatory cash offer for all the issued Shares (other than those already owned by or agreed to be acquired by Tianrui Group or parties acting in concert with it). For details, please refer to the information set out in the announcement issued by the Company on 29 September 2006.

Strategies and Plans

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

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

Foreign exchange risk

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

Share capital

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

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



DISCLOSURE OF INTERESTS

Interests of the directors, supervisors and chief executives

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

Interests of substantial shareholders and other persons

As at 31 March 2006, the persons (other than a director, supervisor or chief executive of the Company) who have an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Interest in Domestic Shares (long positions):

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

Interest in H Shares (long positions):

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



Other persons who are required to disclose their interests

As at 30 September 2006, save for the person described in the paragraph headed "Interests of substantial shareholder and other persons" above, no other person has an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

SHARE OPTION SCHEME

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

COMPETING INTERESTS

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

COMPLIANCE ADVISER'S INTEREST

Pursuant to the agreement dated 12 July 2004 (the "Compliance Adviser Agreement") entered into between the Company and its compliance adviser, namely Oriental Patron Asia Limited ("Oriental Patron"), Oriental Patron 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 Compliance Adviser Agreement is terminated upon the terms and conditions set out therein.

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

CORPORATE GOVERNANCE PRACTICES

During the nine months ended 30 September 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 directors.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S SHARES

During the nine months ended 30 September 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-year report and quarterly reports and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the financial reporting process and internal control system of the Company. The audit committee comprises three independent non-executive directors, namely Mr. ZHU Xiao Ping, Mr. SONG Quan Qi and Mr. CHAN Nap Tuck.

The unaudited third quarterly financial statements for the nine months ended 30 September 2006 have been reviewed by the audit committee.

By Order of the Board

Sanmenxia Tianyuan Aluminum Company Limited

LI He Ping

Chairman

Henan, the PRC, 10 November 2006

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