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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)

DISCLOSEABLE, MAJOR AND CONNECTED TRANSACTIONS

PROVISION OF GUARANTEES

The Company has provided guarantees for an aggregate amount of approximately RMB243.70 million on divers dates in the period of July 2005 to February 2006 to the Borrowers. The guarantees were provided pursuant to the respective cross guarantee arrangements between the Company and the Borrowers. The Company has not received any guarantee fee nor taken any security in relation to the provision of the guarantees.

The provision of guarantee to each of Lakeside, Dicastal and Joysun constituted a discloseable transaction for the Company and should have been subject to the notification and publication requirements under Rules 19.34 and 19.38 of the GEM Listing Rules.

The provision of guarantees to each of Taloph (when aggregated under Rule 19.22 of the GEM Listing Rules) and Zhongfu (when aggregated under Rule 19.22 of the GEM Listing Rules) constituted a major transaction for the Company and should have been subject to the notification, publication and shareholders' approval requirements under Rules 19.34 and 19.40 of the GEM Listing Rules.

The provision of guarantee to Jiashi constituted a connected transaction for the Company and should have been subject to the reporting and announcement requirements under Rules 20.45 and 20.47 of the GEM Listing Rules, as the amount of such guarantee was less than HK\$10 million.

The omission to comply with the foregoing requirements under the GEM Listing Rules when the guarantees were provided constituted a breach of the relevant provisions thereunder.

At the request of the Company, trading of the Company's H shares was suspended from 9:30 a.m. on 31 March 2006 pending the publication of the results announcement for the year ended 31 December 2005.

* For identification purpose only

THE GUARANTEES

The Company has provided guarantees for an aggregate amount of approximately RMB243.70 million on divers dates in the period of July 2005 to February 2006 to the Borrowers. The guarantees were provided pursuant to the respective cross guarantee arrangements between the Company and the Borrowers. The amount of each guarantee provided by the Company to the Borrowers was approved by the relevant Banks and determined after arm's length negotiation between the Company and each Borrower taking into account the amount of the reciprocal guarantee provided by such Borrower to the Company under the cross guarantee arrangements. The Company has not received any guarantee fee nor taken any security in relation to the provision of the guarantees.

Further details of the guarantees are set out below:

Borrower	Bank	Date of Guarantee Agreement	Guarantee Given ('000)	Guaranteed Facility Drawn ('000)	Guarantee Period	Type of Guaranteed Facility	Due Date of the Guaranteed Facility	Note
Lakeside	Guang Dong Development Bank, Anyang Branch	11 Jul 2005	RMB20,000	RMB20,000	11 Jul 2005 – 2 years from due date	Bills Payable	9 Jul 2006 – 11 Jul 2006	1
Dicastal	Shanghai Pudong Development Bank	20 Jul 2005	RMB30,000	RMB10,000	20 Jul 2005 – 2 years from due date	Loan	19 Jul 2006	2
Jiashi	Bank of Communications	8 Aug 2005	RMB8,000	RMB8,000	8 Aug 2005 – 2 years from due date	Loan	8 Aug 2006	3
Taloph	Guang Dong Development Bank, Huanghe Lu Branch	21 Nov 2005	RMB20,000	RMB20,000	21 Nov 2005 – 2 years from due date	Loan	18 Nov 2006	4
Taloph	Commercial Bank of Zhengzhou	22 Nov 2005	RMB50,000	RMB45,000	22 Nov 2005 – 2 years from due date	Loans and Bills payable	14 Sep 2006 – 22 Mar 2007	4
Zhongfu	China Construction Bank	10 Feb 2006	US\$ 12,000 (equivalent to app. RMB97,200)	US\$ 10,500 (equivalent to app. RMB85,050)	10 Feb 2006 – 2 years from the due date	Letters of Credit	22 May 2006	5
Joysun	Rural Credit Cooperative	17 Feb 2006	RMB7,000	RMB6,000	17 Feb 2006 – 2 years from due date	Loan	17 Feb 2007	6
Joysun	Rural Credit Cooperative	17 Feb 2006	RMB11,500	RMB11,500	17 Feb 2006 – 2 years from due date	Loan	17 Feb 2007	6

Note:

1. Lakeside has provided reciprocal guarantee for bills payable of the Company for an aggregate amount of RMB20,000,000.
2. Dicastal has provided reciprocal guarantee for banking facilities and bills payable of the Company for an aggregate amount of RMB80,000,000.
3. Jiashi has provided reciprocal guarantee for bills payable of the Company for the amount of RMB20,000,000.
4. Taloph has provided reciprocal guarantee for banking facilities and bills payable of the Company for an aggregate amount of RMB70,000,000.
5. Zhongfu has procured Yulian to provide guarantee for banking facilities and bills payable of the Company for an aggregate amount of RMB168,000,000. Based on the information provided by Yulian, it is a sino-foreign equity joint venture established in the PRC and its business scope includes provision of electricity and thermal power.
6. Joysun has provided reciprocal guarantee for banking facilities of the Company for an aggregate amount of RMB20,000,000.
7. Jiashi, which is owned as to 48% by Tianyuan Group, is a connected person (as defined under the GEM Listing Rules) of the Company while Dicastal, Lakeside, Joysun, Taloph, Zhongfu and Yulian are Independent Third Parties.

INFORMATION OF THE COMPANY AND THE BORROWERS

The Company is a joint stock limited company incorporated in the PRC with limited liability and its H Shares are listed on the GEM. The Company is principally engaged in the manufacture and sale of aluminum re-smelt ingots and aluminum alloy ingots.

The information of the Borrowers, based on the information provided by each of them, is set out below:

Dicastal	An equity joint venture established in the PRC and is principally engaged in the manufacture and sale of aluminum wheel hubs.
Lakeside	A wholly foreign owned enterprise established in the PRC and is principally engaged in the manufacture and sale of fruit juice.
Jiashi	A limited liability company established in the PRC, the principal business of which is the production of wheel hubs. Jiashi is owned as to 48% by Tianyuan Group and is a connected person (as defined under the GEM Listing Rules) of the Company.
Joysun	A limited liability company incorporated in the PRC with limited liability and is principally engaged in, among other things, the sale of electrical appliances and the plantation of Chinese medicine. Joysun owned approximately 73.42% equity interest in Taloph.
Taloph	A joint stock limited company incorporated in the PRC with limited liability and its shares are listed on the Shanghai Stock Exchange. Taloph, formerly known as Henan Joyline & Joysun Pharmaceutical Stock Co. Ltd. (河南竹林眾生制藥股份有限公司), is principally engaged in the manufacture and sale of Chinese medicine.

Zhongfu A joint stock limited company incorporated in the PRC with limited liability and its shares are listed on the Shanghai Stock Exchange. Zhongfu group of companies comprised of an electric power company and an aluminum company, and its business scope includes electrolytic aluminum, aluminum materials intensive processing and thermal power.

Mr. Song Quan Qi, an independent non-executive Directors, is an independent non-executive director of Zhongfu.

Save as disclosed herein, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Banks and the Borrowers and their respective ultimate beneficial owner(s) is an Independent Third Party.

REASONS FOR THE PROVISION OF GUARANTEES

With the tightening of the lending policies and regulations of banks in the PRC, it is a common practice for banks in the PRC to request for either guarantees or securities to secure banking facilities granted to borrowers. To the best knowledge and understanding of the Directors, banks in the PRC would not accept corporate guarantee of individual company for the banking facilities of its own. Further, banks in the PRC accept and prefer third party guarantee to pledge of assets as security of banking facilities as costs and time for assets valuation can be saved and non-recovery risk is lower as the banks would only accept guarantees provided by creditworthy enterprises approved and accepted by the banks.

Banking facilities and bank loans are one of the Company's major financial resources which may require third party guarantee as security. In the past, the Company relied heavily on Tianyuan Group to provide guarantees as security for substantial portion of its banking facilities and bank loans. With a view to reduce reliance on Tianyuan Group, it has been the policy of the Company to seek Independent Third Parties to replace Tianyuan Group and act as guarantors of its banking facilities and bank loans.

Under the cross guarantee arrangements, the amount of the reciprocal guarantees provided to the Company exceeds the amount of guarantees provided by the Company. As at the Latest Practicable Date, the total amount of the guarantees provided or procured by the Borrowers to the Company and by the Company to the Borrowers was approximately RMB378 million and RMB243.70 million respectively.

It is a usual practice of banks in the PRC requiring borrowers to provide valuation reports by professional valuers for their consideration before they will accept pledge of assets as security of bank borrowings. Under the cross guarantee arrangements, the Company is not required to incur any valuation fees. The Company is also not required to pay any fee or charge or provide any security in relation to reciprocal guarantees. Accordingly, finance costs of the Company under the cross guarantee arrangements were lower than that under pledging of assets as security.

The Directors consider that the cross guarantee arrangements provide the Company with opportunities to establish business relationships with reputable enterprises in Henan Province, the PRC. Some enterprises are engaged in the same industry or related industry of the Company. The Directors anticipate that the cross guarantee arrangements would enable the Company further co-operation with such enterprises in future.

Given the benefits brought to the Company under the cross guarantee arrangement, the Directors (including the independent non-executive Directors) consider that the provision of the guarantees was in the commercial interest of the Company. The Directors also consider that the guarantee agreements were entered into on normal commercial terms and the terms thereof are fair and reasonable so far as the Company and the Shareholders as a whole are concerned.

The provision of the guarantees will not have any immediate effects on the earnings and assets and liabilities of the Company. However, the Company will be responsible for repayment of the banking facilities which it guaranteed together with payment of all related interests, penalties, damages and the Banks' expenses incurred in the enforcement of the relevant principal banking facility agreements and guarantees, if there is a default in the repayment of such banking facilities. In such case, the Company may have to use its internal resources to fulfill its obligation under the guarantees.

IMPLICATIONS UNDER THE GEM LISTING RULES

The amount of each guarantee given, the relevant percentage ratios (i.e., the asset ratio and the consideration ratio) which it represented and the classification of transaction under Chapters 19 and 20 of the GEM Listing Rules are set out below:

Borrower	Guarantee Given ('000)	Asset ratio	Consideration ratio	Transaction Type
Lakeside	RMB20,000	1.62%	10.57%	Discloseable
Dicastal	RMB30,000	2.43%	15.93%	Discloseable
Jiashi	RMB8,000	0.65%	4.59%	Connected
Taloph	RMB70,000 (Note 1)	5.66%	41.69%	Major
Zhongfu	US\$ 12,000 (equivalent to approximately RMB97,200,000)	10.02%	50.46%	Major
Joysun	RMB18,500 (Note 2)	1.50%	9.53%	Discloseable

Note:

1. Being an aggregation of the amount of RMB20,000,000 and RMB50,000,000 under two guarantees provided by the Company to Taloph on 21 November 2005 and 22 November 2005 respectively.
2. Being an aggregation of the amount of RMB7,000,000 and RMB11,500,000 under two guarantees provided by the Company to Joysun both on 17 February 2006.

The provision of guarantee to each of Lakeside, Dicastal and Joysun should have been subject to the notification and publication requirements under Rules 19.34 and 19.38 of the GEM Listing Rules.

The provision of guarantee to each of Taloph (when aggregated under Rule 19.22 of the GEM Listing Rules) and Zhongfu (when aggregated under Rule 19.22 of the GEM Listing Rules) should have been subject to the notification, publication and shareholders' approval requirements under Rules 19.34 and 19.40 of the GEM Listing Rules. Given that no Shareholder is required to abstain from voting if the Company has convened a Shareholders' meeting for the approval of the provision of guarantees to each of Taloph and Zhongfu, written approval from Tianyuan Group, being an independent Shareholder holding 782,882,280 domestic Shares, representing approximately 67.02% equity interest in the Company, has been obtained on 15 May 2006.

The provision of guarantee to Jiashi should have been subject to the reporting and announcement requirements under Rules 20.45 and 20.47 of the GEM Listing Rules, as the amount of such guarantee was less than HK\$10 million.

The omission to comply with the foregoing requirements under the GEM Listing Rules when the guarantees were provided constituted a breach of the relevant provisions thereunder. The omission was the result of an oversight. Prior to the provision of the guarantees under the cross guarantee arrangements, the Company did not aware that the provision of the guarantees constituted notifiable or connected transactions as no agreements in respect of the cross guarantee arrangements have been signed between the Company and the Borrowers and the cross guarantee arrangements are on terms better to the Company in that the amount of the reciprocal guarantees provided by the Borrowers to the Company exceeded the amount of the guarantees provided by the Company to the Borrowers. Upon recent special review of the internal control systems by the Company following the appointment of Mr. Li Liu Fa, Mr. Li He Ping and Mr. Zhao Zheng Bin as Directors on 10 March 2006, it was revealed that the provision of guarantees under the cross guarantee arrangements constituted notifiable or connected transactions.

To avoid the recurrence of similar breaches of the GEM Listing Rules, the Company has strengthened its internal control procedures so that the Directors (including the independent non-executive Directors) shall be notified of the provision of any guarantee and approval of at least 3/4 of the Directors at the material time eligible for voting at the relevant resolutions for approving the provision of guarantees shall be obtained before the relevant guarantee agreement shall be signed.

GENERAL

The Company will send to the Shareholders for their information a circular containing, among other things, details of the provision of guarantees to Lakeside, Dicastal, Joysun, Zhongfu and Taloph as soon as practicable in accordance with the requirements of the GEM Listing Rules.

At the request of the Company, trading of the Company's H shares was suspended from 9:30 a.m. on 31 March 2006 pending the publication of the results announcement for the year ended 31 December 2005.

DEFINITIONS

In this announcement, the following expressions shall have the meanings stated below unless the context otherwise requires:–

“associates”	has the same meaning ascribed to it under the GEM Listing Rules
“Bank”	Bank of Communications, China Construction Bank, Commercial Bank of Zhengzhou, Guang Dong Development Bank, Anyang Branch, Guang Dong Development Bank, Huanghe Lu Branch, Rural Credit Cooperative and Shanghai Pudong Development Bank
“Bank of Communications”	Bank of Communications, Zhengzhou Branch (交通銀行鄭州分行)
“Board”	the board of Directors
“Borrower”	Dicastal, Lakeside, Jiashi, Joysun, Taloph and Zhongfu
“China Construction Bank”	China Construction Bank Corporation, Zhengzhou Jingwei Sub-branch (中國建設銀行股份有限公司鄭州經緯支行)
“Commercial Bank of Zhengzhou”	Commercial Bank of Zhengzhou, Yanzhuang Branch (鄭州市商業銀行燕莊支行)
“Company”	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 PRC with limited liability and whose H shares are listed on GEM
“Dicastal”	SMX Dicastal Wheel Manufacture Co. Ltd. (三門峽戴卡輪轂製造有限公司), an equity joint venture established in the PRC, is principally engaged in the manufacture and sale of aluminum wheel hubs, and is an Independent Third Party
“Director(s)”	director(s) of the Company, including the independent non-executive directors of the Company
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM (as amended from time to time)
“Guang Dong Development Bank, Anyang Branch”	Guang Dong Development Bank Joint Stock Limited Company, Huanghe Lu Branch, Zhengzhou (廣東發展銀行股份有限公司安陽支行)
“Guang Dong Development Bank, Huanghe Lu Branch”	Guang Dong Development Bank Joint Stock Limited Company, Huanghe Lu Branch, Zhengzhou (廣東發展銀行股份有限公司鄭州黃河路支行)

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“H Shares”	overseas listed foreign shares in the ordinary share capital of the Company, with a nominal value of RMB0.1 each, which are listed on the Stock Exchange, and subscribed for and traded in Hong Kong dollars
“Independent Third Party”	entity and its ultimate beneficial owner(s) which are independent of and not connected with the Company and any connected persons (as defined under the GEM Listing Rules) of the Company
“Jiashi”	Sanmenxia Jiashi Wheel Hubs Co., Ltd. (三門峽佳適鋁合金輪轂有限責任公司), a limited liability company established in the PRC, the principal business of which is the production of wheel hubs, owned as to 48% by Tianyuan Group, and is a connected person (as defined under the GEM Listing Rules) of the Company
“Joysun”	Zhengzhou Joysun Industrial Group Co. Ltd. (鄭州眾生實業集團有限公司), a limited liability company incorporated in the PRC with limited liability, is principally engaged in, among other things, the sale of electrical appliances and the plantation of Chinese medicine, owned approximately 73.42% equity interest in Taloph, and is an Independent Third Party
“Lakeside”	Sanmenxia Lakeside Fruit Juice Beverage Co. Ltd. (三門峽湖濱果汁有限責任公司), a wholly foreign owned enterprise established in the PRC, is principally engaged in the manufacture and sale of fruit juice, and is an Independent Third Party
“Latest Practicable Date”	19 May 2006, being the latest practicable date for ascertaining the information in this announcement
“PRC”	the People’s Republic of China
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Rural Credit Cooperative”	Zhengzhou City Rural Credit Cooperative, Lianheyong Sales Department (鄭州市市區農村信用合作社聯合永營業部)
“Shanghai Pudong Development Bank”	Shanghai Pudong Development Bank, Zhengzhou Branch, Jiankang Lu Sub-branch (上海浦東發展銀行鄭州分行健康路支行)
“Share(s)”	state-owned legal person shares and H shares
“Shareholder(s)”	Holder(s) of Shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Taloph”	Henan Taloph Pharmaceutical Stock Co. Ltd. (河南太龍藥業股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, its shares are listed on the Shanghai Stock Exchange, is principally engaged in the manufacture and sale of Chinese medicine, and is an Independent Third Party
“Tianyuan Group”	Sanmenxia Tianyuan Aluminum Group Limited (三門峽天元鋁業集團有限公司), 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 of the Company holding approximately 67.02% of its issued share capital
“US\$”	United States dollars, the lawful currency of the United States of America
“Yulian”	Henan Yulian Energy Group Co. Ltd. (河南豫聯能源集團有限責任公司), a sino-foreign equity joint venture established in the PRC, its business scope includes provision of electricity and thermal power, and is an Independent Third Party
“Zhongfu”	Henan Zhongfu Industrial Co. Ltd. (河南中孚實業股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, its shares are listed on the Shanghai Stock Exchange, its business scope includes electrolytic aluminum, aluminum materials intensive processing and thermal power, and is an Independent Third Party

In this announcement, unless otherwise stated, certain amounts denominated in US\$ have been converted (for information only) into RMB using an exchange rate of RMB1.00 to US\$8.10.

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

Henan Province, the PRC, 22 May 2006

As at the date of this announcement, the Directors are as follows:

Executive Directors:

Mr. Tan Yu Zhong
Mr. Xiao Chong Xin
Mr. Zhao Zheng Bin

Non-executive Directors:

Mr. Yan Li Qi
Mr. Li Liu Fa
Mr. Li He Ping

Independent Non-executive Directors:

Mr. Zhu Xiao Ping
Mr. Song Quan Qi
Mr. Chan Nap Tuck

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this announcement 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 document misleading; and (3) all opinions expressed in this document 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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