



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

06

Annual Report



\* 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.

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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](http://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.

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## 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](http://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

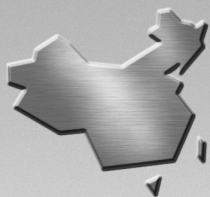
### PRINCIPAL BANKERS

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

**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

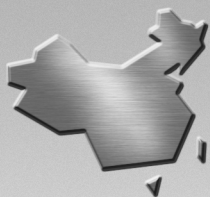
**AUDITORS**

Martin C.K. Pong & Company  
Unit B, 14/F, Dah Sing Life Building  
99-105 Des Voeux Road Central  
Central  
Hong Kong

## Financial Highlights

	For the year ended 31 December		
	2006 RMB'000	2005 RMB'000	2004 RMB'000
<b>Profit and loss account</b>			
Turnover	<b>1,674,433</b>	1,326,256	1,416,839
Cost of goods sold	<b>(1,481,362)</b>	(1,343,019)	(1,315,781)
Gross profit/(loss)	<b>193,071</b>	(16,763)	101,058
Other revenue	<b>20,502</b>	12,332	33,966
Expenses related to other revenue	<b>(5,899)</b>	(7,828)	(25,238)
Other revenue, net	<b>14,603</b>	4,504	8,728
Selling and distribution expenses	<b>(21,332)</b>	(22,659)	(19,851)
General and administrative expenses	<b>(53,722)</b>	(83,980)	(30,808)
Operating profit/(loss)	<b>132,620</b>	(118,898)	59,127
Finance costs	<b>(40,695)</b>	(40,048)	(24,888)
Profit/(loss) before income tax	<b>91,925</b>	(158,946)	34,239
Income tax	<b>(5,742)</b>	(5,260)	(11,490)
Profit/(loss) after income tax	<b>86,183</b>	(164,206)	22,749
Profit/(loss) attributable to shareholders	<b>86,183</b>	(164,206)	22,749
Dividend	-	-	11,682
Earnings/(loss) per share	<b>RMB0.07</b>	(RMB0.14)	RMB0.023
	<b>As at 31 December 2006 RMB'000</b>	As at 31 December 2005 RMB'000	As at 31 December 2004 RMB'000
<b>Assets and liabilities</b>			
Total assets	<b>1,293,119</b>	1,168,521	1,162,280
Total liabilities	<b>1,075,900</b>	1,037,485	855,356
Net assets	<b>217,219</b>	131,036	306,924





## Chairman's Statement

Dear Shareholders,

The year 2006 is the most challenging year for both Sanmenxia Tianyuan Aluminum Company Limited (the "Company") and I. During the year, targeting on profit maximisation, the Company has placed emphasis on capital reallocation, adjustment and cost controls, successfully overcoming the difficulties posed by the severe short of liquidity, the continuous rising of production costs and the supply shortage of alumina. Having implemented various measures to strengthen management, increase production, reduce costs and adjust sales structure, the Company has made up for the previous loss-making year by achieving record-high performance in 2006. I am pleased to present the annual report of the Company for the financial year ended 31st December 2006 and, on behalf of the board of directors of the Company (the "Board") and all the employees, express our sincere gratitude to our shareholder for their dedication and support to the Company.

### REVIEW OF OPERATING RESULTS

Turnover and other revenues of the Company for 2006 amounted to RMB1,694,935,000 representing an increase of 26.62% over the corresponding period last year. The operating profit was RMB86,183,000, as compared with a loss of approximately RMB164,206,000 for the corresponding period last year. Earnings per share reached RMB0.07, as compared with a loss per share of RMB0.14 for the corresponding period last year.

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The profit increase was mainly attributable to three reasons: (1) the soaring selling prices; (2) the strengthened internal management and reduced cost and expenses; and (3) the increase in production volume.

### 2007 BUSINESS PROSPECT

In 2007, with the growth momentum of the world's economy remaining unchanged, the international aluminum market will maintain a healthy development. According to the forecast made by "China Aluminum Industry" 《中國鋁業》, the global consumption of primary aluminum in 2007 will reach 37,120,000 tonnes, amounting to an increase of 8.1% over the corresponding period last year, while the global production volume of primary aluminum will amount to 37,370,000 tonnes, representing an increase of 10% over the corresponding period last year. There will be a basically balanced demand and supply. The lowering of production costs will lead to a drop in the price of aluminum, nevertheless the relatively low level of aluminum ingot inventory will become a driver to the increase of aluminum price.

For the aluminum industry of the Mainland China, the year 2007 will be a year with challenges and opportunities coexisting. While the macro control policies implemented by the State will be more stringent on various aspects such as electricity charge and duties, the imbalanced demand and supply of alumina, on the other hand, has been alleviated since new plants established by the State have commenced operation. Under such circumstance, the price of the alumina will be maintained at a reasonable level in 2007.

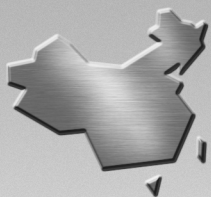
According to forecast made by a professional institute, the maximum and minimum level of the international aluminum price in 2007 will be US\$2,450 and US\$1,900 respectively, with an annual average price of US\$2,320. The domestic aluminum price will be ranged from RMB17,000 to RMB22,800, with an annual average price of RMB18,000.

**Chairman's Statement** *(Continued)*

In 2007, facing both challenges and opportunities, we are committed to maximizing the Company's profit and return to shareholders by further saving energy and costs, maintaining efficient internal management, reducing production costs and increasing both production capacity and product quality. In this respect, the key strategies of the Company for 2007 are set out as follows:

1. Achieving all economic and technology standards to ensure a continuous stable production of electrolytic aluminum. Firstly, we will strengthen our relationships with domestic and overseas alumina suppliers, particularly those alumina companies which have just commenced production, in order to ensure a stable supply of primary alumina. Secondly, we will maintain our connections with financial institutions so that sufficient working capital can be obtained for the usual operations of the Company.
2. Through strengthening of management and production, implementing stringent controls on operating costs and building up of comprehensive systems, we will strive to enhance management efficiency. Focusing on operation, we will integrate operating resources, lower purchasing costs and charges, and increase product prices, so as to enhance effectiveness. Centering on financial planning and capital budgeting, we will continue to build on our cash flow-oriented capital operation system, contributing to a comprehensive budget control for every production segment as well as fully utilizing our financial management capabilities.
3. Determining product mix, diversifying product categories and increasing production volume by reference to the market demand on aluminum alloy. Focusing on export as a development target, we will conduct sales of aluminum alloy products to international markets, enabling aluminum alloy to become the new profit stream of the Company.
4. Adjusting product structure flexibly based on market-oriented approach, facilitating technology development, innovation and optimization to reduce costs, prolong useful life of our equipment and benefit from technology reform.
5. Fully leveraging on the functions of the information centre, centering on financial management and building up networks through supply chain management system, a logistic information platform will be established to optimize resources allocation and enhance overall management efficiency.





Sanmenxia Tianyuan Aluminum Company Limited

**Chairman's Statement** *(Continued)*

**APPRECIATION**

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

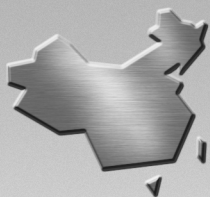
16 March 2007

## 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 5: From 1 July 2006 to 31 December 2006

	<b>Anticipated progress of projects</b>	<b>Actual progress of projects</b>
Product development and enhancement of production facilities:	Purchase of milling machine and heating furnace for the construction of production lines for aluminum foil for vehicle heat exchanges	Under planning stage
Research and development of new production technology:	Continue the research on continuous anode and inert anode	Completed and production commenced
Sales network development:	Continue to develop international aluminum alloy and foam aluminum markets	Under planning stage
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 2006

The Company is principally engaged in the production and sale of aluminum re-smelt ingots and aluminum alloy. 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 products respectively. The Company had manufactured about 93,932 tonnes of aluminum re-smelt ingots in 2006, representing an increase of 4.60%, from 89,803 tonnes for 2005. Production volume of the aluminum alloy amounted to 18,909 tonnes in 2006, representing an increase of 42.35%, from 13,284 tonnes for 2005.

### BUSINESS REVIEW

#### Results of Operations

The Company's profit amounted to approximately RMB86,183,000 for 2006, as compared with a loss of about RMB164,206,000 for 2005.

The change from a loss to a gain from 2005 to 2006 was primarily due to the increase in selling price and the demand in the market.

#### Turnover

The Company's total turnover amounted to approximately RMB1,674,433,000 for 2006, representing an increase of 26.25%, from about RMB1,326,256,000 for 2005. The increase in turnover was mainly due to the increase in sales caused by the increase in demand of aluminum ingots and the increase in selling prices. The average selling price of aluminum ingots was 20.46% higher than those for 2005, with only 3.07% increase in average production costs for aluminum ingots during the year.

During 2006, of the total turnover amount, approximately RMB1,337,333,000 or 79.87% was generated from the sale of aluminum re-smelt ingots, and about RMB337,100,000 or 20.13% was generated from the sale of aluminum alloy.

The sales of aluminum re-smelt ingots amounted to approximately RMB1,337,333,000 in 2006, representing an increase of 17.97%, from about RMB1,133,591,000 in 2005.

The sales of aluminum alloy amounted to approximately RMB337,100,000 for 2006, representing an increase of 74.97%, from about RMB192,665,000 for 2005.

Sales volume of aluminum ingots and aluminum alloy amounted to 96,361 tonnes for 2006, representing an increase of 4,140 tonnes or 4.49%, from 92,221 tonnes for 2005. The average price was RMB17,377 per tonne for 2006, representing an increase of RMB2,996 per tonnes or 20.83%, from RMB14,381 per tonne for 2005. Of the total sales volume, the sales volume of aluminum ingots was 77,512 tonnes for 2006, representing a decrease of 1,631 tonnes or 2.06%, from 79,143 tonnes for 2005; the average selling price of aluminum ingots amounted to RMB17,253 per tonne for 2006, representing an increase of RMB2,930 per tonne or 20.46%, from RMB14,323 per tonne for 2005; the sales volume of aluminum alloy was 18,849 tonnes for 2006, representing an increase of 5,771 tonnes or 44.13%, from 13,078 tonnes for 2005; the average selling price of aluminum alloy amounted to RMB17,884 per tonne for 2006, representing an increase of RMB3,152 per tonne or 21.40% from RMB14,732 per tonne for 2005.

**Management's Discussion and Analysis of Financial Condition and Results of Operations for the year 2006 (Continued)****Cost of sales**

The Company's total cost of sales amounted to approximately RMB1,481,362,000 in 2006, representing an increase of 10.30%, from about RMB1,343,019,000 in 2005. The increase was mainly due to the increase in the price of major raw material, alumina, and electricity and the increase in export duty on aluminum ingots by the PRC Central government.

The average selling costs for aluminum ingots were RMB15,396 per tonne in 2006, representing an increase of RMB936 per tonne or 6.47% from RMB14,460 per tonne in 2005.

The average selling costs for aluminum alloy was RMB15,085 per tonne, representing a decrease of RMB17 per tonne or 0.11%, from RMB15,102 per tonne in 2005.

The average purchase price for alumina was RMB3,873 per tonne (excluding tax) for 2006, decreased by RMB68 per tonne or 1.73%, from RMB3,941 per tonne (excluding tax) for 2005. Average price for electricity amounted to RMB0.3488 per degree (excluding tax), increased by RMB0.0221 per degree or 6.76%, from RMB0.3267 per degree (excluding tax) in 2005.

**Gross profit/(loss)**

The Company's gross profit for the year ended 31 December 2006 was approximately RMB193,071,000, when compared with a gross loss of approximately RMB16,763,000 for 2005. The change from a loss to a gain from 2005 to 2006 was mainly due to the increase in the selling price of the aluminum re-smelt ingots is higher than the increase in cost of its major raw material, i.e. alumina. Average market price for aluminum ingots amounted to RMB17,253 per tonne, representing an increase of 20.46% from that of the previous year. Cost of sales for aluminum ingots amounted to RMB15,396 per tonne, representing an increase of 6.47% from that of the previous year.

**Selling and Distribution Expenses**

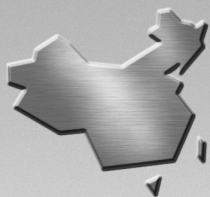
The Company's selling and distribution expenses were approximately RMB21,332,000 or 1.27% of turnover in 2006, decreased by 5.86%, from about RMB22,659,000 or 1.71% of turnover in 2005. The decrease was mainly attributable to the decrease in commission expenses due to reduction in export sales.

**General and Administrative Expenses**

The Company's general and administrative expenses were approximately RMB53,722,000 in 2006, representing a decrease of RMB30,258,000 or 36.03%, from about RMB83,980,000 for 2005. The decrease was mainly attributable to the provision for bad debts provided in 2005 amounted to RMB38,856,000.

**Other Revenue**

Other revenue of the Company amounted to approximately RMB20,502,000 for 2006, representing an increase of RMB8,170,000 or 66.25%, from about RMB12,332,000 in 2005. The increase was mainly due to increase in interest income by about RMB4,810,000 than to 2005 and increase in government subsidies by about RMB1,630,000.



**Management's Discussion and Analysis of Financial Condition and Results of Operations for the year 2006 (Continued)**

**Expenses related to other revenues**

The Company's expenses related to other revenues for 2006 were approximately RMB5,899,000, representing a decrease of RMB1,929,000 or 24.64%, from about RMB7,828,000 for 2005. The decrease was due to loss on disposal of fixed assets in year 2005.

**Finance Costs**

The finance costs for the Company in 2006 were approximately RMB40,695,000, representing an increase of RMB647,000 or 1.62%, from about RMB40,048,000 in 2005. 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.

**Net Profit**

As a result of the foregoing, the Company's net profit for the year was approximately RMB86,183,000, when compared with a net loss of about RMB164,206,000 in 2005.

**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 short-term bank deposits are currently permitted.

The Company has not held any significant investment for the year ended 31 December 2006.

**Working Capital and Liabilities**

As of 31 December 2006, the Company's current assets amounted to approximately RMB812,616,000, representing a decrease of RMB35,111,000 from about RMB847,727,000 for 2005. The decrease was due to the decrease of inventories of approximately RMB38,169,000.

As of 31 December 2006, the Company's current liabilities amounted to approximately RMB1,075,900,000, representing an increase of RMB100,915,000, from about RMB974,985,000 for 2005. The increase was mainly attributable to the increase of bank borrowings for the purpose of purchasing raw materials. At of 31 December 2006, trade and other payables amounted to about RMB323,778,000, representing a decrease of RMB75,615,000 from RMB399,393,000 in 2005, and short term bank borrowings amounted to about RMB746,380,000, representing an increase of approximately RMB170,788,000 from RMB575,592,000 in 2005.

**Capital Structure**

As of 31 December 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 having an effective capital structure from time to time. As at 31 December 2006, the Company had an aggregate outstanding borrowings of approximately RMB849,580,000 (including bills payables of about RMB103,200,000). The gearing ratio was 391.12% (being the aggregate outstanding borrowings of RMB849,580,000 divided by the total net assets of RMB217,219,000).

**Management's Discussion and Analysis of Financial Condition and Results of Operations for the year 2006 (Continued)****Contingent Liabilities**

As at 31 December 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:

	<b>2006</b> <b>RMB'000</b>	2005 RMB'000
Third parties	-	30,000
A related company	-	8,000
Other state-controlled enterprises	<b>17,500</b>	65,000
	<b>17,500</b>	103,000

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 2006.

**Capital Commitments**

Please refer to note 26 to the financial statements for details.

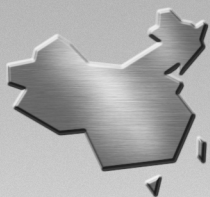
**Cash and Cash Equivalents**

Total cash of the Company as of 31 December 2006 (including foreign currency-denominated deposits) amounted to approximately RMB465,387,000. Since pledged and restricted deposits do not fall into the definition of cash equivalents, cash and cash equivalent of the Company as at 31 December 2006 amounted to RMB171,894,000.

**Cash Flow**

As at 31 December 2006, the Company had cash, bank balances and deposits in bank of RMB171,894,000 (2005: RMB179,649,000), representing a decrease of RMB7,755,000 from the beginning of the year. This was mainly attributable to the increase in acquisition of fixed assets. During the year, the Company had net cash inflow from operating activities of RMB31 million (2005: RMB60 million of net cash inflow), net cash outflow from investing activities of RMB118 million (2005: RMB15 million of net cash inflow), and net cash inflow from financing activities of RMB82 million (2005: RMB48 million of net cash outflow).





**Management's Discussion and Analysis of Financial Condition and Results of Operations for the year 2006 (Continued)**

**Details of pledged assets of the Company**

As at 31 December 2006, the Company has pledged bank balances and plant and machinery amounted to approximately RMB198,100,000 and approximately RMB173,778,000 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 2006, the Company has 2,404 employees (2005: 2,210). Staff costs, including directors' remuneration, was approximately RMB63 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 17 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 2006, the Company has no significant pending litigation.

## Directors' and Supervisors' Profile

### Executive Directors

**Mr. TAN Yu Zhong (譚豫忠)**, aged 43, 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 Sanmenxia Tianyuan Aluminum Group Limited (三門峽天元鋁業集團有限公司) ("Tianyuan Group") in 1984 and has about 22 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.

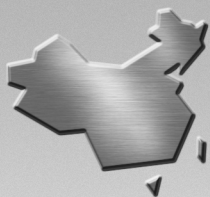
**Mr. XIAO Chong Xin (肖崇信)**, aged 41, is the deputy chairman of the Company. He is responsible for the management of the Company's operations. He joined Tianyuan Group in 1988 and has about 17 years of experience in the aluminum industry. During his employment at Tianyuan Group, he has served as the 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 49, was appointed as executive Director 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 51, 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 50, 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.



**Directors' and Supervisors' Profile** *(Continued)*

**Mr. YAN Li Qi (閻利啟)**, aged 53, was appointed as non-executive Director 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), a promoter and shareholder of the Company holding approximately 0.76% of the issued share capital of the Company.

**Independent non-executive Directors**

**Dr. SONG Quan Qi (宋全啟)**, aged 42, 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 Hennen 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 58, 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 64, 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 17 years' experience in senior position in the field of accounting.

**Directors' and Supervisors' Profile (Continued)****SUPERVISORS**

The Company has established 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 48, is the chairman of the Supervisory Committee. 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 of the Company in July 2000.

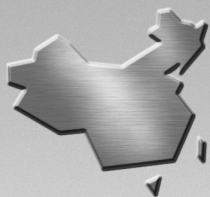
**Mr. HU Yu Jun (胡玉軍)**, aged 49, is deputy chief accountant and finance manager of Henan The Sixth Construction Group Limited, a promoter and shareholder of the Company holding approximately 0.76% of the issued share capital of the Company. He is a member of the Communists' Party of the PRC. He was appointed as a supervisor of the Company in August 2003.

**Mr. YANG Xiao Jian (楊曉建)**, aged 33, 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 of the Company and a staff representative of the Supervisory Committee in March 2001.

**Ms. YANG Feng Zhen (楊鳳珍)**, aged 48, 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 38, 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 supervisor of the Company a staff representative of the Supervisory Committee 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.



**Directors' and Supervisors' Profile** *(Continued)*

**SENIOR MANAGEMENT**

**Mr. Chen Ying Guang (陳應廣)**, aged 44, is the deputy general manager and chief engineer of the Company. Mr. Chen has held various senior management positions in 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 33, is the chief accountant of the Company. Mr. Yang has held various senior positions in Tianyuan Group and Sanmenxia Jiashi Wheel Hubs Co., Ltd. (三門峽佳適鋁合金輪轂有限責任公司). 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 42, 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 37, 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 2006.

### 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 income statement of the Company for the year ended 31 December 2006 are set out on page 42 of this report.

### Dividend

The Directors do not propose any dividend for the year ended 31 December 2006.

### Reserves

Movements in the reserves of the Company during the year are set out in the statement of changes in equity on page 43 of this report and note 15 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.

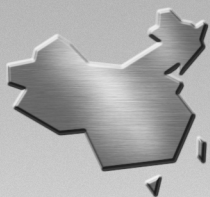
### Distributable Reserves

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 profits for the relevant accounting period shall be deemed to be the lesser of the amounts shown in the two different financial statements. Distributable profits of the Company as of 31 December 2006, calculated based on the above principle, amounted to approximately RMB10,864,000.

### Use of Proceeds From the Placing

The Company was listed on GEM on 13 July 2004. As at 31 December 2006, the Company had received the net proceeds from the placing of 318,200,000 H shares (the "Placing") of approximately RMB69 million after deducting the proceeds of the 31,820,000 sale H shares and the relevant administrative expenses.



**Report of the Directors (Continued)**

As of 31 December 2006, the usages of the net proceeds received from the Placing in accordance with the Prospectus were as follows:

	<b>As at 31 December 2006</b>	
	<b>Proposed total fundings required from net proceeds</b>	<b>Actual fundings spent</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Product development and enhancement of production facilities ( <i>note 1</i> )	64,791	35,547
Research and development of new production technology	3,918	4,854
Sales network development	1,607	1,224
Information system set up	1,005	233
Staff training	1,005	941
Total	<u>72,326</u>	<u>42,799</u>

*Note 1:* Actual fundings spent on the product development and enhancement of production facilities reduced by approximately RMB29 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 2006 are set out in note 20 to the financial statements.

**Report of the Directors** *(Continued)***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). The remuneration of the Directors for the year ended 31 December 2006 is set out on note 18 to the financial statements.

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

As at 31 December 2006, 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 2006, 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 2006, none of the Directors was granted any option to subscribe for shares of the Company. As at 31 December 2006, none of the Directors had any right to acquire shares in the Company.

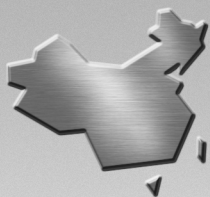
**Remuneration Policy**

Remuneration policy of the employees of the Company is set on the basis of their merit, 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 2006, the Company had not adopted any share option scheme or granted any option.



Report of the Directors (Continued)

**Confirmation of Independence by Independent Non-executive Director**

The Company confirms that it has received from each of independent non-executive directors of the Company 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 of the Company 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.

**Interest of Substantial Shareholders and Other Persons**

As at 31 December 2006, 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:

**Interests in Domestic Shares (long positions):**

21

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
<b>Substantial shareholder</b>				
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%

## Report of the Directors (Continued)

**Interests in H Shares (long positions):**

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

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

As at 31 December 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.

**Purchase, Sale or Redemption of the Company's Shares**

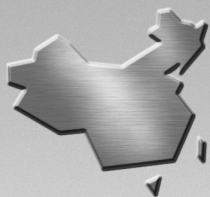
The Company had not purchased, sold or redeemed any of the Company's listed shares in the year ended 31 December 2006.

**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 aluminum re-smelt ingots and aluminum alloy accounted for approximately 12.96% and approximately 45.91%, respectively, of the Company's total turnover for the year ended 31 December 2006.



**Report of the Directors (Continued)**

The amount of raw materials (including electricity) provided by the largest supplier and the five largest suppliers of the Company accounted for approximately 36.05% and approximately 78.62%, respectively, of the Company's total cost of purchase.

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 2006.

**Connected Transactions**

During the year, the Company undertook a connected transaction and certain continuing connected transactions with its connected persons (as defined under the GEM Listing Rules), details of which were as follows:

Connected Persons

1. 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.
2. 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 Transaction

The Company acquired from Tianyuan Group certain land use rights and production facilities at a total consideration of approximately RMB390.78 million, details of which were disclosed in the circular of the Company dated 23 January 2006. During the year, total amount of approximately RMB194,695,000 production facilities were purchased from Tianyuan Group and part of the consideration was settled by the Company in the form of the supply of aluminum re-smelt ingots to Tianyuan Group during the year amounted to approximately RMB12,703,000.

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 approximately RMB7,522,000.

**Report of the Directors** *(Continued)*Continuing Connected Transactions *(continued)*

2. 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 received by the Company from Tianyuan Group under the transactions during the year amounted to RMB7,000.
3. The supply of pre-baked carbon anode by Dongxing to the Company under the Pre-baked Carbon Anode Agreement dated 21 December 2005 entered into between the Company and Dongxing. The sum paid by the Company to Dongxing under the transactions during the year amounted to RMB17,324,000.

In respect of transaction nos. 1 to 2 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 set out in Chapter 20 of the GEM Listing Rules.

In respect of transaction no. 3 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.

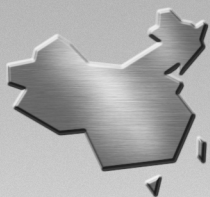
The aforesaid continuing connected transactions were reviewed by independent non-executive Directors. The independent non-executive Directors confirmed that the aforesaid continuing connected transactions were entered into:

- (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 were fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company had received a letter from the auditors in respect of the transactions mentioned above confirming that the transactions:

- (a) had received the approval of the board of directors of the Company;
- (b) were entered into in accordance with the relevant agreements; and
- (c) had not exceeded the caps disclosed in the previous announcements relating to the aforesaid transactions.





**Report of the Directors (Continued)**

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

As at 31 December 2006, the Company recorded trade receivables due from Jiashi to the Company for approximately RMB48,604,000, of which, approximately RMB38,488,000 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 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 2006.

**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 set out in Appendix 15 of the GEM Listing Rules in the financial year ended 31 December 2006.

**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, four meetings have been held by the audit committee.

**Report of the Directors** *(Continued)***Auditors**

The term of office of PricewaterhouseCoopers, the former auditors of the Company, has expired at the close of the annual general meeting (the "AGM") of the Company held on 11 August 2006. Martin C.K. Pong & Company Certified Public Accountants has been appointed as auditors of the Company to fill the vacancy on 11 August 2006.

Martin C.K. Pong & Company Certified Public Accountants and Beijing Xinghua Certified Public Accountants were the international auditors and the PRC auditors to the Company respectively for the year ended 31 December 2006. A resolution for the 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 May 2007.

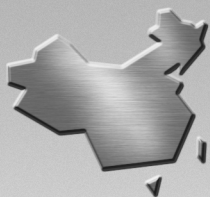
By Order of the Board

**Sanmenxia Tianyuan Aluminum Company Limited**

**LI He Ping**

*Chairman*

Sanmenxia City, Henan Province, the PRC  
16 March 2007



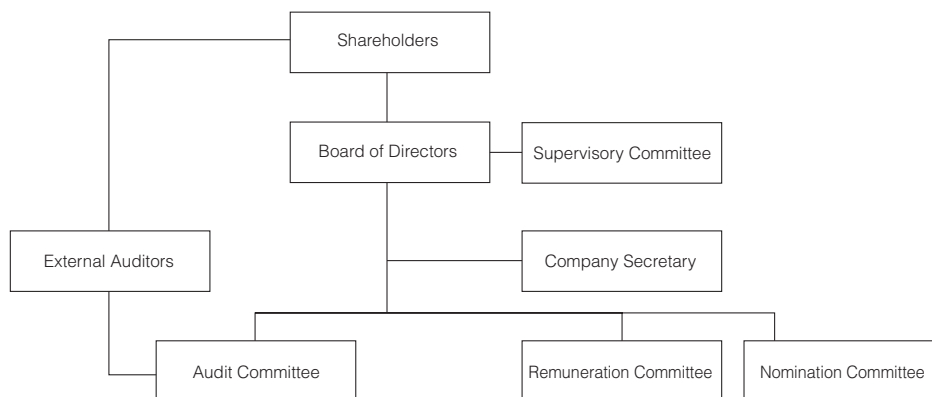
# Corporate Governance Report

## 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 2006.

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 the code of conduct regarding Directors' securities transactions.

**Corporate Governance Report (Continued)****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 2006 and up to the date of the report were:

*Executive directors*

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)

*Independent non-executive directors*

Mr. Zhu Xiao Ping

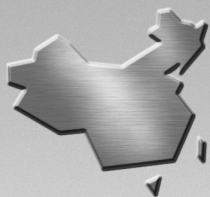
Dr. Song Quan Qi

Mr. Chan Nap Tuck

**(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.



**Corporate Governance Report (Continued)**

For the year ended 31 December 2006, 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 effective internal controls taken by the Company;
- v. reviewed the amendments to the Articles of Association of the Company;
- vi. reviewed and approved the notifiable and connected transactions of the Company as set out below:-

<b>Date of Announcement</b>	<b>Type of Transaction</b>	<b>Description</b>
27 October 2005	Very substantial acquisition and connected transaction	Acquisition of production facilities and land use rights
22 May 2006	Discloseable, major and connected transactions	Provision of guarantees

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.

**Corporate Governance Report (Continued)****(c) Meeting Records**

There were 7 Board meetings held for the year ended 31 December 2006.

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

<b>Board Members</b>	<b>Attendance at meetings held in the year ended 31 December 2006</b>
Mr. Tan Yu Zhong	7/7
Mr. Xiao Chong Xin	7/7
Mr. Zhao Zheng Bin (appointed on 10 March 2006)	6/7
Mr. Yan Li Qi	7/7
Mr. Li He Ping (appointed on 10 March 2006)	6/7
Mr. Li Liu Fa (appointed on 10 March 2006)	6/7
Mr. Zhu Xiao Ping	7/7
Dr. Song Quan Qi	7/7
Mr. Chan Nap Tuck	7/7

**(d) Independent Non-executive Directors**

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

The Company confirmed with all independent 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**

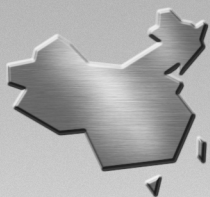
Each of the non-executive and independent non-executive Directors has entered into a service contract with the Company for a term of three years.

**CHAIRMAN AND GENERAL MANAGER**

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.





Corporate Governance Report (Continued)

## 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*

Dr. Song Quan Qi (*chairman of audit committee*)

Mr. Zhu Xiao Ping

Mr. Chan Nap Tuck

#### *Role and function*

The audit committee is mainly responsible for:

- i. discussing with the external auditors before the audit commences, the nature and scope of audit;
- ii. reviewing the Company's draft annual, half yearly and quarterly report and accounts before submission and provide advice and comments thereon to the Board;
- iii. considering the appointment of external auditors, their audit fees and questions of resignation or dismissal; and
- iv. discussing problems and reservations arising from audits and matters that the external auditors may wish to discuss (in the absence of the management, where necessary).

**Corporate Governance Report (Continued)***Meeting Record*

The audit committee met four times during the year for, among other things, 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 2006:

<b>Committee member</b>	<b>Attendance at meetings held in the year ended 31 December 2006</b>
Mr. Song Quan Qi	4/4
Mr. Zhu Xiao Ping	4/4
Mr. Chan Nap Tuck	4/4

During the meetings, the audit committee has discussed the following matters:-

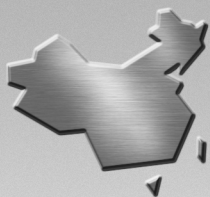
**(1) Financial Reporting**

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 two independent non-executive directors and one non-executive director.

*Composition of remuneration committee*

Mr. Li He Ping (*chairman of the remuneration committee*)

Dr. Song Quan Qi

Mr. Zhu Xiao Ping

*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 for 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).

**Corporate Governance Report (Continued)**

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 2006, there was one meeting held. The following was an attendance record of the remuneration committee meeting for the year ended 31 December 2006:

<b>Committee member</b>	<b>Attendance at meeting held in the year ended 31 December 2006</b>
Mr. Li He Ping	1/1
Mr. Song Quan Qi	1/1
Mr. Zhu Xiao Ping	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 and one non-executive director.

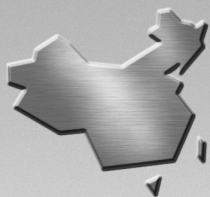
*Composition of nomination committee*

Mr. Li He Ping (*chairman of the nomination committee*)  
Dr. Song Quan Qi  
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 general manager.

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



**Corporate Governance Report (Continued)**

For the year ended 31 December 2006, there was one meeting held. The following was an attendance record of the remuneration committee meeting for the year ended 31 December 2006:

<b>Committee member</b>	<b>Attendance at meeting held in the year ended 31 December 2006</b>
Mr. Li He Ping	0/1
Mr. Song Quan Qi	1/1
Mr. Chan Nap Tuck	1/1

**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**

The term of office of PricewaterhouseCoopers, the former auditors of the Company, has expired at the close of the annual general meeting of the Company held on 11 August 2006. Martin C.K. Pong & Company Certified Public Accountants has been appointed as auditors of the Company to fill the vacancy on 11 August 2006.

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 2006, Martin C.K. Pong & Company Certified Public Accountants and Beijing Xinghua Certified Public Accountants, the external auditors provided the following services to the Company:-

	<b>Martin C.K. Pong &amp; Company</b>
Annual audit services	HK\$900,000
	<b>Beijing Xinghua</b>
Annual audit services	RMB500,000

**Corporate Governance Report (Continued)****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 2006, the Board has reviewed the effectiveness of the current system of internal control.

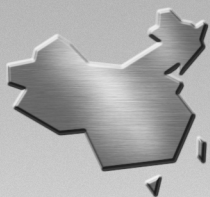
**INVESTOR RELATIONS**

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 2006, the following shareholder meetings were held by the Company:–

<b>Date</b>	<b>Venue</b>	<b>Type of Meeting</b>	<b>Particulars</b>	<b>Way of voting at the Meeting</b>
11 August 2006	No. 10 South Dongfeng Road, Sanmenxia City, Henan Province, The PRC.	Annual General Meeting	<ol style="list-style-type: none"> <li>1. To consider and approve the report of the Board for 2005;</li> <li>2. To consider and approve the report of the supervisory committee of the Company for 2005;</li> <li>3. To consider and approve the audited financial statements and the auditors' report for 2005;</li> <li>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</li> <li>5. To authorize the Board to determine the remunerations of the directors and supervisors of the Company.</li> </ol>	By show of hands





Corporate Governance Report (Continued)

<b>Date</b>	<b>Venue</b>	<b>Type of Meeting</b>	<b>Particulars</b>	<b>Way of voting at the Meeting</b>
10 March 2006	No. 10 South Dongfeng Road, Sanmenxia City, Henan Province, The PRC.	Extraordinary General Meeting	<ol style="list-style-type: none"><li>1. To approve the acquisition of production facilities and land use rights from Tianyuan Group;</li><li>2. To approve the appointment of Mr. Li Liu Fa as a non-executive director of the Company;</li><li>3. To approve the appointment of Mr. Li He Ping as a non-executive director of the Company;</li><li>4. To approve the appointment of Mr. Zhao Zheng Bin as an executive director of the Company; and</li><li>5. To approve the proposed amendments to the Articles of Association.</li></ol>	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 to the Articles of Association of the Company are set out 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.

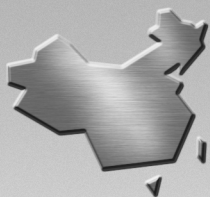
The Supervisory Committee is satisfied with the achievement and cost-effectiveness of the Company in 2006 and has great confidence in the future of the Company.

By Order of the Supervisory Committee

**Wang Gang Min**

*Chairman*

Sanmenxia City, Henan Province, the PRC  
16 March 2007



## Report of the Auditors

### **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SANMENXIA TIANYUAN ALUMINIUM COMPANY LIMITED**

*(Incorporated in the People's Republic of China with limited liability)*

We have audited the financial statements of Sanmenxia Tianyuan Aluminium Company Limited set out on pages 41 to 77 which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on these financial statements based on our audit, and to report our opinion solely to you, as a body, and for no other purposes. We do not assume responsibility towards or accept liability to any other person for the content of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Report of the Auditors (Continued)****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 31 December 2006, the company had net current liabilities amounting to approximately RMB263,284,000. The net current liabilities will further increase by approximately RMB196,088,000 as a result of a very substantial acquisition of certain properties and land use right from the Company's parent company subsequent to 31 December 2006. In addition, as at 31 December 2006, the company has given guarantees in favour of a state-controlled enterprise amounting to approximately RMB18,500,000. 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 the company's affairs as at 31 December 2006 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Martin C. K. Pong & Company**

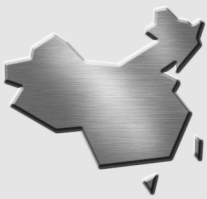
*Certified Public Accountants*

Unit B, 14/F, Dah Sing Life Building

99-105 Des Voeus Road Central

Central, Hong Kong

Hong Kong, 16 March 2007



# Balance Sheet

As at 31 December 2006

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		As at 31 December	
		2006	2005
		RMB'000	RMB'000
	Note		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	480,003	320,294
Debenture		500	500
		<u>480,503</u>	<u>320,794</u>
<b>Current assets</b>			
Inventories	7	77,955	116,124
Trade receivables	8	100,495	83,649
Other current assets	9	168,779	200,765
Cash and cash equivalents	10		
– Pledged and restricted bank balances		293,493	267,540
– Cash on hand and in bank		171,894	179,649
		<u>812,616</u>	<u>847,727</u>
<b>Current liabilities</b>			
Trade payables	11	158,409	218,133
Other payables and accruals	12	165,369	181,260
Income tax payable		5,742	–
Borrowings	13	746,380	575,592
		<u>1,075,900</u>	<u>974,985</u>
<b>Net current liabilities</b>		<u>(263,284)</u>	<u>(127,258)</u>
<b>Total assets less current liabilities</b>		<u>217,219</u>	<u>193,536</u>
<b>Non-current liabilities</b>			
Borrowings	13	–	62,500
<b>Net assets</b>		<u>217,219</u>	<u>131,036</u>
<b>EQUITY</b>			
Share capital	14	116,820	116,820
Reserves	15	100,399	14,216
		<u>217,219</u>	<u>131,036</u>

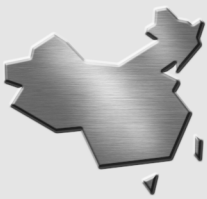
The notes on pages 45 to 77 are an integral part of these financial statements

# Income Statement

For the year ended 31 December 2006

		Year ended 31 December	
		2006	2005
		RMB'000	RMB'000
	Note		
Turnover	5	<b>1,674,433</b>	1,326,256
Cost of goods sold		<b>(1,481,362)</b>	(1,343,019)
<b>Gross profit/(loss)</b>		<b>193,071</b>	(16,763)
Other gains – net	5	<b>14,603</b>	4,504
Selling and distribution costs		<b>(21,332)</b>	(22,659)
Administrative expenses		<b>(53,722)</b>	(83,980)
<b>Operating profit/(loss)</b>		<b>132,620</b>	(118,898)
Finance costs	19	<b>(40,695)</b>	(40,048)
<b>Profit/(loss) before tax</b>	16	<b>91,925</b>	(158,946)
Income tax expense	20	<b>(5,742)</b>	(5,260)
<b>Profit/(loss) for the year and attributable to shareholders</b>		<b>86,183</b>	(164,206)
<b>Earnings/(loss) per share</b> (expressed in RMB per share)			
basic and diluted	21	<b>0.07</b>	(0.14)
<b>Dividends</b>	23	<b>-</b>	-





## Statement of Changes in Equity

For the year ended 31 December 2006

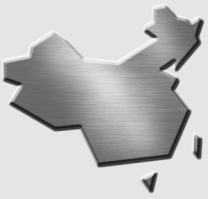
	Attributable to shareholders of the Company					Total RMB'000
	Share capital RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Retained earnings/ (accumulated losses) RMB'000	
<b>Balance at 1 January 2005</b>	116,820	62,099	14,060	7,031	106,914	306,924
Dividend relating to 2004	-	-	-	-	(11,682)	(11,682)
Loss for the year	-	-	-	-	(164,206)	(164,206)
<b>Balance at 31 December 2005</b>	<u>116,820</u>	<u>62,099</u>	<u>14,060</u>	<u>7,031</u>	<u>(68,974)</u>	<u>131,036</u>
<b>Balance at 1 January 2006</b>	116,820	62,099	14,060	7,031	(68,974)	131,036
Transfer from statutory public welfare fund to statutory surplus reserve	-	-	7,031	(7,031)	-	-
Profit for the year	-	-	-	-	86,183	86,183
Transfer from retained earnings to statutory surplus reserve	-	-	6,345	-	(6,345)	-
<b>Balance at 31 December 2006</b>	<u>116,820</u>	<u>62,099</u>	<u>27,436</u>	<u>-</u>	<u>10,864</u>	<u>217,219</u>

## Cash Flow Statement

For the year ended 31 December 2006

	Note	Year ended 31 December	
		2006 RMB'000	2005 RMB'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	22	71,492	96,866
Interest paid		(40,390)	(36,399)
Income tax paid		-	(743)
Net cash generated from operating activities		31,102	59,724
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		140	99
Interest received	5	7,514	2,704
Purchase of property, plant and equipment		(124,914)	(16,353)
Repayment to parent company		(737)	(77,900)
Advance from parent company		148	106,099
Net cash (used in)/generated from investing activities		(117,849)	14,649
<b>Cash flows from financing activities</b>			
Increase in pledged cash		(25,953)	(97,766)
Proceeds from borrowings		881,650	575,592
Repayments of borrowings		(773,362)	(514,507)
Dividends paid to shareholders		-	(11,682)
Net cash generated from/(used in) financing activities		82,335	(48,363)
<b>Net (decrease)/increase in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of the year		179,649	155,304
Effect of foreign exchange rate changes, net		(3,343)	(1,665)
<b>Cash and cash equivalents at end of the year</b>	10	<b>171,894</b>	<b>179,649</b>

The notes on pages 45 to 77 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 and alloy 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 PRC. The address of the registered office and principal place of business 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 (the “GEM”) of the Stock Exchange of Hong Kong Limited since July 2004.

These financial statements are presented in Renminbi, which is the functional currency of the Company.

These financial statements for the year ended 31 December 2006 have been approved and authorised for issue by the Board of Directors on 16 March 2007.

## 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 have been prepared on the historical cost basis.

The financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (the “HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). In addition, these financial statements include applicable disclosures required by the Hong Kong Companies Ordinance and by the Rules Governing the Listing of Securities on the GEM of the SEHK (the “GEM Listing Rules”).

## Notes to Financial Statements (Continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)**2.1 Basis of preparation** (continued)

As at 31 December 2006, the current liabilities of the Company exceeded the current assets by RMB263,284,000. In addition, as described in Note 26(a), the Company has capital commitment to the parent company for acquiring certain properties and land use rights at total consideration of RMB196,088,000. The entire consideration is to be settled by (i) assignment of the Company's balances due from a related company of RMB10,000,000 to the parent company; (ii) assignment of purchase deposits of RMB134,200,000; and (iii) cash or inventory (at the option of the Company) or assuming bank borrowings originally owed by the parent company of total RMB51,888,000. As a result of the acquisition, the Company's net current liabilities will increase at the date of acquisition by RMB196,088,000. In addition, as at 31 December 2006, the Company has given guarantees in favour of a state-controlled enterprise amounting to RMB18,500,000 in respect of this company's 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 borrower. Based on the revolving history of the bank loans, the directors are confident that the bank loans will be renewed by its bankers. The directors have reviewed the available financial information of the company 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 borrower. 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.

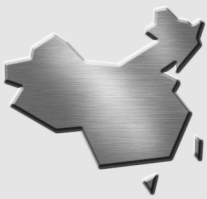
The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. The areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

**2.2 The adoption of new/revised HKFRS**

During the year, the Company has applied, for the first time, a number of new and amended HKFRS, which are effective for accounting period beginning on or after 1 December 2005 or 1 January 2006.

These include the following:

HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts
HKFRS 1 & HKFRS 6 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a lease
HK(IFRIC) – Int 5	Rights to Interest Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment



Notes to Financial Statements (Continued)

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

**2.2 The adoption of new/revised HKFRS** (continued)

The adoption of the above new and amended HKFRS had no material effect on the amounts reported for the current and prior accounting periods. Accordingly, no prior period adjustment had been required.

The Company has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standard, amendment or interpretations will have no material impact on the results and the financial position of the Company.

HKAS 1 (Amendment)	Capital Disclosures <sup>(a)</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>(a)</sup>
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>(b)</sup>
HK(IFRIC)-Int 8	Scope of HKFRS 2 <sup>(c)</sup>
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives <sup>(d)</sup>
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment <sup>(e)</sup>
HK(IFRIC)-Int 11	Group and Treasury Share Transactions <sup>(f)</sup>

<sup>(a)</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>(b)</sup> Effective for annual periods beginning on or after 1 March 2006

<sup>(c)</sup> Effective for annual periods beginning on or after 1 May 2006

<sup>(d)</sup> Effective for annual periods beginning on or after 1 June 2006

<sup>(e)</sup> Effective for annual periods beginning on or after 1 November 2006

<sup>(f)</sup> Effective for annual periods beginning on or after 1 March 2007

**2.3 Revenue recognition**

Revenue is recognized in the income statement when it is probable that the economic benefits will flow to the Company and the revenue and costs, if applicable, can be measured reliably, as follows:

*(a) Sales of goods*

Revenue from the sale of goods, scrap and other materials is recognised upon 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.

**Notes to Financial Statements** *(Continued)***2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)***2.4 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. In respect of geographical segment reporting, revenue are based on the location in which the customer is located and total assets and capital expenditure are where the assets are located.

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. The geographical segment reporting is set out in note 5.2 below.

**2.5 Property, plant and equipment**

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

- (a) Property, plant and equipment are stated at cost to the Company less accumulated depreciation and accumulated impairment losses.

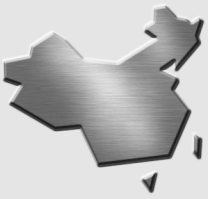
Property, plant and equipment are depreciated at rates sufficient to write off their cost to their estimated residual value over their estimated useful lives on a straight-line basis. The estimated useful lives of the respective categories of property, plant and equipment are as follows:

Buildings	9 to 40 years
Plant and machinery	2 to 20 years
Motor vehicles and transportation facilities	3 to 15 years
Office and other equipment	3 to 19 years

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

Costs incurred in maintaining property, plant and equipment in their normal working conditions are charged to the profit and loss account. Improvements are capitalized and depreciated over their expected useful lives to the Company.





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

### 2.5 Property, plant and equipment (continued)

- (b) 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 2.6).

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognized in the income statement.

### 2.6 Impairment of assets

At each balance sheet date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### 2.7 Construction in progress

Construction in progress represents plant and equipment under construction and pending installation, and is stated at cost. Cost comprises direct costs of construction as well as capitalized finance costs related to funds borrowed specifically for the purpose of obtaining a qualifying asset less any accumulated impairment losses.

Capitalization of these borrowing costs ceases and the construction in progress is transferred to the property, plant and equipment when the asset is substantially ready for its intended use.

### 2.8 Inventories

Inventories comprise raw material, work-in-progress, finished goods and production supplies and are stated at the lower of cost and net realizable value. Work-in-progress and finished goods, calculated on the weighted average method, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realizable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

**Notes to Financial Statements** *(Continued)***2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)***2.9 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".

**2.10 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.

**2.11 Trade and other payables**

Trade and other payables are initially recognized at fair value and thereafter stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

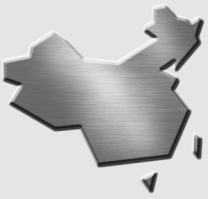
**2.12 Provisions**

Provisions are recognized when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

**2.13 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.



Notes to Financial Statements (Continued)

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

**2.14 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.

**2.15 Operating leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating lease. Rental payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease term on a straight-line basis.

The Company does not have any assets under finance leases.

**2.16 Foreign currency translation**

*(a) Functional and presentation policy*

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 RMB, which is the Company's functional and presentation currency.

*(b) Transaction and balances*

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

**2.17 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Borrowing costs capitalized are those costs that would have been avoided if the expenditure on the qualifying assets had not been made, which are either the actual costs incurred on a specific borrowing or an amount calculated using the weighted average method, considering all borrowing costs incurred on general borrowings outstanding.

Other borrowing costs are expensed as incurred.

Notes to Financial Statements *(Continued)***2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)***2.18 Taxation**

Income tax charged to the results comprises current and deferred tax. Current income tax is calculated based on the taxable income at the prevailing applicable tax rates.

Deferred 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. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred 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.

**2.19 Employee benefits***(a) Profit sharing and bonus plans*

The expected cost of profit sharing and bonus payments are recognized as a liability when the Company has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

*(b) Retirement benefit obligations*

The Company contributes on a monthly basis to various defined contribution retirement benefit plans organized by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired employees payable under these plans. Contributions to these plans are expensed as incurred.

*(c) Housing fund*

The Company provides housing fund based on certain percentage of the wages. The percentage used is within the limits allowed by the PRC government. The housing fund is paid to social security organization, corresponding expenses are expensed or included in the cost of sales for the current year.

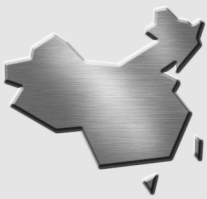
**2.20 Government grants**

Government grants are recognized as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognized in the same period as those expenses are charged in the income statement and are deducted in reporting the related expense.

**2.21 Futures contracts**

The Company uses futures contracts to reduce its exposure to fluctuations in the price of aluminium ingots. Prepayments for entering into these futures contracts are initially recognized in the balance sheet at cost and are subsequently remeasured at their fair value. Changes in fair value of futures contracts are recognized immediately in the income statement.

The fair value of futures contract is based on quoted market prices at the balance sheet date.



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

### 2.22 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.

### 2.23 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Company and not designed as at fair value through profit or loss is recognized initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Company measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with HKAS 18 *Revenue*.

### 2.24 Contingent liabilities

A contingent liability is possible obligation that arise from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow becomes probable, it will then be recognized as a provision.

### 2.25 Related parties

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Company where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Company or of any entity that is a related party of the Company.

## Notes to Financial Statements (Continued)

**3. FINANCIAL RISK MANAGEMENT**

Financial assets of the Company include cash and cash equivalents, deposit with banks, trade debtors, bills receivable, deposits, other debtors, payment in advances and amounts due from related parties. Financial liabilities of the Company include bank loans, bills payable; trade creditors, other creditors, receipts in advance and amounts due to related parties and parent company.

**(a) Foreign currency risk**

The Company has assets and liabilities that are subject to fluctuations in foreign currency exchange rates. Hence, depreciation and appreciation of Renminbi against foreign currency will affect the Company's profit or loss and net assets. As of 31 December 2006 and 31 December 2005, the Company had the following foreign currency denominated short-term deposits:

	<b>2006</b> <b>RMB'000</b>	2005 RMB'000
Bank deposits:		
U.S Dollar denominated	<b>28,103</b>	8,064
Hong Kong Dollar denominated	<b>76,591</b>	78,607
	<b>104,694</b>	86,671

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The Company also had foreign currency denominated trade receivables as of 31 December 2006 and 31 December 2005.

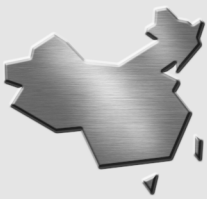
	<b>2006</b> <b>RMB'000</b>	2005 RMB'000
Accounts receivable:		
U.S. Dollar denominated	<b>24,548</b>	-

**(b) Interest rate risk**

The interest rate and terms of repayment of borrowing of the Company are disclosed in note 13.

**(c) Price risk**

As the Company sells aluminium ingots at market prices, it is exposed to fluctuations in these prices. The Company uses futures contracts to reduce its exposure to fluctuations in the price of aluminium ingots. No future contracts are marked to market at the balance sheet date.



Notes to Financial Statements (Continued)

**3. FINANCIAL RISK MANAGEMENT** *(continued)*

**(d) Credit risk**

The carrying amount of receivables included in the balance sheet represents the Company's maximum exposure to credit risk in relation to its financial assets. The Company performs periodic credit evaluations of its customer and believes that adequate provision for uncollectible receivables have been made in the financial statements.

The Company maintains substantially all of its cash and cash equivalents in interest bearing accounts in several major financial institutions in the PRC. No other financial assets carry a significant exposure to credit risk.

**(e) Liquidity risk**

The Company's policy is to regularly monitor current and expected liquidity requirement to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer terms. The Company had net current liabilities of HK\$263,284,000 as at 31 December 2006. The liquidity of the Company is primarily dependent on its ability to maintain adequate cash inflow from operations to meet its debt obligations and to obtain continuing financial support from its bankers and its related parties.

**(f) Fair value**

Debenture in Shanghai Futures Exchange is not material to the Company's financial condition and it is non-transferable in the open market. The fair value of the debenture in Shanghai Futures Exchange is not materially different from its carrying amount.

The fair values of cash and cash equivalents, trade debtors, bills receivable, deposits, other debtors, payment in advances, trade creditors, bills payable, receipts in advance, other creditors and amounts due from/to parent company, fellow subsidiaries and related parties are not materially different from their carrying amounts.

Short-term bank loans – the carrying value is estimated to approximate fair value based on the nature or short term maturity of these instrument.

Fair value estimates are made at a specific point in the time and based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.



**Notes to Financial Statements** *(Continued)***4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

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

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.

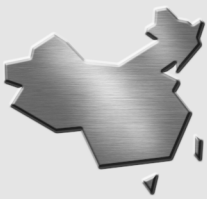
**(a) Useful lives and impairment of property and equipment**

The Company's management determines the estimated useful lives of its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, and will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

The impairment loss for property, plant and equipment is recognized for the amount by which the carrying amount exceeds its recoverable amount in accordance with the accounting policy stated in Note 2.6. The recoverable amounts have been determined based on fair value less costs to sell, which are based on the best information available to reflect the amount that obtainable at each of the balance sheet date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs to disposal.

**(b) Impairment of receivables**

The Company's management determines the provision for impairment of receivables. This estimate is based on the credit history of its customers and the current market condition. Management reassesses the estimation on each of the balance sheet date.



Notes to Financial Statements (Continued)

**5. TURNOVER, REVENUE AND SEGMENT INFORMATION**

**5.1 Turnover and revenue**

The Company is principally engaged in the production and distribution of aluminium ingots and alloy aluminium ingots. Revenue recognized are as follows:

	<b>2006</b>	2005
	<b>RMB'000</b>	RMB'000
Turnover		
Sales of goods, net of valued-add tax	<b>1,674,433</b>	1,326,256
Other revenue		
Sales of scrap and other materials	<b>5,780</b>	5,860
Supply of electricity, heat and water	<b>3,401</b>	2,905
Realized gain on futures contracts	<b>743</b>	320
Interest income from bank deposits	<b>7,514</b>	2,704
Total other revenue	<b>17,438</b>	11,789
Expenses related to other revenue (Note (a))	<b>(5,899)</b>	(7,828)
	<b>11,539</b>	3,961
Government subsidies	<b>1,640</b>	10
Gain on disposal on fixed assets	-	413
Others	<b>1,424</b>	120
Other gains, net	<b>14,603</b>	4,504

Note:

- (a) Expenses related to other revenues mainly include the cost of scrap and other materials sold and costs incurred in the supply of electricity, heat and water.

## Notes to Financial Statements (Continued)

**5. TURNOVER, REVENUE AND SEGMENT INFORMATION** (continued)**5.2 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.

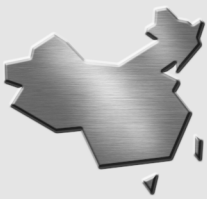
*Secondary reporting format – geographical segments*

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

	<b>2006</b> <b>RMB'000</b>	2005 RMB'000
The PRC	<b>1,382,864</b>	1,091,205
Hong Kong	<b>147,160</b>	44,052
Republic of Korea	<b>86,969</b>	–
The United Kingdom	<b>57,440</b>	160,880
Singapore	–	30,119
	<b>1,674,433</b>	1,326,256

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**

	<b>Construction in progress</b> <i>RMB'000</i>	<b>Buildings</b> <i>RMB'000</i>	<b>Plant and machinery</b> <i>RMB'000</i>	<b>Motor Vehicles and transportation facilities</b> <i>RMB'000</i>	<b>Office and other equipment</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
At 1 January 2005						
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
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
Year ended 31 December 2006						
Opening net book amount	13,256	93,210	167,831	6,979	39,018	320,294
Additions	342	-	177,976	2,242	17,295	197,855
Transfer	(1,050)	1,050	-	-	-	-
Disposals	-	(527)	(904)	(1,550)	(1,449)	(4,430)
Depreciation	-	(3,451)	(24,636)	(926)	(4,703)	(33,716)
Closing net book amount	12,548	90,282	320,267	6,745	50,161	480,003
At 31 December 2006						
Cost	12,548	105,459	409,930	8,903	66,955	603,795
Accumulated depreciation	-	(15,177)	(89,663)	(2,158)	(16,794)	(123,792)
Net book amount	12,548	90,282	320,267	6,745	50,161	480,003

Depreciation expenses of RMB32,467,000 (2005: RMB23,973,000) has been expensed in cost of goods sold, and of RMB1,249,000 (2005: RMB1,099,000) in administrative expenses.

As at 31 December 2006, the Company's bank borrowings were secured by certain plant and machinery with carrying amount of RMB173,778,000 (2005: RMB45,332,000).

## Notes to Financial Statements (Continued)

**7 INVENTORIES**

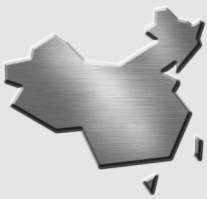
	<b>2006</b> <b>RMB'000</b>	2005 <i>RMB'000</i>
Raw materials	<b>21,805</b>	26,752
Work in progress	<b>36,056</b>	46,322
Finished goods	<b>20,094</b>	43,050
	<hr/> <b>77,955</b> <hr/>	<hr/> 116,124 <hr/>

The cost of inventories recognized as expenses and included in cost of goods sold amounted to RMB1,105,497,000 (2005: RMB1,251,210,000).

The Company has reversed the provision for impairment of inventories of RMB249,000 (2005: Provision: RMB1,094,000) for its raw materials. The provision has been included in cost of goods sold in the income statement.

**8. TRADE RECEIVABLES**

	<b>2006</b> <b>RMB'000</b>	2005 <i>RMB'000</i>
Trade receivables (Note (a))	<b>64,639</b>	54,824
Less: Provision for impairment of receivables	<b>(2,876)</b>	(4,158)
	<hr/> <b>61,763</b> <hr/>	<hr/> 50,666 <hr/>
Trade receivables from related parties (Note (a), Note 27)	<b>48,620</b>	68,501
Provision for impairment of receivables from related parties (Note (a), Note 27)	<b>(38,488)</b>	(38,488)
	<hr/> <b>10,132</b> <hr/>	<hr/> 30,013 <hr/>
	<b>71,895</b>	80,679
Bills receivable (Note (b))	<b>28,600</b>	2,970
	<hr/> <b>100,495</b> <hr/>	<hr/> 83,649 <hr/>



## Notes to Financial Statements (Continued)

**8. TRADE RECEIVABLES** (continued)

As of 31 December 2006, the aging analysis of trade receivables, net, was as follow:

	<b>2006</b>	2005
	<b>RMB'000</b>	RMB'000
1-30 days	<b>51,888</b>	29,731
31-60 days	<b>8,607</b>	18,151
61-90 days	<b>136</b>	132
91-120 days	<b>225</b>	12,929
121-365 days	<b>1,038</b>	19,736
Over 365 days (Note (c))	<b>10,001</b>	-
	<b>71,895</b>	80,679

Notes:

- (a) The Company performs periodic credit evaluation on its customers and different credit policies are adopted for individual customers accordingly. The fair value of trade receivables approximates the book value. 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 reversed the provision for impairment of its trade receivables and balances due from related parties during the year ended 31 December 2006 of RMB1,282,000 (2005: Provision: RMB38,856,000). The reversal has been included in other revenue in the income statement.

- (b) Bills receivable are bills of exchange with maturity dates less than six months.
- (c) Trade receivables aged over 1 year are principally due from related parties.

## Notes to Financial Statements (Continued)

**9. OTHER CURRENT ASSETS**

	<b>2006</b> <b>RMB'000</b>	2005 <i>RMB'000</i>
Futures deposits	<b>2,993</b>	699
Prepaid operating expenses	<b>585</b>	1,295
Purchase deposits to third parties	<b>110,711</b>	154,140
Purchase deposits to related parties (Note 27)	<b>43,598</b>	40,280
Value-added tax recoverable	-	1,216
Security deposit paid to customer	<b>5,000</b>	-
Other deposits and receivables	<b>5,892</b>	3,135
	<b>168,779</b>	200,765

**10. CASH AND CASH EQUIVALENTS**

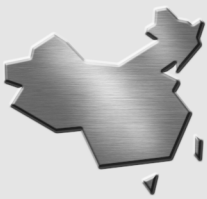
	<b>2006</b> <b>RMB'000</b>	2005 <i>RMB'000</i>
Pledged and restricted bank balances	<b>293,493</b>	267,540
Cash at banks and in hand	<b>171,894</b>	179,649
	<b>465,387</b>	447,189

All cash and bank balances were denominated in Renminbi, Hong Kong dollars 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 2006, the cash and bank balances in Renminbi, Hong Kong dollars and United States dollars were RMB360,693,000, RMB76,591,000 and RMB28,103,000 (2005: RMB360,518,000; RMB78,607,000; RMB8,064,000) respectively.

As at 31 December 2006, the Company's bank borrowings and bills payable were secured by bank deposits of RMB198,100,000 and RMB74,093,000 (2005: RMB228,000,000 and RMB39,540,000) respectively.

The effective interest rate of bank deposits is 1.885% (2005: 1.656%) per annum.





Notes to Financial Statements (Continued)

**11. TRADE PAYABLES**

	<b>2006</b> <b>RMB'000</b>	2005 <i>RMB'000</i>
Trade payables (Note (a))	<b>19,884</b>	58,413
Payables to related parties (Note (a), Note 27)	<b>35,325</b>	48,612
	<hr/>	<hr/>
Bills payables (Note (b))	<b>55,209</b>	107,025
	<b>103,200</b>	111,108
	<hr/>	<hr/>
	<b>158,409</b>	218,133
	<hr/> <hr/>	<hr/> <hr/>

Notes:

- (a) Trade payables and payables to related parties  
The aging analysis was as follows:

	<b>2006</b> <b>RMB'000</b>	2005 <i>RMB'000</i>
1-60 days	<b>46,499</b>	96,781
61-90 days	<b>1,441</b>	1,433
91-120 days	<b>912</b>	2,601
121-365 days	<b>3,473</b>	4,509
Over 1 year	<b>2,884</b>	1,701
	<hr/>	<hr/>
	<b>55,209</b>	107,025
	<hr/> <hr/>	<hr/> <hr/>

- (b) Bills payable are repayable within six months and are supported by pledged bank deposits of RMB74,093,000 (2005: RMB39,540,000) and by guarantees from third parties.

## Notes to Financial Statements (Continued)

## 12. OTHER PAYABLES AND ACCRUALS

	<b>2006</b> <b>RMB'000</b>	2005 RMB'000
Receipts in advance from customers	<b>95,773</b>	136,412
Payables to the National Social Security Fund (Note (a))	<b>7,289</b>	7,289
Staff welfare payables	<b>25,578</b>	19,402
Accrued construction costs	<b>3,796</b>	8,702
Others	<b>32,933</b>	9,455
	<b>165,369</b>	181,260

Note:

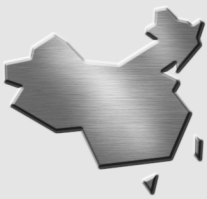
- (a) Pursuant to the "Temporary Administration Measures for Reduction of state-owned shares" (減持國有股籌集社會保障資金管理暫行辦法) promulgated by the State Council on 12 June 2001, net proceeds arising from sales of H shares by Sanmenxia Tianyuan Aluminium Group Limited, the parent company, should be remitted to the National Social Security Fund. As at 31 December 2006, such proceeds were kept by the Company pending to be remitted on behalf of the parent company.

## 13. BORROWINGS

	<b>2006</b> <b>RMB'000</b>	2005 RMB'000
Bank loans (Note 27)	<b>746,380</b>	638,092
Secured	<b>677,130</b>	568,092
Unsecured	<b>69,250</b>	70,000
	<b>746,380</b>	638,092
Carrying amount repayable:		
On demand or within one year	<b>746,380</b>	575,592
More than one year, but not exceeding two years	<b>-</b>	62,500
	<b>746,380</b>	638,092
Less: Amounts due within one year show		
Under current liabilities	<b>(746,380)</b>	(575,592)
	<b>-</b>	62,500

The bank loans were secured by the Company's plant and machinery with carrying value of RMB173,778,000 (2005: RMB45,332,000), bank deposits of RMB198,100,000 (2005: RMB228,000,000) and financial guarantees provided by related parties and third parties.

The effective interest rate during the year was 6.4% (2005: 5.78%). At 31 December 2006, all bank loans are Renminbi denominated at fixed interest rates with maturities through 2007. At 31 December 2005, the bank loans are Renminbi denominated at fixed interest rates with maturities through 2006 and 2007.



Notes to Financial Statements (Continued)

**14. SHARE CAPITAL**

	Registered, issued and fully paid					
	Domestic shares of RMB0.10 each		H shares of RMB0.10 each		Total	
	<i>No. of shares</i>	<i>RMB'000</i>	<i>No. of shares</i>	<i>RMB'000</i>	<i>No. of shares</i>	<i>RMB'000</i>
<b>At 31 December 2005</b>	<u>818,180,000</u>	<u>81,818</u>	<u>350,020,000</u>	<u>35,002</u>	<u>1,168,200,000</u>	<u>116,820</u>
<b>At 31 December 2006</b>	<u>818,180,000</u>	<u>81,818</u>	<u>350,020,000</u>	<u>35,002</u>	<u>1,168,200,000</u>	<u>116,820</u>

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 Renminbi but paid in Hong Kong dollars.

**15. RESERVES**

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	<b>Capital reserve</b> <i>Note (a)</i> <i>RMB'000</i>	<b>Statutory surplus reserve</b> <i>Note (b)</i> <i>RMB'000</i>	<b>Statutory public welfare fund</b> <i>Note (c)</i> <i>RMB'000</i>	<b>Retained earnings/ losses</b> (accumulated) <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
As of 1 January 2005	62,099	14,060	7,031	106,914	190,104
Dividend paid	-	-	-	(11,682)	(11,682)
Loss for the year	-	-	-	(164,206)	(164,206)
As of 31 December 2005 and 1 January 2006	<u>62,099</u>	<u>14,060</u>	<u>7,031</u>	<u>(68,974)</u>	<u>14,216</u>
Transfer from statutory public welfare fund to statutory surplus reserve	-	7,031	(7,031)	-	-
Transfer from retained earnings to statutory surplus reserve	-	6,345	-	(6,345)	-
Profit for the year	-	-	-	86,183	86,183
As of 31 December 2006	<u>62,099</u>	<u>27,436</u>	<u>-</u>	<u>10,864</u>	<u>100,399</u>

## Notes to Financial Statements (Continued)

**15. RESERVES** (continued)

Notes:

## (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 only be used to increase share capital.

## (b) Statutory surplus reserve

In accordance with the relevant PRC Companies laws and relevant financial regulations, the Company is required to transfer 10% of the profit after taxation arrived at in accordance with PRC accounting standards to the statutory surplus reserve every year until the balance reaches 50% of the paid-up capital. Such reserve can be used to reduce any losses incurred and to increase share capital. Statutory surplus reserve balance should not fall below 25% of the registered capital after the placing. During the year, RMB6,345,000 was transferred from retained profits to statutory surplus reserve.

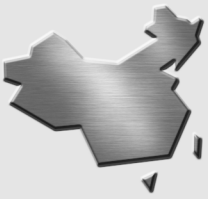
## (c) Statutory public welfare fund

In accordance with the amendments of PRC Companies law comes into effect from 1 January 2006, no more statutory public welfare fund is required to transfer from the profit after taxation. The balance of the statutory public welfare fund as at 31 December 2005 is therefore transferred to statutory surplus reserve.

**16. PROFIT/(LOSS) BEFORE TAXATION**

Profit/(loss) before taxation is arrived at after charging/(crediting):

	<b>2006</b>	2005
	<b>RMB'000</b>	RMB'000
Cost of materials and consumables sold (Note 7)	<b>1,105,497</b>	1,251,210
Staff costs (Note 17)	<b>63,190</b>	50,201
Depreciation on property, plant and equipment (Note 6)	<b>33,716</b>	25,072
Loss/(gain) on disposal of assets, net	<b>2,682</b>	(413)
Operating lease rental in respect of		
– Plant and machinery (Note 27)	<b>6,826</b>	13,700
– Land and buildings (Note 27)	<b>696</b>	696
Auditors' remuneration – audit services	<b>1,407</b>	2,068
(Reversal of)/provision for impairment of inventories (Note 7)	<b>(249)</b>	1,094
Reversal of impairment of property, plant and equipment	<b>(167)</b>	–
(Reversal of)/provision for impairment of receivables, net	<b>(967)</b>	38,856
Net foreign exchange loss	<b>2,888</b>	3,889
	<b>2,888</b>	3,889



## Notes to Financial Statements (Continued)

**17. STAFF COST**

	<b>2006</b> <b>RMB'000</b>	2005 RMB'000
Wages and salaries	<b>46,809</b>	34,787
Pension costs – defined contribution plans (Note a)	<b>5,983</b>	7,394
Housing benefits	<b>1,613</b>	1,776
Staff welfare	<b>8,785</b>	6,244
	<b>63,190</b>	50,201

Note:

(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 2006, the Company had outstanding payable to the retirement scheme amounting to approximately RMB4,645,000 (2005: RMB7,038,000), which was included in other payables and accruals.

**18. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS**

The aggregate amounts of emoluments payable to directors and senior management of the Company during the year are as follows:

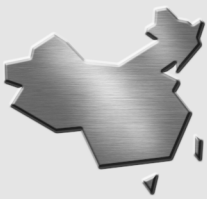
	<b>2006</b> <b>RMB'000</b>	2005 RMB'000
Fees	<b>320</b>	220
Basic salaries and bonus	<b>189</b>	135
Other benefits	<b>6</b>	5
Contribution to pension scheme	<b>20</b>	24
	<b>535</b>	384

## Notes to Financial Statements (Continued)

**18. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS** (continued)

The remuneration of every director for the year ended 31 December 2006 is set out below:

Name of Director	Fees RMB'000	Salary RMB'000	Others benefits RMB'000	Employer's contribution	Total RMB'000
				to pension scheme RMB'000	
<b>Executive directors</b>					
Mr. Tan Yu Zhong	–	66	2	7	75
Mr. Xiao Chongxin	–	67	2	7	76
Mr. Zhao Zheng Bin (Note a)	–	56	2	6	64
<b>Non-executive directors</b>					
Mr. Li He Ping (Note a)	–	–	–	–	–
Mr. Li Liu Fa (Note a)	–	–	–	–	–
Mr. Yan Li Qi	–	–	–	–	–
<b>Independent and non-executive directors</b>					
Mr. Song Quan Qi	100	–	–	–	100
Mr. Zhu Xiao Ping	100	–	–	–	100
Mr. Chan Lap Tuck	120	–	–	–	120



Notes to Financial Statements (Continued)

**18. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS** (continued)

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

Name of Director	Fees RMB'000	Salary RMB'000	Others benefits RMB'000	Employer's contribution	Total RMB'000
				to pension scheme RMB'000	
<b>Executive directors</b>					
Mr. Li Yong Zheng (Note a)	-	-	-	-	-
Mr. Tan Yu Zhong	-	28	1	6	35
Mr. Xiao Chongxin	-	27	1	6	34
<b>Non-executive directors</b>					
Mr. Zhu Qiang (Note a)	-	-	-	-	-
Ms. Yang Chun Lian (Note a)	-	-	-	-	-
Mr. Yan Li Qi	-	-	-	-	-
<b>Independent and non-executive directors</b>					
Mr. Wu Cheng (Note a)	-	-	-	-	-
Mr. Song Quan Qi	50	-	-	-	50
Mr. Zhu Xiao Ping	50	-	-	-	50
Mr. Chan Lap Tuck	120	-	-	-	120

Notes:

(a) Mr. Zhao Zheng Bin was appointed as executive directors in March 2006. Mr. Li He Ping and Ms. Li Liu Fa were appointed as non-executive directors in March 2006.

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 director in May 2005.

(b) The emoluments of Directors and senior management fell within the band of Nil to HK\$1,000,000.

During the year, no directors waived any emoluments (2005: Nil).



## Notes to Financial Statements (Continued)

**18. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS** (continued)

## (c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Company for the year were all (2005: 3) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two individuals in 2005 are as follows:

	<b>2006</b> <b>RMB'000</b>	2005 RMB'000
Basic salaries	-	80
Contributions to the retirement scheme	-	12
Contributions to other statutory welfare funds	-	3
	<u>-</u>	<u>95</u>

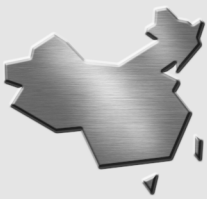
**19. FINANCE COSTS**

	<b>2006</b> <b>RMB'000</b>	2005 RMB'000
Interest expense on bank borrowings	<b>40,695</b>	36,159
Net foreign exchange losses	-	3,889
	<u><b>40,695</b></u>	<u>40,048</u>

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**20. INCOME TAX EXPENSE**

	<b>2006</b> <b>RMB'000</b>	2005 RMB'000
Current income tax	<b>5,742</b>	-
Deferred tax	-	5,260
	<u><b>5,742</b></u>	<u>5,260</u>



Notes to Financial Statements (Continued)

**20. INCOME TAX EXPENSE** (continued)

(a) A reconciliation of income tax calculated at the applicable tax rate with income tax expense is as follows:

	<b>2006</b> <b>RMB'000</b>	2005 <i>RMB'000</i>
Profit/(Loss) before tax	<u>91,925</u>	<u>(158,946)</u>
Tax calculated at a tax rate of 33%	<b>30,335</b>	(52,452)
Expenses not deductible for tax purposes	<b>5,206</b>	9,432
Income not subject to tax	-	(406)
Derecognized of deferred tax assets	-	5,260
Deferred tax benefit arising from tax losses not recognized	-	29,343
Tax losses not recognized in previous year and utilized in this year	<b>(29,343)</b>	-
Other temporary differences with no deferred tax recognized	<u>(456)</u>	<u>14,083</u>
Tax expense	<u><b>5,742</b></u>	<u>5,260</u>

The charge for income tax calculated at the rate of 33% (2005: 33%) on the estimated assessable income of the year was determined in accordance with relevant income tax rules and regulation of the PRC tax authority. The Company did not incur any overseas tax liability.

(b) Owing to the uncertainty relating to the Company's operations, the directors are unable to determine whether the Company will have adequate future taxable profits against which the temporary difference can be utilized. As a result, the Company did not recognize deferred tax assets of RMB17,187,000 (2005: tax losses: RMB31,915,000; other timing difference: RMB9,824,000) in respect of other temporary differences at the year ended 31 December 2006.

**21. EARNINGS/(LOSS) PER SHARE**

**(a) Basic**

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

	<b>2006</b> <b>RMB'000</b>	2005 <i>RMB'000</i>
Profit/(loss) attributable to shareholders of the Company	<u>86,183</u>	<u>(164,206)</u>
Weighted average number of ordinary shares in issue <i>(in thousand shares)</i>	<u>1,168,200</u>	<u>1,168,200</u>
Basic earnings/(loss) per share (RMB per share)	<u><b>0.07</b></u>	<u>(0.14)</u>

**(b) Diluted**

The Company did not have any dilutive potential ordinary shares during 2006 and 2005. As a result, diluted earnings per share equals basic earnings per share.

## Notes to Financial Statements (Continued)

**22. CASH GENERATED FROM OPERATIONS**

	<b>2006</b> <b>RMB'000</b>	2005 <i>RMB'000</i>
Profit/(loss) before tax	<b>91,925</b>	(158,946)
Adjustments for:		
– Depreciation	<b>33,716</b>	25,072
– Loss/(profit) on disposal of property, plant and equipment included in administrative expenses	<b>2,630</b>	(413)
– Loss on disposal of property, plant and equipment included in cost of goods sold	<b>52</b>	–
– (Reversal of)/provision for impairment of receivables	<b>(967)</b>	38,856
– (Reversal of)/provision for impairment of inventories	<b>(249)</b>	1,094
– Reversal of impairment of fixed assets	<b>(167)</b>	–
– Unrealized foreign exchange loss	<b>3,343</b>	1,665
– Interest income	<b>(7,514)</b>	(2,704)
– Interest expense	<b>40,695</b>	36,159
	<hr/>	<hr/>
Operating profit before working capital change	<b>163,464</b>	(59,217)
Decrease in inventories	<b>38,418</b>	73,924
(Increase)/decrease in trade and other receivables	<b>(41,973)</b>	(35,831)
(Decrease)/increase in trade and other payables	<b>(88,417)</b>	117,990
	<hr/>	<hr/>
Cash generated from operations	<b>71,492</b>	96,866
	<hr/> <hr/>	<hr/> <hr/>

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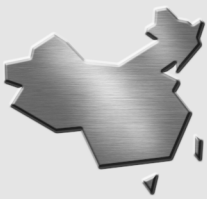
**23. DIVIDENDS**

	<b>2006</b> <b>RMB'000</b>	2005 <i>RMB'000</i>
Proposed final dividend	<b>–</b>	–
	<hr/> <hr/>	<hr/> <hr/>

The Directors do not propose any dividend for the year ended 31 December 2006 (2005: Nil).

**24. NON-CASH TRANSACTIONS**

During the year, the acquisition of fixed assets from the parent company amounted to RMB194,695,000, of which RMB72,942,000 was settled by transfer of trade receivables, purchase deposits and finished goods.



## Notes to Financial Statements (Continued)

**25. CONTINGENT LIABILITIES**

As at 31 December 2006, the Company issued guarantees to secure banking facilities of a state-controlled enterprise. The amounts of banking facilities utilized by this state-controlled enterprise are as follows:

	<b>2006</b> <b>RMB'000</b>	2005 <i>RMB'000</i>
Third parties	-	30,000
A related company	-	8,000
Other state-controlled enterprises	<b>17,500</b>	65,000
	<b>17,500</b>	103,000

The directors have reviewed the available financial information of the state-controlled enterprise 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 borrower. Accordingly, the directors are of the opinion that it is unlikely that these guarantees will crystallize as liabilities of the Company.

**26. COMMITMENTS****(a) Capital commitments**

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

	<b>2006</b> <b>RMB'000</b>	2005 <i>RMB'000</i>
Property, plant and equipment		
Contracted but not provided for	<b>196,352</b>	-
Authorised but not contracted for	-	-
	<b>196,352</b>	-

Included within is a contract between the Company and its parent company, Sanmenxia Tianyuan Group Limited, whereby the Company would acquire the properties and land use rights currently leased from the parent company at a total consideration of RMB196,088,000. The entire consideration is to be settled by (i) assignment of the Company's balances due from a related company of RMB10,000,000 to the parent company; (ii) assignment of purchase deposits of RMB134,200,000; and (iii) cash or inventory (at the option of the Company) or assuming bank borrowings originally owed by the parent company of total RMB51,888,000.

## Notes to Financial Statements (Continued)

**26. COMMITMENTS** (continued)**(b) Operating lease commitments**

As at 31 December 2006, the Company had future aggregate minimum lease payments to the parent company in relation to properties and plant and machinery under non cancellable operating leases as follows:

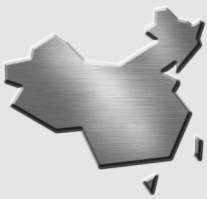
	<b>2006</b> <b>RMB'000</b>	2005 RMB'000
Land use rights		
Not later than 1 year	<b>668</b>	696
Later than 1 year and not later than 5 years	<b>2,671</b>	2,671
Later than 5 years	<b>21,701</b>	20,032
	<hr/> <b>25,040</b> <hr/>	<hr/> 23,399 <hr/>
Plant and machinery		
Not later than 1 year	-	13,700
Later than 1 year and not later than 5 years	-	-
	<hr/> - <hr/>	<hr/> 13,700 <hr/>

The above operating lease commitments will cease when the acquisition of the properties and land use rights mentioned in Note 26(a) above has been completed.

**27. 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 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 may not be the same as those that would result from transactions with other related parties or wholly unrelated parties.



Notes to Financial Statements (Continued)

**27. RELATED-PARTY TRANSACTIONS** (continued)

Saved as disclosed elsewhere in these financial statements, significant related party transactions as at and for the year ended 31 December 2006 are as follows:

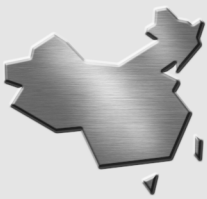
	Notes:	<b>2006</b> <b>RMB'000</b>	2005 RMB'000
Transactions –			
Sales of materials and finished goods to	(a)		
– parent company		<b>12,703</b>	70,992
– fellow subsidiaries		–	4,035
– other related companies		–	54,278
– other state-controlled enterprises		<b>233,439</b>	337,792
Purchases of key and auxiliary materials from:	(b)		
– parent company		–	31
– fellow subsidiaries		–	3,264
– promoters of the Company		<b>17,324</b>	15,052
– other state-controlled enterprises		<b>351,239</b>	330,962
Provision of utility services to	(c)		
– parent company		<b>7</b>	1,392
– fellow subsidiaries		<b>3</b>	64
– other related companies		–	134
Provision of utility services by			
– a state-controlled enterprise	(d)	<b>492,542</b>	438,556
Provision of social services by			
– parent company	(e)	–	2,400
Provision of transportation services by			
– a fellow subsidiary	(f)	–	2,964
Operating lease rentals charged by the parent company in respect of			
– plant and machinery	(g)	<b>6,826</b>	13,700
– land and buildings	(h)	<b>696</b>	696
Disposals of fixed assets to	(i)		
– parent company		–	1,081
– a state-controlled enterprise		<b>381</b>	–

## Notes to Financial Statements (Continued)

## 27. RELATED-PARTY TRANSACTIONS (continued)

	Notes:	2006 RMB'000	2005 RMB'000
Transactions (continued) –			
Purchase of fixed assets from	(j)		
– parent company		194,695	1,302
– fellow subsidiaries		–	248
– other state-controlled enterprises		–	18,901
Interest income from			
– state-controlled banks and companies		7,514	2,704
Interest expenses to state-controlled banks		40,695	36,159
Balances –			
Bank deposits balances			
– state-controlled banks		465,387	447,189
Receivables from related parties (Note 8)			
– fellow subsidiaries		16	13
– associate of the parent company		48,604	68,488
		48,620	68,501
Less: Provision for impairment of receivable	(k)	(38,488)	(38,488)
		10,132	30,013
Purchase deposits (Note 9)			
– other state-controlled enterprises		43,598	40,280
Payables to related parties (Note 11)			
– parent company		7,707	5,553
– other related companies		47	4,876
– other state-controlled enterprises		27,571	38,183
		35,325	48,612
Borrowings (Note 13)			
– state-controlled banks (Note 13)		746,380	638,092





Notes to Financial Statements (Continued)

**27. RELATED-PARTY TRANSACTIONS** (continued)

Notes:

- (a) Materials and finished goods sold to the parent company 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 other related companies and other state-controlled enterprises were at terms in accordance with the underlying agreements.
- (c) Utility services, including electricity, heat and water, were charged to the parent company and fellow subsidiaries 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) No social services were provided by the parent company during the year.
- (f) No transportation services were provided by fellow subsidiaries during the year.
- (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.
- (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) Fixed assets were sold to a state-controlled enterprise during the year.
- (j) The consideration for the purchase of fixed assets was set at terms in accordance with the underlying agreements. Those assets were leased from the parent company before the acquisition.
- (k) The provision for impairment of receivables amounting to RMB38,488,000 was made in previous year in respect of trade balance due from a related company.
- (l) As at 31 December 2006, apart from the balances with state-controlled banks, all balances with related companies are unsecured, non-interest bearing and repayable on demand.
- (m) As at 31 December 2006, certain related companies issued guarantees in favour of the Company's borrowings (see note 13).

**28. EVENTS AFTER THE BALANCE SHEET DATE**

Subsequent to 31 December 2006, the Company issued guarantees to secure banking facilities of third parties amounting to RMB90,000,000.

**29. RECLASSIFICATION OF COMPARATIVE FIGURES**

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