



Sanmenxia Tianyuan Aluminum Company Limited\*

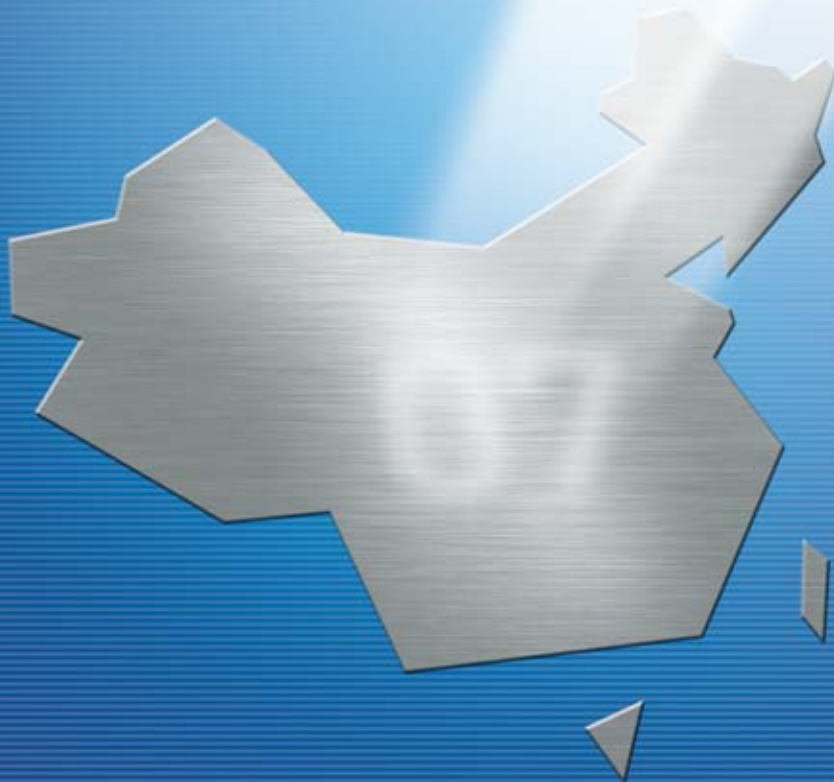
三門峽天元鋁業股份有限公司

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

Stock Code: 8253

07

Interim Report



\* For identification only

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

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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

**HIGHLIGHTS**

- Achieved a turnover of approximately RMB850,198,000 for the six months ended 30 June 2007.
- Net profit amounted to approximately RMB77,542,000 for the six months ended 30 June 2007, as compared to a net profit of approximately RMB21,780,000 for the corresponding period in 2006.
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007.

## INTERIM RESULTS

The board of directors (the "Board") of Sanmenxia Tianyuan Aluminum Company Limited (the "Company") is pleased to announce the unaudited results of the Company for the three months ("three-month period") and the six months ("six-month period") ended 30 June 2007 together with the comparative unaudited figures for the corresponding periods in 2006. The interim report of six-month period has been reviewed by the audit committee of the Company.

### PROFIT AND LOSS ACCOUNT (UNAUDITED)

Three months and six months ended 30 June 2007

	Note	Three months ended 30 June		Six months ended 30 June	
		2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Turnover	3	443,111	473,491	850,198	843,372
Cost of goods sold		(358,219)	(437,684)	(679,294)	(783,936)
Gross profit		84,892	35,807	170,904	59,436
Other revenue	3	5,499	5,367	11,124	12,960
Expenses related to other revenue	4	(3,037)	(4,258)	(5,388)	(7,310)
Other revenue, net		2,462	1,109	5,736	5,650
Selling and distribution expenses		(6,402)	(4,566)	(12,583)	(7,629)
General and administrative expenses		(7,546)	(10,488)	(20,892)	(17,911)
Operating profit	5	73,406	21,862	143,165	39,546
Finance costs		(11,173)	(8,329)	(25,411)	(17,766)
Profit before income tax		62,233	13,533	117,754	21,780
Income tax	6	(21,890)	-	(40,212)	-
Profit for the period		40,343	13,533	77,542	21,780
Dividend		-	-	-	-
Earnings per Share	7	RMB3.45 cents	RMB1.16 cents	RMB6.64 cents	RMB1.86 cents

## BALANCE SHEET

As at 30 June 2007

		<b>As at</b>	
		<b>30 June</b>	31 December
		<b>2007</b>	2006
		<b>(Unaudited)</b>	(Audited)
	<i>Note</i>	<b>RMB'000</b>	<b>RMB'000</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		<b>459,364</b>	480,003
Debenture		<b>500</b>	500
		<b>459,864</b>	480,503
<b>Current assets</b>			
Inventories		<b>93,869</b>	77,955
Trade and other receivables	8	<b>79,123</b>	100,495
Purchase deposits		<b>346,616</b>	168,779
Cash and cash equivalents			
– Pledged and restricted bank balances		<b>647,649</b>	293,493
– Cash on hand and in bank		<b>379,479</b>	171,894
		<b>1,546,736</b>	812,616
<b>Total assets</b>		<b>2,006,600</b>	1,293,119
<b>EQUITY</b>			
Share capital		<b>116,820</b>	116,820
Reserves		<b>177,941</b>	100,399
<b>Total equity</b>		<b>294,761</b>	217,219
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	10	–	–
		–	–
<b>Current liabilities</b>			
Trade and other payables	9	<b>924,708</b>	323,778
Borrowings	10	<b>750,424</b>	746,380
Provision for taxation		<b>36,707</b>	5,742
		<b>1,711,839</b>	1,075,900
<b>Total liabilities</b>		<b>1,711,839</b>	1,075,900
<b>Total equity and liabilities</b>		<b>2,006,600</b>	1,293,119
Net current liabilities		<b>(165,103)</b>	(263,284)
Total assets less current liabilities		<b>294,761</b>	217,219

## CASH FLOW STATEMENT (UNAUDITED)

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>RMB'000</b>	RMB'000
Net cash inflow from operating activities	<b>414,780</b>	2,841
Net cash outflow from investing activities	<b>(22,029)</b>	(65,364)
Net cash (outflow)/inflow from financing activities	<b>(142,447)</b>	12,049
Increase/(decrease) in cash and cash equivalents	<b>250,304</b>	(50,474)
Cash and cash equivalents at beginning of the period	<b>129,175</b>	179,649
Cash and cash equivalents at end of the period, representing unpledged cash and bank balances	<b>379,479</b>	129,175

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

	<b>Share Capital</b>	<b>Capital reserve</b>	<b>Statutory surplus reserve</b>	<b>Statutory public welfare fund</b>	<b>Retained earnings/ (Accu- mulated losses)</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2006	116,820	62,099	14,060	7,031	(68,974)	131,036
Profit for the period	-	-	-	-	21,780	21,780
At 30 June 2006	<u>116,820</u>	<u>62,099</u>	<u>14,060</u>	<u>7,031</u>	<u>(47,194)</u>	<u>152,816</u>
At 1 January 2007	116,820	62,099	27,436	-	10,864	217,219
Profit for the period	-	-	-	-	77,542	77,542
At 30 June 2007	<u>116,820</u>	<u>62,099</u>	<u>27,436</u>	<u>-</u>	<u>88,406</u>	<u>294,761</u>

## NOTES TO THE ACCOUNTS

### 1. Organisation and principal operation

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

### 2. Basis of preparation

The unaudited results of the Company have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprises Market of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

The accounting policies and method of computation used in the preparation of the unaudited results are consistent with those adopted by the Company in its annual financial statements for the year ended 31 December 2006.

### 3. Turnover, revenues and segment information

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

	Unaudited			
	Three months ended		Six months ended	
	30 June		30 June	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover				
Sales of goods, net of value-added tax	<b>443,111</b>	473,491	<b>850,198</b>	843,372
Other revenue				
Sales of scrap and other materials	<b>3,153</b>	4,392	<b>6,160</b>	6,460
Supply of water and electricity	<b>700</b>	612	<b>1,381</b>	2,554
	<b>3,853</b>	5,004	<b>7,541</b>	9,014
Interest income	<b>1,646</b>	363	<b>3,583</b>	3,946
Total other revenue	<b>5,499</b>	5,367	<b>11,124</b>	12,960
Total revenue	<b>448,610</b>	478,858	<b>861,322</b>	856,332

#### Primary reporting format – business segments

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



Secondary reporting format – geographical segments

	Unaudited			
	Three months ended		Six months ended	
	30 June		30 June	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover				
– PRC	<b>389,862</b>	367,924	<b>729,235</b>	699,390
– Hong Kong	–	94,199	<b>29,512</b>	132,614
– Korea	<b>53,249</b>	11,368	<b>91,451</b>	11,368
	<b><u>443,111</u></b>	<u>473,491</u>	<b><u>850,198</u></b>	<u>843,372</u>

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

**4. Expenses related to other revenue**

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

**5. Operating profit**

Operating profit is stated after charging and crediting the following:

	Unaudited			
	Three months ended		Six months ended	
	30 June		30 June	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
After charging:				
Depreciation of fixed assets	<b>10,962</b>	7,724	<b>21,925</b>	14,171
Staff costs including directors' emoluments	<b>13,125</b>	13,318	<b>26,056</b>	24,882
Operating lease rental in respect of				
– plant and machinery	–	1,511	–	4,931
– land and buildings	–	167	–	334
Provision for bad debt	<b>692</b>	–	<b>1,258</b>	–
Net exchange loss	<b>1,174</b>	227	<b>2,821</b>	663
	<b><u>1,174</u></b>	<u>227</u>	<b><u>2,821</u></b>	<u>663</u>
After crediting:				
Unrealised gain on futures contracts	<b>4</b>	–	<b>11</b>	–
Interest income from bank deposits	<b>1,646</b>	363	<b>3,583</b>	3,946
Net exchange gain	–	–	–	–
Write back provision for doubtful debts	–	680	–	849
	<b><u>–</u></b>	<u>680</u>	<b><u>–</u></b>	<u>849</u>

**6. Taxation**

The provision for current PRC enterprise income tax is based on the statutory rate of 33% of the assessable income of the Company as determined in accordance with the relevant PRC income tax rules and regulations during the three months and the six months ended 30 June 2006 and 2007.

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

	Unaudited			
	Three months ended 30 June		Six months ended 30 June	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
PRC enterprise income tax	<u>(21,890)</u>	-	<u>(40,212)</u>	-

**7. Earnings per share**

Basic earnings per share for the three months and six months ended 30 June 2007 are based on the unaudited profit attributable to shareholders of RMB40,343,000 and RMB77,542,000 respectively [2006: profit of RMB13,533,000 and RMB21,780,000 respectively], and the weighted average number of 1,168,200,000 shares (2006: 1,168,200,000 shares) in issue during the respective periods.

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

**8. Trade and other receivables**

	As at	
	30 June 2007 Unaudited RMB'000	31 December 2006 Audited RMB'000
Trade receivables <i>(Note (a))</i>	110,292	64,639
Less: provision for impairment of receivables	<u>(41,269)</u>	<u>(2,876)</u>
	69,023	61,763
Bills receivable <i>(Note (b))</i>	<u>10,100</u>	<u>28,600</u>
Trade receivables – Net	79,123	90,363
Receivables from related parties <i>(Note (a))</i>	-	10,132
	<u>79,123</u>	<u>100,495</u>

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

- (a) *Trade receivables and receivables from related parties*  
Aging analysis of trade receivables was as follows:

	<b>As at</b>	
	<b>30 June</b>	31 December
	<b>2007</b>	2006
	<b>Unaudited</b>	Audited
	<b>RMB'000</b>	RMB'000
1-30 days	<b>23,719</b>	51,872
31-60 days	<b>118</b>	8,607
61-90 days	<b>11</b>	136
91-120 days	<b>22</b>	225
121-365 days	<b>34,536</b>	1,038
Over 365 days	<b>51,886</b>	2,761
	<b>110,292</b>	64,639
Less: provision for impairment of receivables	<b>(41,269)</b>	(2,876)
	<b>69,023</b>	61,763

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

	<b>As at</b>	
	<b>30 June</b>	31 December
	<b>2007</b>	2006
	<b>Unaudited</b>	Audited
	<b>RMB'000</b>	RMB'000
1-60 days	-	16
61-90 days	-	-
91-120 days	-	-
121-365 days	-	-
Over 365 days	-	48,604
	-	48,620
Less: provision for impairment of receivables	-	(38,488)
	-	10,132

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

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

The Company performs periodic credit evaluation on its customers and different credit policies are adopted for individual customers accordingly. Certain of the Company's sales were on advance payment or documents against payment. Sales to small, new or short-term customers are normally expected to be settled shortly after delivery. A credit period, which may be extended for up to one month, may be granted, subject to negotiation, in respect of sales to large or long-established customers.

- (b) *Bills receivable*

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

## 9. Trade and other payables

	As at	
	30 June 2007	31 December 2006
	Unaudited RMB'000	Audited RMB'000
Trade payables (Note (a))	44,516	19,884
Bills payables (Note (b))	299,160	103,200
Other payable and accruals	581,032	165,369
Payables to related parties (Note (a))	-	35,325
	<u>924,708</u>	<u>323,778</u>

Notes:

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

	As at	
	30 June 2007	31 December 2006
	Unaudited RMB'000	Audited RMB'000
1-60 days	36,346	12,925
61-90 days	2,045	1,441
91-120 days	1,029	912
121-365 days	3,654	3,473
Over 1 year	1,442	1,133
	<u>44,516</u>	<u>19,884</u>

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

	As at	
	30 June 2007	31 December 2006
	Unaudited RMB'000	Audited RMB'000
1-60 days	-	33,574
61-90 days	-	-
91-120 days	-	-
121-365 days	-	-
Over 1 year	-	1,751
	<u>-</u>	<u>35,325</u>

- (b) Bills payable  
Bills payables are repayable within six months, and are supported by pledged bank deposits of RMB239,458,000 (31 December 2006: RMB74,093,000) and by guarantees.

## 10. Borrowings

Bank borrowings comprised:

	As at	
	30 June 2007 Unaudited RMB'000	31 December 2006 Audited RMB'000
Bank borrowings due –		
Within 1 year	750,424	746,380
Between 1 and 2 years	–	–
	<u>750,424</u>	<u>746,380</u>

Bank borrowings are supported by:

	As at	
	30 June 2007 Unaudited RMB'000	31 December 2006 Audited RMB'000
Secured by:		
Guarantees	278,600	386,130
	<u>278,600</u>	<u>386,130</u>
Secured by:		
Plant and machinery	67,900	62,100
Bank deposits	366,624	228,900
	<u>434,524</u>	<u>291,000</u>
Unsecured	37,300	69,250
	<u>750,424</u>	<u>746,380</u>

## 11. Related party transactions

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

	Notes	Unaudited			
		Three months ended 30 June		Six months ended 30 June	
		2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Continuing transactions:					
Sales of materials and finished goods to	(a)				
– Parent company		-	12,703	-	12,703
– Other state-controlled enterprises		<b>19,797</b>	74,266	<b>73,011</b>	134,072
Purchases of key and auxiliary materials from	(b)				
– Other related companies		-	2,945	<b>5,148</b>	7,092
– Other state-controlled enterprises		<b>14,868</b>	124,748	<b>79,252</b>	187,086
Provision of utility services to	(c)				
– Parent company		-	6	-	6
Provision of utility services by					
– a state-controlled enterprise	(d)	<b>43,009</b>	115,957	<b>178,013</b>	225,255
Operating lease rentals charged by the holding company in respect of					
– Plant and machinery	(e)	-	1,511	-	4,931
– Land and buildings	(f)	-	167	-	334
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Non-continuing transactions:					
Purchase of fixed assets from parent company	(g)	<u>          </u>	<u>137,972</u>	<u>          </u>	<u>137,972</u>

### Notes:

- (a) Materials and finished goods sold to the parent company, fellow subsidiaries, other related companies and other state-controlled enterprises during the year were set at terms in accordance with the underlying agreements.
- (b) Key and auxiliary materials purchased from the parent company, fellow subsidiaries, other related companies and other state-controlled enterprises were at terms in accordance with the underlying agreements.
- (c) Utility, including electricity and water, were charged to the parent company at terms in accordance with the underlying agreements.

- (d) Provision of utility services by a state-controlled enterprise principally represents the purchases of electricity and was charged at terms in accordance with the underlying agreements.
- (e) Operating lease rentals in respect of hire of plant and machinery were charged by the parent company in accordance with the terms of the underlying agreement. Pursuant to the agreement, the rentals are determined with reference to a formula agreed with the parent company but is subject to a minimum amount of RMB13,700,000 per annum.
- (f) Operating lease rentals in respect of land and buildings were charged by the parent company in accordance with the terms of the underlying agreements.
- (g) The consideration for the purchase of fixed assets was set at terms in accordance with the underlying agreements.

## **INTERIM DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007 (2006: Nil).

## **BUSINESS SUMMARY**

The aluminum industry of the PRC kept a steady growth and the Company actively expanded its business. For the period from January to June of 2007, production volume of aluminum re-smelt ingots and aluminum alloy ingots increased by approximately 15.51% while turnover increased by approximately 0.81%, as compared to the corresponding period in 2006. For the period from April to June 2007, production volume of aluminium re-smelt ingots and aluminium alloy ingots increased by approximately 12.72% while turnover decreased by approximately 6.42%, as compared to the corresponding period in 2006.

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

### **Business Review**

During the period under review, the operations of the Company maintained at a steady growth. Turnover for the six months ended 30 June 2007 reached approximately RMB850,198,000, representing an increase of approximately RMB6,826,000 or 0.81% against that of the corresponding period of the previous year of approximately RMB843,372,000. For the period from April to June of 2007, turnover reached approximately RMB443,111,000, representing a decrease of approximately RMB30,380,000 or 6.42% against that of the corresponding period of the previous year of approximately RMB473,491,000. The increase in the turnover for the period from January to June and decrease in the turnover for the period from April to June were mainly due to the change in sales volume of aluminum re-smelt ingots.

For the period from January to June 2007, sales volume of aluminum re-smelt ingots and aluminum alloy ingots reached 49,217 tonnes, representing an increase of 401 tonnes or 0.82% against that of the corresponding period of 48,816 tonnes in 2006. For the period from April to June of 2006, the sales volume of aluminum re-smelt ingots and aluminum alloy ingots reached 25,484 tonnes, representing an decrease of 1,058 tonnes or 3.99% against that of the corresponding period of the previous year of 26,542 tonnes.

For the period from January to June of 2007, production volume of aluminum re-smelt ingots and aluminum alloy ingots reached 61,017 tonnes, representing an increase of 8,194 tonnes or 15.51% against that of the corresponding period in 2006 of 52,823 tonnes. For the period from April to June of 2007, the production volume of aluminum re-smelt ingots and aluminum alloy ingots reached 30,354 tonnes, representing an increase of 3,426 tonnes or 12.72% against that of the corresponding period of the previous year of 26,928 tonnes. Increase in production volume of the Company for the period from January to June of 2007 was mainly due to the increase in the production scale of the Company's recycle aluminum project.

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

### **Financial Review**

For the six months ended 30 June 2007:

The Company recorded turnover of approximately RMB850,198,000 for the six months ended 30 June 2007, a 0.81% or RMB6,826,000 increase from approximately RMB843,372,000 for the corresponding period of the previous year. The increase in turnover was mainly attributable to the increase in market price and sales volume of both aluminum re-smelt ingots and aluminum alloy ingots.

Of the total turnover amount, RMB634,274,000 or 74.60% was generated from sales of aluminum re-smelt ingots in the PRC and overseas, and RMB215,924,000 or 25.40% was generated from sales of aluminum alloys.

For the six months ended 30 June 2007, the cost of goods sold amounted to approximately RMB679,294,000, representing a decrease of RMB104,642,000 or 13.35% against the corresponding period of the previous year of approximately RMB783,936,000. The decrease was mainly due to the decrease in the cost of material for alumina.

The Company's gross profit for the six months ended 30 June 2007 was approximately RMB170,904,000, representing a gross profit margin of approximately 20.10%, against the gross profit margin of about 7.05% for the six months ended 30 June 2006. The increase in gross profit margin was mainly due to: (i) market price of material for alumina decrease; and (ii) the sales volume of aluminium re-smelt ingots and aluminum alloys increased by 401 tonnes compared with the corresponding period in 2006.

Other revenue of the Company for the six months ended 30 June 2007 amounted to approximately RMB11,124,000, of which approximately RMB6,160,000 was derived from sales of scrap and other materials, approximately RMB1,381,000 from supply of water and electricity to the Company's related parties and other independent third parties and approximately RMB3,583,000 from interest income. This represented a decrease of RMB1,836,000 or 14.17% against approximately RMB12,960,000 for the six months ended 30 June 2006. The decrease was mainly due to decrease in supply of water and electricity.



Expenses related to other revenue of the Company for the six months ended 30 June 2007 amounted to RMB5,388,000 (including expenses of approximately RMB3,643,000 from sales of scrap and other materials, approximately RMB1,745,000 from supply of water and electricity to the Company's related parties and other independent third parties), which represented a decrease of approximately RMB1,922,000 or 26.29% against approximately RMB7,310,000 for the six months ended 30 June 2006. The decrease in related expenses was mainly due to the decrease in cost of supply of water and electricity.

The selling and distribution expenses of the Company amounted to approximately RMB12,583,000 or 1.48% of the turnover for the six months ended 30 June 2007, as compared to about RMB7,629,000 or 0.90% of the turnover for the same period of the previous year. Such increase was due to the increase in proportion of export sales to overseas countries excluding Hong Kong over total sales which was in turn a result of the increase in the transportation cost.

For the six months ended 30 June 2007, general and administration expenses were approximately RMB20,892,000, representing an increase of approximately RMB2,981,000 or 16.64% against approximately RMB17,911,000 for the same period in 2006. This increase was mainly due to (i) travelling expense increased by RMB1,024,000; (ii) increased in provision for bad debts by RMB1,974,000.

For the six months ended 30 June 2007, the finance costs amounted to approximately RMB25,411,000, representing an increase of RMB7,645,000 or 43.03% from approximately RMB17,766,000 for the corresponding period of 2006. The increase was mainly due to the increase in average loan balances and increase in interest rate.

Net profit for the six months ended 30 June 2007 was approximately RMB77,542,000, as compared to a net profit of approximately RMB21,780,000 for the corresponding period in 2006.

For the three months ended 30 June 2007:

The Company recorded a turnover of approximately RMB443,111,000 for the three months ended 30 June 2007, representing a 6.42% decrease from approximately RMB473,491,000 for the corresponding period of the previous year. The decrease in turnover was mainly attributable to the decrease in sales volume of both aluminum and aluminum alloy ingots for the period under review.

Of the total turnover amount, RMB326,565,000 or 73.70% was generated from the sales of aluminum ingots in the PRC and overseas, and RMB116,546,000 or 26.30% was generated from the sales of aluminum alloys.

For the three months ended 30 June 2007, the cost of goods sold amounted to approximately RMB358,219,000, representing a decrease of RMB79,465,000 or 18.16% against approximately RMB437,684,000 for the corresponding period in 2006. The decrease was mainly due to the decrease in the price of alumina and the decrease in sales volume of aluminum re-smelt ingots and aluminum alloy ingots for April to June 2007.

The Company's gross profit for the three months ended 30 June 2007 was approximately RMB84,892,000, representing a gross profit margin of approximately 19.16%, against the gross profit margin of about 7.56% for the three months ended 30 June 2006. The increase in gross profit margin was mainly because of the decrease in market price of the major raw material of alumina.

Other revenue of the Company for the three months ended 30 June 2007 amounted to approximately RMB5,499,000, which comprised approximately RMB3,153,000 from sales of scrap and other materials, approximately RMB700,000 from supply of water and electricity to the Company's related parties and other independent third parties, and interest income of approximately RMB1,646,000. This represented an increase of 2.46% or RMB132,000 when compared to RMB5,367,000 for the three months ended 30 June 2006.

Expenses related to other revenue for the three months ended 30 June 2007 amounted to approximately RMB3,037,000 (including expenses of approximately RMB2,208,000 from sales of scrap and other materials and approximately RMB829,000 from supply of water and electricity to the Company's related parties and other independent third parties, representing a decrease of approximately RMB1,221,000 or 28.68% against approximately RMB4,258,000 of the corresponding period in 2006. The decrease is mainly due to the decrease in sales of scrap and other materials.

The selling and distribution expenses of the Company amounted to about RMB6,402,000 or 1.44% of the turnover for the three months ended 30 June 2007, representing an increase of RMB1,836,000 or 40.21% when compare to about RMB4,566,000 or 0.96% of the turnover for the three months ended 30 June 2006. The increase was mainly due to the increase in export sales by using railway and highway, and the increase in transportation expenses as a result of the increase in export sales.

The general and administrative expenses were approximately RMB7,546,000 or 1.7% of the turnover for the three months ended 30 June 2007, representing a decrease of RMB2,942,000 or 28.05% from about RMB10,488,000 for the three months ended 30 June 2006. The decrease were mainly due to (i) entertainment expenses decreased by RMB1,076,000; (ii) professional fee decreased by RMB884,000 when compared with previous year; (iii) social benefit, salary and wages have decreased by RMB2,095,000 when compared with previous year.

For the three months ended 30 June 2007, finance costs amounted to approximately RMB11,173,000, representing an increase of RMB2,844,000 or 34.15% from approximately RMB8,329,000 for the corresponding period in 2006. The increase was mainly due to the increase in average bank loans balance and increase in interest rate for borrowing.

The net profit for the three months ended 30 June 2007 was RMB40,343,000, as compared to approximately RMB13,533,000 for the same period of the previous year.

### Significant Investment

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

The Company has not held any significant investment for the period ended 30 June 2007.

### Contingent Liabilities

As at 30 June 2007, the Company had given guarantees in favour of certain third parties 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>As at</b>	
	<b>30 June 2007</b>	31 December 2006
	<b>Unaudited</b>	Audited
	<b>RMB'000</b>	RMB'000
Third parties	<b>58,000</b>	-
Other state-controlled enterprises	-	17,500
	<b>58,000</b>	17,500

The directors of the Company have reviewed the available financial information of some of the above companies to which the Company has given the guarantees. In addition, the Company has not been notified by any banks to honour its guarantee obligations and repay the relevant borrowings on behalf of the borrowers. Accordingly, the directors of the Company are of the opinion that it is unlikely that these guarantees will crystallize as liabilities of the Company as at 30 June 2007.

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

As at 30 June 2007, the Company recorded trade receivables due from Sanmenxia Jiashi Wheel Hubs Co., Ltd. (三門峽佳適鋁合金輪轂有限公司) ("Jiashi") to the Company for approximately 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 is unsecured and with no finance charge on the outstanding amount. Jiashi shall pay for the products supplied by the Company within 5 days after accepting delivery of the products pursuant to the relevant agreement entered into between the Company and Jiashi on 25 May 2006.

## **Strategies and Plans**

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

In the year 2007, the Company will still face challenges both in production and management including the increase pressure on product cost and operation cost, mainly due to the intensity of competition in aluminum market, the high prices of raw materials and energy sources after the implementation of macro-economic policies on the aluminum industry. The Company will continue to focus on its principal business, carry out a cost objective management model to effectively control cost and strive to increase the returns for Shareholders by, inter alia, reducing energy consumption, improving internal management and enhancing production efficiency and quality.

## **Liquidity and capital resources**

The major source of liquidity of the Company for the first half of 2007 was generated from short-term bank borrowings and deposit received in advance. As at 30 June 2007, the Company's non-current assets were approximately RMB459,864,000. Non-current assets mainly comprised fixed assets of approximately RMB459,364,000.

As at 30 June 2007, the Company had net current liabilities of approximately RMB165,103,000. Current assets comprised cash and bank balances of approximately RMB1,027,128,000, inventories of approximately RMB93,869,000, trade receivables of approximately RMB79,123,000, purchase deposits of approximately RMB346,616,000. Current liabilities comprised short-term bank loans of approximately RMB750,424,000, trade and bills payables of approximately RMB343,676,000, receipt in advance of approximately RMB581,032,000.

## **Capital structure**

As at 30 June 2007, borrowings of the Company were mainly denominated in Renminbi, and other cash equivalents were mainly held in Renminbi.

The Company plans to maintain an appropriate share capital and debt portfolio to ensure the capital structure in effective. As at 30 June, 2007, the Company had an aggregate outstanding borrowings of approximately RMB1,049,584,000 (including bills payables of RMB299,160,000). The gearing ratio was approximately 85.31% (2006: 87.13%) (total liabilities/ total assets).

## **Employee information**

The remuneration for the employees of the Company amounted to approximately RMB25,546,000, including the Directors' emoluments of approximately RMB291,333 during the six months ended 30 June 2007 (2006: approximately RMB24,882,000, including the Directors' emoluments of approximately RMB245,619). The increase in employee remuneration was resulted from the increase in salaries of employees for the period under reviewed. And also the Director's emoluments were revised and increased in August 2006. As at 30 June 2007, the Company has 2,373 employees (2006: 2,162).

### Details of pledged assets of the Company

As at 30 June 2007, the Company has pledged bank balances and plant and machinery of approximately RMB647,649,000 and approximately RMB159,776,000 respectively for the purpose to obtain bank borrowings and bills payables.

### Foreign exchange risk

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

### Share capital

As at 30 June 2007, the shareholders of the Company are as follows:

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

### DISCLOSURE OF INTERESTS

#### (a) Interests of Directors, Supervisors and chief executive of the Company

As at 30 June 2007, the interests and short positions of the Directors, the Supervisors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange were as follows:

#### *Long positions in the Domestic Shares of the Company*

Name of Director	Capacity	Number of Domestic Shares held in the Company	Approximate percentage in the total issued Domestic Shares of the Company	Approximate percentage in the total issued share capital of the Company
Li Liu Fa	Interest of controlled corporation	818,180,000 <i>(Note 1)</i>	95.69%	67.01%

*Long positions in associated corporations of the Company*

<b>Name of Director</b>	<b>Name of associated corporation</b>	<b>Capacity</b>	<b>Amount of equity interest held in the associated corporation</b>	<b>Approximate percentage in the total equity interest of the associated corporation</b>
Li Liu Fa	天瑞集團有限公司	Beneficial owner	RMB332,896,000	52.08%
		Interest of spouse	RMB201,996,000 <i>(Note 2)</i>	32.58%
			<b>Total: RMB534,892,000</b>	<b>84.66%</b>
	寶豐天瑞發電有限公司	Interest of controlled corporation	RMB29,770,000 <i>(Note 3)</i>	100%
	天瑞集團水泥有限公司	Interest of controlled corporation	US\$59,931,810 <i>(Note 3)</i>	63.90%
	河南瑞雪鋁業有限公司	Interest of controlled corporation	RMB51,000,000 <i>(Note 3)</i>	51%
	汝州天瑞煤焦化有限公司	Interest of controlled corporation	RMB3,000,000 <i>(Note 3)</i>	100%
	汝州市天瑞熱電有限公司	Interest of controlled corporation	RMB659,000 <i>(Note 3)</i>	100%
	天瑞集團鑄造有限公司	Interest of controlled corporation	RMB125,000,000 <i>(Note 3)</i>	55.56%
	天瑞集團旅遊發展有限公司	Interest of controlled corporation	RMB110,000,000 <i>(Note 3)</i>	100%

*Note:*

1. These 818,180,000 Domestic Shares were held by Tianrui Group, which was owned as to 52.08% by Li Liu Fa and 32.58% by Li Feng Luan, the spouse of Li Liu Fa. Li Liu Fa was deemed to be interested in these 818,180,000 Domestic Shares under Part XV of the SFO.
2. This RMB201,996,000 equity interest in Tianrui Group was held by Li Feng Luan, the spouse of Li Liu Fa. Li Liu Fa was deemed to be interested in this RMB201,996,000 equity interest in Tianrui Group under Part XV of the SFO.
3. These equity interests in the associated corporations of the Company were held by Tianrui Group, which was owned as to 52.08% by Li Liu Fa and 32.58% by Li Feng Luan, the spouse of Li Liu Fa. Li Liu Fa was deemed to be interested in these equity interests in the associated corporations of the Company under Part XV of the SFO.

**(b) Directors' interests in assets and contracts**

None of the Directors has any direct or indirect interest in any assets which have been acquired or disposed of by or leased to the Company or are proposed to be acquired or disposed of by or leased to the Company since 31 December 2006, being the date to which the latest published audited accounts of the Company were made up.

None of the Directors was materially interested in any contract or arrangement entered into by the Company subsisting at 30 June 2007 and which is significant in relation to the business of the Company.

**(c) Directors', Supervisors' and management shareholders' interests in competing business**

None of the Directors, the Supervisors or the management shareholders of the Company and their respective associates has an interest in a business, apart from the business of the Company, which competes or may compete with the business of the Company or has any other conflict of interest with the Company which would be required to be disclosed under Rule 11.04 of the GEM Listing Rules.

**(d) Substantial shareholders' and other shareholders' interests**

As at 30 June 2007, so far as is known to the Directors, the Supervisors or chief executive of the Company, the following persons, other than a Director, Supervisor or chief executive of the Company, had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is expected, directly or indirectly, to be interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Name	Capacity	Class of Shares	Number of Shares (Long position)	Percentage in the total issued Domestic Shares	Percentage in the total issued H Shares	Approximate percentage in the entire issued share capital of the Company
<b>Substantial shareholders</b>						
Tianrui Group	Beneficial owner	Domestic Shares	782,882,280	95.69%	-	67.02%
<b>Other shareholders</b>						
BCOM Securities Company Limited	Beneficial owner	H Shares	99,930,000	-	28.55%	8.55%
CCIB Opportunity Income Growth Fund	Beneficial owner	H Shares	33,000,000	-	9.43%	2.82%
Li Jun	Beneficial owner	H Shares	18,000,000	-	5.14%	1.54%
Chen Yamin	Beneficial owner	H Shares	17,660,000	-	5.05%	1.51%

As at 30 June 2007, save for the persons described in the paragraph headed "Substantial shareholders' and other shareholders' interests" above, the Directors were not aware of any other person (other than the Directors, the Supervisors or chief executives of the Company) who had an interest or a short position in the shares or underlying shares of the Company that was required to be disclosed under Division 2 and 3 of Part XV of the SFO and the GEM Listing Rules.

**DIRECTORS' RIGHTS TO ACQUIRE SHARES**

During the six months ended 30 June 2007, none of the Directors was granted any option to subscribe for shares of the Company. As at 30 June 2007, none of the Directors had any rights to acquire shares in the Company.

**SHARE OPTION SCHEME**

Up to 30 June 2007, the Company had not adopted any share option scheme or granted any option.



## **COMPETING INTERESTS**

As at 30 June 2007, none of the Directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Company.

## **CORPORATE GOVERNANCE PRACTICES**

During the six months ended 30 June 2007, the Company was in compliance with the code provisions set out in the Code on Corporate Governance Practices in Appendix 15 of the GEM Listing Rules.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

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

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

During the three months ended 30 June 2007, there was no purchase, sales or redemption of the Company's listed securities by the Company.

## **AUDIT COMMITTEE**

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

The unaudited condensed interim accounts for the six months ended 30 June 2007 have been reviewed by the audit committee of the Company.

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

Henan Province, the PRC, 10 August 2007

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