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

Annual Report 07

* For identification only

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Corporate Information

CHAIRMAN AND NON-EXECUTIVE DIRECTOR
Mr. Li He Ping

EXECUTIVE DIRECTORS
Mr. TAN Yu Zhong
Mr. XIAO Chong Xin
Mr. ZHAO Zheng Bin

NON-EXECUTIVE DIRECTORS
Mr. LI Liu Fa
Mr. YAN Li Qi

INDEPENDENT NON-EXECUTIVE DIRECTORS
Dr. SONG Quan Qi
Professor ZHU Xiao Ping
Mr. CHAN Nap Tuck

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QUALIFIED ACCOUNTANT
Mr. YAO Yan Ping FCPA, FCCA

COMPLIANCE OFFICER
Mr. ZHAO Zheng Bin

AUDIT COMMITTEE
Dr. SONG Quan Qi
Professor ZHU Xiao Ping
Mr. CHAN Nap Tuck

AUTHORISED REPRESENTATIVES
Mr. TAN Yu Zhong
Mr. YAO Yan Ping

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AUDITORS

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Financial Highlights

Profit and loss account	**2007** **RMB'000**	2006 RMB'000	2005 RMB'000	2004 RMB'000
	For the year ended 31 December			
Turnover	**1,664,872**	1,674,433	1,326,256	1,416,839
Cost of goods sold	**(1,389,869)**	(1,481,362)	(1,343,019)	(1,315,781)
Gross profit/(loss)	**275,003**	193,071	(16,763)	101,058
Other revenue	**41,869**	20,502	12,332	33,966
Expenses related to other revenue	**(15,511)**	(5,899)	(7,828)	(25,238)
Other revenue, net	**26,358**	14,603	4,504	8,728
Selling and distribution expenses	**(48,120)**	(21,332)	(22,659)	(19,851)
General and administrative expenses	**(69,394)**	(53,722)	(83,980)	(30,808)
Operating profit/(loss)	**183,847**	132,620	(118,898)	59,127
Finance costs	**(51,073)**	(40,695)	(40,048)	(24,888)
Profit/(loss) before income tax	**132,774**	91,925	(158,946)	34,239
Income tax	**(33,564)**	(5,742)	(5,260)	(11,490)
Profit/(loss) after income tax	**99,210**	86,183	(164,206)	22,749
Profit/(loss) attributable to shareholders	**99,210**	86,183	(164,206)	22,749
Dividend	**–**	–	–	11,682
Earnings/(loss) per share	**RMB0.08**	RMB0.07	(RMB0.14)	RMB0.023

Assets and liabilities	**As at 31 December 2007** **RMB'000**	As at 31 December 2006 RMB'000	As at 31 December 2005 RMB'000	As at 31 December 2004 RMB'000
Total assets	**1,867,132**	1,293,119	1,168,521	1,162,280
Total liabilities	**1,550,703**	1,075,900	1,037,485	855,356
Net assets	**316,429**	217,219	131,036	306,924

Chairman's Statement

Dear shareholders,

The year 2007 is an extremely difficult and extraordinary year for both Sanmenxia Tianyuan Aluminum Company Limited (the "Company") and myself. During the year, the Company focused on profit maximisation. By adopting development adjustment and standardized management as basic strategy, and by implementing costs and expenses control measures, the Company has optimized our shareholders' interest, standardized management procedures, reduced cost, increased production volume, explored potentials and increased efficiency. As a result, the Company was able to achieve record-high operating results in 2007. I am pleased to present the annual report of the Company for the financial year ended 31st December 2007 and, on behalf of the board of directors of the Company (the "Board") and all the employees, express our sincere gratitude to our shareholders for their dedication and support to the Company.

REVIEW OF OPERATING RESULTS

Turnover and other revenues of the Company for 2007 amounted to RMB1,706,741,000, representing a slight increase of RMB11,806,000 over the corresponding period last year. Operating profit was RMB99,210,000, as compared with a profit of approximately RMB86,183,000 for the corresponding period last year. Earning per share was RMB0.08, as compared with an earning per share of RMB0.07 for the corresponding period last year.

The increase in profit was mainly attributable to: (1) marketing and strategic factors such as cost saving in price of raw materials; (2) the strengthening of internal management, reduced cost and control expenses; and (3) the increase in production volume.

2008 BUSINESS PROSPECT

The growth momentum of the PRC economy will sustain in 2008. In the first half of 2007, the GDP growth of the PRC was 11.1% and it is expected that the GDP growth for the whole year will reach over 11%. According to the Economic Forecasting Division of State Information Centre, the GDP growth for 2008 will reach 10.8%. The favourable internal condition will help the sustainable growth of the PRC economy, which in turn will create a healthier economic structure.

Aluminum re-smelt ingot production in the PRC is increasing rapidly, and it is expected that the annual production volume for 2007 will overcome the 12 million tonnes barrier and reach 12.62 million tonnes. Due to the increase in production capacity of aluminum re-smelt ingot and the adjustment of the PRC export tax policy on aluminum, there is short term pressure on the supply. Meanwhile, as the rate of consumption grow faster than production, it is anticipated that the PRC will convert from net export to net import of aluminum ingot in 2009. In 2007, the production of aluminum re-smelt ingots in the PRC has increased by 35% as compared to the corresponding period last year. Since 2007, the PRC consumption of aluminum re-smelt ingot in the PRC has exceeded market expectation, with the increase in consumption for the first nine months already reached 44.1%, and the actual increase will still be over 40% even taking into account the variable factor of implicit inventory. Due to the rapid increase in aluminum re-smelt ingot consumption in the PRC, the price of the aluminum re-smelt ingots will be maintained at a reasonable level in 2008.

The expansion pace for the production volume of aluminum re-smelt ingots in the PRC is expected to slow down continuously in the future. In October 2007, the PRC aluminum re-smelt ingot production decreased for the first time. With the implementation of "the entrance requirements for aluminum industry" (鋁行業准入條件), aluminum re-smelt ingot production will remain stable or on a downward trend. Driven by the blooming of aluminum re-smelt ingot production and consumption in the PRC and the faster rate of consumption as compared with production volume, it is likely that there will be a shortage of domestic aluminum re-smelt ingot supply for the next 2 to 3 years. The change of demand and supply relation provides strong support for aluminum re-smelt ingot price, and the electrolytic aluminum industry will be able to maintain a relatively satisfactory margin. It is expected that aluminum price will be fluctuate among the range of RMB18,000 and RMB21,000, with the annual average price of approximately RMB18,600.

In 2008, the overall focus of the Company will be on profitability. By adopting development as its main strategy, and by implementing cost and expense control measures, the Company will further reduce its cost and increase efficiency, improve management and staff quality and realizing simultaneous growth of both staff and enterprise.

The main strategies adopted by the Company are as follows:

(I) Focus on profitability

1. Focus on operations, integrating operating resources, enhancing product price and lowering sourcing costs and expenses in order to maximize profits.

2. By implementing BSC and ABM operating cost management approach, emphasis costs and expenses assessment, integration of existing management resources, optimization of management structure and enhancing the effectiveness of system implementation, the Company will continue to upgrade our corporation management standard.

3. By enhancing product management, stepping up its technology development efforts, innovative and optimized techniques, reducing depletion and extending useful life of equipment, the Company will increase its production while saving energy and increase efficiency at the same time.

4. Continue to modify our supply chain information management to fully utilize the functions of our information centre. The Company will adopt its financial management software application as the core system to establish a logistic information platform based on the supply chain management system network, in order to optimize resources allocation and enhance overall management efficiency.

(II) The Company will strive to complete its proposed issue of new shares, and to improve and optimize the Company's capital structure, in order to finance our project development and support our long term growth.

(III) The Company will enhance its personnel arrangement, employment and allocation system standard to achieve sustainable improvements and enhance our management level.

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
18 March 2008

Management's Discussion and Analysis of Financial Condition and Results of Operations for the year 2007

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 99,347 tonnes of aluminum re-smelt ingots in 2007, representing an increase of 5.77%, from 93,932 tonnes for 2006. Production volume of the aluminum alloy amounted to 20,087 tonnes in 2007, representing an increase of 6.23%, from 18,909 tonnes for 2006.

BUSINESS REVIEW

Results of Operations

The Company's profit amounted to approximately RMB99,210,000 for 2007, as compared with about RMB86,183,000 for 2006.

The increase in profit from 2006 to 2007 was primarily due to the increase in the demand in the market.

Turnover

The Company's total turnover amounted to approximately RMB1,664,872,000 in 2007, representing a decrease of 0.57%, from about RMB1,674,433,000 for 2006. The decrease in turnover was mainly due to the decrease in selling prices. The average selling price of aluminum ingots was 3.79% lower than those in 2006, but offset by 3.34% increase in sales volume of aluminum ingots during the year.

During 2007, of the total turnover amount, approximately RMB1,313,446,000 or 78.89% was generated from the sale of aluminum re-smelt ingots, and about RMB351,426,000 or 21.11% was generated from the sale of aluminum alloy.

The sales of aluminum re-smelt ingots amounted to approximately RMB1,313,446,000 in 2007, representing a decrease of 1.79%, from about RMB1,337,333,000 in 2006.

The sales of aluminum alloy amounted to approximately RMB351,426,000 in 2007, representing an increase of 4.25%, from about RMB337,100,000 in 2006.

Sales volume of aluminum re-smelt ingots and aluminum alloy amounted to 99,581 tonnes in 2007, representing an increase of 3,220 tonnes or 3.34%, from 96,361 tonnes in 2006. The average price was RMB16,719 per tonne in 2007, representing an decrease of RMB658 per tonnes or 3.79%, from RMB17,377 per tonne in 2006. Of the total sales volume, the sales volume of aluminum re-smelt ingots was 79,244 tonnes in 2007, representing an increase of 1,732 tonnes or 2.23%, from 77,512 tonnes in 2006; the average selling price of aluminum re-smelt ingots amounted to RMB16,575 per tonne for 2007, representing a decrease of RMB678 per tonne or 3.93%, from RMB17,253 per tonne in 2006; the sales volume of aluminum alloy was 20,337 tonnes in 2007, representing an increase of 1,488 tonnes or 7.89%, from 18,849 tonnes in 2006; the average selling price of aluminum alloy amounted to RMB17,280 per tonne in 2007, representing a decrease of RMB604 per tonne or 3.38% from RMB17,884 per tonne in 2006.

Cost of sales

The Company's total cost of sales amounted to approximately RMB1,389,869,000 in 2007, representing a decrease of 6.18%, from about RMB1,481,362,000 in 2006. The decrease was mainly due to the decrease in the price of major raw material, alumina.

The average selling cost for aluminum re-smelt ingots was RMB13,889 per tonne in 2007, representing a decrease of RMB1,507 per tonne or 9.79% from RMB15,396 per tonne in 2006.

The average selling cost for aluminum alloy was RMB14,223 per tonne, representing a decrease of RMB862 per tonne or 5.71%, from RMB15,085 per tonne in 2006.

The average purchase price for alumina was RMB3,086 per tonne (excluding tax) in 2007, decreased by RMB787 per tonne or 20.32%, from RMB3,873 per tonne (excluding tax) in 2006. Average price for electricity amounted to RMB0.3532 per degree (excluding tax), increased by RMB0.0044 per degree or 1.26%, from RMB0.3488 per degree (excluding tax) in 2006.

Gross profit

The Company's gross profit for the year ended 31 December 2007 was approximately RMB275,003,000 and the gross profit ratio was 16.52%, when compared with approximately RMB193,071,000 for 2006 and gross profit ratio was 11.53%. The increase in 2007 was mainly due to the effect of the decrease in cost of major raw material, i.e. alumina is higher than the decrease in the selling price of the aluminum re-smelt ingots. Average market price for aluminum re-smelt ingots amounted to RMB16,719 per tonne, representing a decrease of 3.79% from that of the previous year. Cost of sales for aluminum re-smelt ingots and aluminum alloy ingots amounted to RMB13,957 per tonne, representing a decrease of 9.21% from that of the previous year.

Selling and Distribution Expenses

The Company's selling and distribution expenses were approximately RMB48,120,000 or 2.89% of turnover in 2007, increased by 125.58%, from about RMB21,332,000 or 1.27% of turnover in 2006. The increase was mainly attributable to the increase in transportation and commission expenses due to increase in export sales to Korea and the United Kingdom.

General and Administrative Expenses

The Company's general and administrative expenses were approximately RMB69,394,000 in 2007, representing an increase of RMB15,672,000 or 29%, from about RMB53,722,000 in 2006. The increase was mainly attributable to the provision for impairment loss on construction in progress in 2007 of approximately RMB11,342,000.

Other Revenue

Other revenue of the Company amounted to approximately RMB41,869,000 in 2007, representing an increase of RMB21,367,000 or 104.22%, from about RMB20,502,000 in 2006. The increase was mainly due to increase in interest income by about RMB8,933,000 than that in 2006 and increase in sales of pre-baked carbon anode by about RMB12,183,000.

Expenses related to other revenues

The Company's expenses related to other revenues in 2007 were approximately RMB15,511,000, representing an increase of RMB9,612,000 or 162.94%, from about RMB5,899,000 in 2006. The increase was due to increase in cost of sales of pre-baked carbon anode amounted to about RMB12,249,000.

Finance Costs

The finance costs for the Company in 2007 were approximately RMB51,073,000, representing an increase of RMB10,378,000 or 25.50%, from about RMB40,695,000 in 2006. The increase of interest expenses was mainly due to the increase of average outstanding loan balance and increase in interest rate during the year.

Net Profit

As a result of the foregoing, the Company's net profit for the year was approximately RMB99,210,000 (2006: RMB86,183,000).

Significant Investment

The Company adopts 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 2007.

Working Capital and Liabilities

As of 31 December 2007, the Company's current assets amounted to approximately RMB1,422,076,000, representing an increase of RMB609,460,000 from about RMB812,616,000 as of 31 December 2006. The increase was due to the increase of bank balances of approximately RMB370,182,000 and increase in purchase deposits to third parties of approximately RMB234,065,000.

As of 31 December 2007, the Company's current liabilities amounted to approximately RMB1,550,703,000, representing an increase of RMB474,803,000, from about RMB1,075,900,000 as of 31 December 2006. The increase was mainly attributable to the increase of receipts in advance from customers for the purpose of securing supply of aluminum re-smelt ingots. At of 31 December 2007, receipts in advance from customers amounted to about RMB480,665,000, representing an increase of RMB384,892,000 from RMB95,773,000 in 2006.

Capital Structure

As of 31 December 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 gearing ratio to ensure having an effective capital structure from time to time. As at 31 December 2007, the Company had an aggregate outstanding borrowings of approximately RMB984,706,000 (including bills payables of about RMB144,380,000). The gearing ratio was 311.19% (being the aggregate outstanding borrowings of RMB984,706,000 divided by the total net assets of RMB316,429,000).

Contingent Liabilities

As at 31 December 2007, the Company had given guarantees in favour of certain third parties to the extent of RMB90,000,000 (2006: RMB18,500,000) in respect of these companies' banking facilities in the PRC. These companies also provided reciprocal guarantees in respect of the Company's borrowings. Details of the banking facilities utilised are as follows:

	2007	2006
	RMB'000	*RMB'000*
Third parties	**–**	–
Other state-controlled enterprises	**–**	17,500
	–	17,500

The Directors have reviewed the available financial information of some of the above companies to which the Company has given the guarantees.

Capital Commitments

Please refer to note 27(a) to the financial statements for details.

Cash and Cash Equivalents

Total cash of the Company as of 31 December 2007 (including foreign currency-denominated deposits) amounted to approximately RMB835,569,000. 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 2007 amounted to RMB273,377,000.

Cash Flow

As at 31 December 2007, the Company had cash, bank balances and deposits in bank of RMB273,377,000 (2006: RMB171,894,000), representing an increase of RMB101,483,000 from the beginning of the year. This was mainly attributable to the increase in receipts in advance from customers. During the year, the Company had net cash inflow from operating activities of RMB296 million (2006: RMB31 million of net cash inflow), net cash inflow from investing activities of RMB5 million (2006: RMB118 million of net cash outflow), and net cash outflow from financing activities of RMB175 million (2006: RMB82 million of net cash inflow).

Details of pledged assets of the Company

As at 31 December 2007, the Company has pledged bank balances and plant and machinery amounted to approximately RMB500,694,000 and approximately RMB61,213,000 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.

Information of Employees

As at 31 December 2007, the Company has 2,329 employees (2006: 2,404). Staff costs, including Directors' remuneration, was approximately RMB61,931,000 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 19 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 2007, the Company has no significant pending litigation.

Directors' and Supervisors' Profile

Chairman and Non-executive Director

Mr. LI He Ping (**李和平**), aged 52, 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.

Executive Directors

Mr. TAN Yu Zhong (**譚豫忠**), aged 44, 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 23 years of experience in the aluminum industry. He has served as Chairman and General Manager of the Company for 2 years and 6 years respectively 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 42, is the executive director and deputy general manager of the Company. He is responsible for the management of the Company's operations. He joined Tianyuan Group in 1988 and has about 18 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 50, was appointed as executive Director and deputy general manager. 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 Liu Fa (**李留法**), aged 51, 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.

Mr. YAN Li Qi (**閆利啟**), aged 54, 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 43, 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 Hennan 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.

PROFESSOR ZHU Xiao Ping (**朱小平**), aged 59, 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 65, 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 18 years' experience in senior position in the field of accounting.

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 49, 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 50, 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 34, 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.

Mr. CHENG Jiang Chuan (程江川), aged 39, 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 and staff representative of the Supervisory Committee in August 2003.

Mr. GE Dian Long (葛殿龍), aged 48, graduated from Zhengzhou University in 1996 with a major in Administrative Management and has obtained the qualification of assistant engineer. Mr. Ge has over 20 years' experience in manufacture and operation management. He had served at various manufacture and operation management positions of Tianyuan Group. Mr. Ge is the head of aluminum alloy factory and the head of water and heating factory of the Company. He was appointed as a supervisor of the Company in June 2007.

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.

SENIOR MANAGEMENT

Mr. Yang Xian Zhong (**楊獻忠**), aged 34, 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 43, 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.

Mr. Yang Yuzhong (**楊玉忠**), aged 44, the deputy general manager of the Company. Mr. Yang has been a teacher at 三門峽三中. He joined Tianyuan Group in 1983 as the factory deputy manager and factory manager of Tianyuan Group and the Company. He was appointed as the deputy general manager of the Company in August 2004 and is responsible for the production operations of the Company. Mr. Yang is a member of the Communist Party of China. He graduated from 鄭鋁職大 in 1981, majoring in smelting of light metal. He became an engineer in December 1998 and joined the Company in August 2000.

Mr. Wang Guoxian (**王國獻**), aged 43, the chief engineer of the Company. Mr. Wang holds senior positions of factory deputy manager of the branch factory, project general manager and factory manager of Tianyuan Group, Sanmenxia Aluminum Factory and the Company respectively. In August 2004, he has appointed as the general engineer of the Company, responsible for the technical equipments and quality issues of the Comapny. Mr. Wang is a member the Communist Party of China. He graduated from Shenyang Golden Institute (沈陽黃金專科學院) in 1983, majoring in Nonferrous Metallurgy (有色冶金). He became an engineer in December 1998 and joined the Company in August 2000.

Ms. Ge Aiping (**葛愛平**), aged 40, was appointed as the secretary of the board of directors of the Company on 18 September 2007. Ms. Ge holds several managing positions in Tianyuan Group and Sanmenxia Aluminum Factory. She graduated from Luoyang Institute of Technology with a Bachelor's Degree in Industry in 1989. She was awarded a Master Degree in Material Engineering by Henan University of Science and Technology in July 2006 and obtained the qualification of senior engineer in December 2004. She has been the secretary of the board of directors of the Company since 2007 and is responsible for the day to day matters of the board of directors and administration of the Company. Ms. Ge is a member of the Communist Party of China. She joined the Company in August 2000.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Yao Yan Ping (**姚恩平**), aged 38, 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 2007.

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 2007 are set out on page 41 of this report.

Dividend

The Directors do not propose any dividend for the year ended 31 December 2007.

Reserves

Movements in the reserves of the Company during the year are set out in the statement of changes in equity on page 42 of this report.

Fixed Assets

Details of the movements in fixed assets of the Company are set out in note 8 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 2007, calculated based on the above principle, amounted to approximately RMB103,544,000.

Taxation

Details of the treatment of the Company's taxation for the year ended 31 December 2007 are set out in note 22 to the financial statements.

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 2007 is set out on note 20 to the financial statements.

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

Disclosure of Interests

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

As at 31 December 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	782,882,280 *(Note 1)*	95.69%	67.02%

Long positions in associated corporations of the Company

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

Note:

1. These 782,882,280 Domestic Shares were held by Tianrui Group Company Limited (天瑞集團有限公司) ("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 782,882,280 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.

Directors' and Supervisors' Interests in Contracts

During the year ended 31 December 2007, 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 2007, none of the Directors was granted any option to subscribe for shares of the Company. As at 31 December 2007, 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 2007, the Company had not adopted any share option scheme or granted any option.

Confirmation of Independence by Independent Non-executive Director

The Company confirms that it has received from each of independent non-executive Directors an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and considers, based on the confirmations received, the independent non-executive Directors 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.

Substantial shareholders' and other shareholders' interests

As at 31 December 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:

Interests in Domestic Shares (long positions):

Name	Capacity	Class of Shares	Number of Shares (Long position)	Percentage in the total issued Domestic Shares	Percentage in the total issued H Shares	Approximate percentage in the entire issued share capital of the Company
Substantial shareholders						
Tianrui Group	Beneficial owner	Domestic Shares	782,882,280	95.69%	–	67.02%
Other shareholders						
BOCOM International Holdings Company Limited (Formerly known as BCOM Securities Company Limited) *(Note)*	Beneficial owner	H Shares	94,420,000	–	26.98%	8.08%
CCIB Opportunity Income Growth Fund *(Note)*	Beneficial owner	H Shares	26,200,000	–	7.49%	2.24%
Chen Yamin	Beneficial owner	H Shares	17,660,000	–	5.05%	1.51%

Note: Information on the interests of these shareholders were based on information set out in the website of the Stock Exchange.

As at 31 December 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.

Other persons who are required to disclose their interests

As at 31 December 2007, 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 2007.

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 14.39% and approximately 49.42%, respectively, of the Company's total turnover for the year ended 31 December 2007.

The amount of raw materials (including electricity) provided by the largest supplier and the five largest suppliers of the Company accounted for approximately 40% and approximately 84%, 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 2007.

Connected Transactions

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

Connected Persons

1. Tianrui Group, a limited liability company established under the laws of the PRC.

2. 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.

Connected Transactions

1. The Company had entered into a Cross-guarantee Agreement dated 11 January 2007 with Tianrui Group and SMX Dicastal Wheel Manufacture Co. Ltd. (三門峽戴卡輪轂製造有限公司) ("Dicastal"), as supplemented by an agreement between the Company and Dicastal dated 11 January 2007, pursuant to which each of the Company and Tianrui Group shall provide guarantees for the maximum amount of RMB70,000,000 to Dicastal to secure its bank facilities and in return, Dicastal shall provide guarantees for the maximum amount of RMB140,000,000 to the Company to secure its bank facilities.

2. The Company had entered into a Subscription Agreement dated 24 October 2007 with Tianrui Group, pursuant to which Tianrui Group agreed to subscribe for 625,000,000 new domestic shares of the Company.

Continuing Connected Transactions

The supply of pre-baked carbon anode by Dongxing to the Company under the Pre-baked Carbon Anode Agreement dated 21 December 2006 entered into between the Company and Dongxing. The sum paid by the Company to Dongxing under the transactions during the year amounted to RMB10,729,000.

In respect of transactions 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 2006.

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.

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 2007.

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.

Auditors

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 2007. A resolution for the re-appointment of international auditors and PRC auditors to the Company will be proposed at the forthcoming annual general meeting.

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

Sanmenxia City, Henan Province, the PRC
18 March 2008

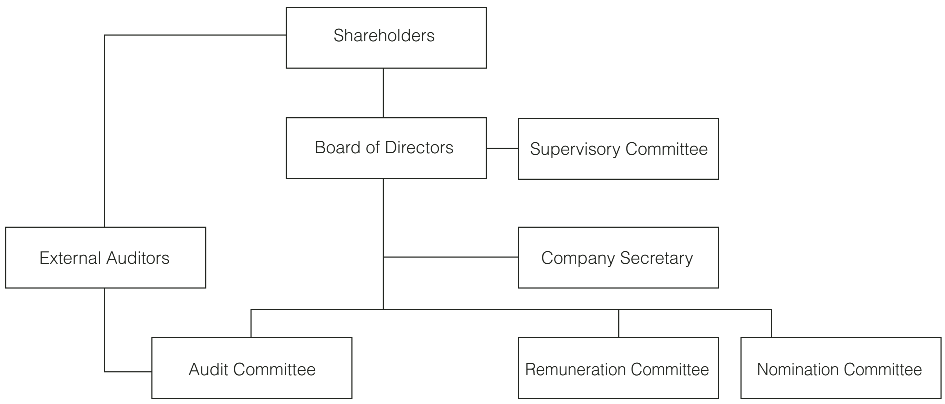
Corporate Governance Report

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 2007.

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.

Organisation 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.

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 2007 and up to the date of the report were:

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

Non-executive directors
Mr. Yan Li Qi
Mr. Li He Ping *(Chairman)*
Mr. Li Liu Fa

Independent non-executive directors
Professor 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.

For the year ended 31 December 2007, 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:–

Date of Announcement	**Type of Transaction**	**Description**
10 April 2007	Discloseable, major and connected transaction and continuing connected transaction	Cross guarantee agreements and renewal raw materials purchase agreement
26 October 2007	Issue of domestic shares	Proposed subscription of domestic shares by Tianrui Group

To the best knowledge of the Company, save as disclosed in this annual report, there is no financial, business and family relationship among the Directors and between the Chairman and the general manager.

(c) Meeting Records

There were 8 Board meetings held for the year ended 31 December 2007.

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

Board Members	Attendance at meetings held in the year ended 31 December 2007
Mr. Tan Yu Zhong	8/8
Mr. Xiao Chong Xin	8/8
Mr. Zhao Zheng Bin	8/8
Mr. Yan Li Qi	7/8
Mr. Li He Ping	8/8
Mr. Li Liu Fa	7/8
Professor Zhu Xiao Ping	8/8
Dr. Song Quan Qi	8/8
Mr. Chan Nap Tuck	8/8

(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, and 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.

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)*
Professor 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).

Meeting Record

The audit committee met 4 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 2007:

Committee member	Attendance at meetings held in the year ended 31 December 2007
Dr. Song Quan Qi	4/4
Professor 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
Professor 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).

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 2007, there was one meeting held. The following was an attendance record of the remuneration committee meeting for the year ended 31 December 2007:

Committee member	**Attendance at meeting held in the year ended 31 December 2007**
Mr. Li He Ping	1/1
Dr. Song Quan Qi	1/1
Professor 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.

For the year ended 31 December 2007, there was no meeting held.

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

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 2007, Martin C.K. Pong & Company, Certified Public Accountants and Beijing Xinghua Certified Public Accountants, the external auditors provided the following services to the Company:–

	Martin C.K. Pong & Company
Annual audit services	HK$900,000
Other services	HK$380,000

	Beijing Xinghua
Annual audit services	RMB400,000

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 2007, 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 2007, the following shareholder meetings were held by the Company:–

Date	Venue	Type of Meeting	Particulars	Way of voting at the Meeting
8 June 2007	No. 10 South Dongfeng Road, Sanmenxia City, Henan Province, The PRC.	Annual General Meeting	1. To consider and approve the report of the Board for 2006; 2. To consider and approve the report of the supervisory committee of the Company for 2006; 3. To consider and approve the audited financial statements and the auditors' report for 2006; 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; 5. To consider and approve the re-election of directors and supervisors; 6. To authorize the Board to determine the remunerations of the directors and supervisors of the Company; and 7. To consider and approve to enter into service agreements with director and supervisors	By show of hands

Date	Venue	Type of Meeting	Particulars	Way of voting at the Meeting
3 January 2008	No. 10 South Dongfeng Road, Sanmenxia City, Henan Province, The PRC.	Extraordinary General Meeting	1. To approve the subscription agreement by Tianrui Group; 2. To approve the preliminary placing agreement by Baron Capital Limited; 3. To approve to allot and issue the new domestic shares and the new H shares; and 4. To approve the proposed amendments to the Article of Association.	By poll

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. 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 2007 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
18 March 2008

Report of the Auditors

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
SANMENXIA TIANYUAN ALUMINUM COMPANY LIMITED
(incorporated in the People's Republic of China with limited liability)

We have audited the financial statements of Sanmenxia Tianyuan Aluminum Company Limited (the "Company") set out on pages 40 to 79 which comprise the balance sheet as at 31 December 2007, 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.

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 2007 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 Voeux Road Central
Central, Hong Kong

Hong Kong, 18 March 2008

Balance Sheet

As at 31 December 2007

	Note	As at 31 December 2007 RMB'000	2006 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	8	**433,821**	480,003
Debenture, at cost		**500**	500
Deferred tax assets	22(b)	**10,735**	–
		445,056	480,503
Current assets			
Inventories	9	**120,708**	77,955
Trade receivables	10	**90,273**	100,495
Other current assets	11	**375,526**	168,779
Cash and cash equivalents	12		
– Pledged and restricted bank balances		**562,192**	293,493
– Cash at banks and on hand		**273,377**	171,894
		1,422,076	812,616
Current liabilities			
Trade payables	13	**170,023**	158,409
Other payables and accruals	14	**532,814**	165,369
Income tax payable		**7,540**	5,742
Bank borrowings	15	**840,326**	746,380
		1,550,703	1,075,900
Net current liabilities		**(128,627)**	(263,284)
Net assets		**316,429**	217,219
EQUITY			
Share capital	16	**116,820**	116,820
Reserves		**199,609**	100,399
		316,429	217,219

The notes on pages 44 to 79 are an integral part of these financial statements

Income Statement

For the year ended 31 December 2007

	Note	Year ended 31 December 2007 RMB'000	2006 RMB'000
Turnover	7	**1,664,872**	1,674,433
Cost of goods sold		**(1,389,869)**	(1,481,362)
Gross profit		**275,003**	193,071
Other gains – net	7	**26,358**	14,603
Selling and distribution costs		**(48,120)**	(21,332)
Administrative expenses		**(69,394)**	(53,722)
Operating profit		**183,847**	132,620
Finance costs	21	**(51,073)**	(40,695)
Profit before income tax	18	**132,774**	91,925
Income tax expense	22	**(33,564)**	(5,742)
Profit for the year and attributable to shareholders		**99,210**	86,183
Earnings per share (expressed in RMB) basic and diluted	23	**0.08**	0.07
Dividends	25	**–**	–

The notes on pages 44 to 79 are an integral part of these financial statements

Statement of Changes in Equity

For the year ended 31 December 2007

	Attributable to shareholders of the Company					
	Share capital	**Capital reserve**	**Statutory surplus reserve**	**Statutory public welfare fund**	**(Accumulated losses)/ retained earnings**	**Total**
		(Note 17(a))	*(Note 17(b))*	*(Note 17(c))*		
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2006	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)	–
Balance at 31 December 2006	116,820	62,099	27,436	–	10,864	217,219
Balance at 1 January 2007	116,820	62,099	27,436	–	10,864	217,219
Profit for the year	–	–	–	–	99,210	99,210
Transfer from retained earnings to statutory surplus reserve	–	–	6,530	–	(6,530)	–
Balance at 31 December 2007	116,820	62,099	33,966	–	103,544	316,429

The notes on pages 44 to 79 are an integral part of these financial statements

Cash Flow Statement

For the year ended 31 December 2007

	Note	Year ended 31 December 2007 RMB'000	2006 RMB'000
Cash flows from operating activities			
Net cash generated from operations	24	**388,002**	71,492
Interest paid		**(49,718)**	(40,390)
Income tax paid		**(42,501)**	–
Net cash generated from operating activities		**295,783**	31,102
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**189**	140
Interest received		**16,447**	7,514
Purchase of property, plant and equipment		**(11,138)**	(124,914)
Repayment to parent company		**–**	(737)
Advance from parent company		**–**	148
Net cash generated from/(used in) investing activities		**5,498**	(117,849)
Cash flows from financing activities			
Increase in pledged cash and restricted bank balances		**(268,699)**	(25,953)
Proceeds from bank borrowings		**1,436,692**	881,650
Repayments of bank borrowings		**(1,342,746)**	(773,362)
Net cash (used in)/generated from financing activities		**(174,753)**	82,335
Net increase/(decrease) in cash and cash equivalents		**126,528**	(4,412)
Cash and cash equivalents at beginning of the year		**171,894**	179,649
Effect of foreign exchange rate changes, net		**(25,045)**	(3,343)
Cash and cash equivalents at end of the year	12	**273,377**	171,894

The notes on pages 44 to 79 are an integral part of these financial statements

Notes to Financial Statements

1. GENERAL INFORMATION

Sanmenxia Tianyuan Aluminum Company Limited (the "Company") is principally engaged in production and distribution of aluminum ingots and alloy aluminum 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 ("RMB"), unless otherwise stated, which is the functional currency of the Company.

These financial statements for the year ended 31 December 2007 have been approved and authorised for issue by the Board of Directors on 18 March 2008.

At 31 December 2007, the Company's immediate parent company and ultimate parent company is Tianrui Group Company Limited.

2. STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclose provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of Stock Exchange of Hong Kong Limited.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The financial statements have been prepared on the historical cost 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 6.

3.2 Initial application of new/revised HKFRS

During the year, the Company has applied, for the first time, a number of new and revised HKFRS, which are effective for the current year's financial statements.

These include the following:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7 and HKAS 1 Amendment , there have been some additional disclosures provided as follows:

As a result of adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Company's financial instruments and the nature and extent of risks arising from those instruments, compared with information previously applied to be disclosed by HKAS 32 "Financial Instruments: Disclosure and Presentation". These disclosures are provided throughout these financial statements in particular in note 5.

The HKAS 1 Amendment introduces additional disclosure requirements to provide information about the level of capital and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 4.

Both HKFRS 7 and HKAS 1 Amendment do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Company has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.3 HKFRS in issue but not yet effective

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been adopted in these financial statements.

HKFRS 8	Operation Segments [(a)]
HKAS 23 (Revised)	Borrowing Costs [(a)]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions [(b)]
HK(IFRIC)-Int 12	Service Concession Arrangements [(d)]
HK(IFRIC)-Int 13	Customer Loyalty Programmes [(c)]
HK(IFRIC)-Int 14	HKAS 19 –The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction [(d)]

(a) Effective for annual periods beginning on or after 1 January 2009
(b) Effective for annual periods beginning on or after 1 March 2007
(c) Effective for annual periods beginning on or after 1 July 2008
(d) Effective for annual periods beginning on or after 1 January 2008

The Company is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's result of operations and financial position.

In addition, HKFRS 8 may result in new or amended disclosures in the financial statements.

3.4 Revenue recognition

Revenue is recognised 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 recognised on a time-proportion basis using the effective interest method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.5 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 aluminum related products including aluminum ingots and alloy aluminum ingots, which is considered as a single business segment. The geographical segment reporting is set out in note 7.2 below.

3.6 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 depreciated at rates sufficient to write off the cost to the estimated residual value over their estimated useful lives to the Company 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 income statement. Improvements are capitalised and depreciated over their expected useful lives to the Company.

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 3.7).

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 recognised in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.6 Property, plant and equipment *(Continued)*

(b) 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 capitalised finance costs related to funds borrowed specifically for the purpose of obtaining a qualifying asset less any accumulated impairment losses.

Capitalisation 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.

3.7 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 recognised 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 recognised for the asset in prior years. A reversal of an impairment loss is recognised 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.

3.8 Inventories

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

3.9 Trade and other receivables

Trade and other receivables are recognised 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".

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.10 Cash and cash equivalents

Cash and cash equivalents are short-term, high liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value.

3.11 Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting is immaterial, in which case they are stated at cost.

3.12 Provisions

Provisions are recognised 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.

3.13 Borrowings

Borrowings are recognised 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 recognised 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.

3.14 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.

3.15 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 recognised 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.16 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 recognised in the income statement.

3.17 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Borrowing costs capitalised 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.

3.18 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 tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.19 Employee benefits

(a) *Profit sharing and bonus plans*

The expected cost of profit sharing and bonus payments are recognised 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 organised 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 organisation, corresponding expenses are expensed or included in the cost of sales for the current year.

3.20 Government grants

Government grants are recognised 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 recognised in the same period as those expenses are charged in the income statement and are deducted in reporting the related expense.

3.21 Futures contracts

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

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

3.22 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are proposed by the Company's directors.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.23 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 recognised 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 contact at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets;" and (ii) the amount initially recognised less, when appropriate, cumulative amortization recognised in accordance with HKAS 18 "Revenue".

3.24 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 recognised 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 recognised 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 recognised as a provision.

3.25 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.

4. EQUITY CAPITAL MANAGEMENT

Equity capital comprises of share capital and reserves as stated in the balance sheet. The Company's objective when managing, which was unchanged from previous periods equity capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders.

The Company manages equity capital by regularly monitoring its current and expected liquidity requirements rather than using debt/equity ratio analysis. The objectives and policies were unchanged from previous periods. In order to meet the expected liquidity requirement owing to significant capital commitments as stated in note 27(a), the Company entered into a Subscription Agreement with the parent company and a Preliminary Placing Agreement with a Placing Agent on 24 October 2007. Under the Subscription Agreement, 625,000,000 of domestic shares are proposed to be issued to the parent company at RMB0.8 per share. Under the Placing Agreement, 875,000,000 shares are proposed to be placed on a best effort basis at RMB 0.8 per share and the Placing agent is entitled to receive a commission of 5% of the gross proceeds under the Placing. The special resolutions for the proposed subscription of domestic shares under the Subscription Agreement and proposed placing of H shares under the Placing Agreement have been passed by independent shareholders at extraordinary general meeting and the class meetings respectively on 3 January 2008. It is expected that the completion of the subscription of domestic shares and placing of H shares will take place upon consents and approval by the relevant PRC regulatory authorities in the second quarter of 2008.

The Company is not subject to either internally or externally imposed capital requirements.

5. FINANCIAL RISK MANAGEMENT

Exposure to foreign currency, interest rate, credit and liquidity risks arise in the normal course of the Company's business. These risks are limited by the Company's financial management policies and practices as described below.

(a) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

As the Company considered that its exposure to foreign currency risk is not significant, it had not entered into any currency forward contracts.

5. FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Foreign currency risk *(Continued)*

Carrying amounts of financial assets and financial liabilities as at 31 December 2007 that exposed to foreign currency risk were as follows:

	2007 RMB'000	2006 RMB'000
Financial assets denominated in foreign currencies:		
Cash at banks and on hand	**393,220**	104,694
Trade receivables	**21,950**	24,548
	415,170	129,242
Financial liabilities denominated in foreign currencies:		
Trade and other payables	**380,395**	22,282
Net financial assets exposed to foreign currency risks	**34,775**	106,960
The financial assets were denominated in the following foreign currencies:		
US dollars	**408,708**	52,651
HK dollars	**6,462**	76,591
	415,170	129,242
The financial liabilities were denominated in the following foreign currencies:		
US dollars	**379,443**	21,476
HK dollars	**952**	806
	380,395	22,282

Should Renminbi at 31 December 2007 devalue by 10% against all the foreign currencies, the net carrying amount of financial assets and financial liabilities exposed to foreign currency risk at 31 December 2007 determined in accordance with HKAS 21 "The Effects of Changes in Foreign Exchange Rates", and hence the equity at 31 December 2007, would be increased by RMB3,478,000 (2006: RMB10,696,000); and the profit for the year ended 31 December 2007 would be increased by a net amount of RMB3,478,000 (2006: RMB10,696,000).

5. FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company manages interest rate risk by obtaining fixed interest bank borrowings renewable on quarterly, semi-annually or annually basis.

Carrying amounts of financial assets and financial liabilities as at 31 December 2007 that exposed to interest rate risk were as follows:

	2007	2006
	RMB'000	*RMB'000*
Financial assets earning variable interests:		
Deposits with banks and financial institutions	**835,569**	465,387
Deposit with Shanghai Futures Exchange	**12,777**	2,993
	848,346	468,380
Financial liabilities bearing fixed interests:		
Bank borrowings	**840,326**	746,380
Net carrying amount of financial assets and financial liabilities exposed to interest rate risk	**8,020**	(278,000)

The carrying amounts of financial liabilities measured at amortised cost and the carrying amounts of financial assets bearing variable interests measured at fair value would not be affected by the assumed change in market interest rates.

(c) Credit risk

Credit risk is the risk that a party to a financial instrument will cause a financial loss for the Company by failing to discharge an obligation.

The Company manages credit risks by setting up credit control policy and periodic evaluation of credit performance of the other parties, measured by the extent of past due or default.

5. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Credit risk *(Continued)*

Carrying amounts of financial assets as at 31 December 2007, which represented the amounts of maximum exposure to credit risk, were as follows:

	2007 *RMB'000*	2006 *RMB'000*
Cash and cash equivalents	**835,569**	465,387
Trade receivables	**90,273**	100,495
Deposits and other receivables *(note 11)*	**375,526**	168,194
Debenture	**500**	500

Except for the financial assets with carrying amount of RMB42,200,000 (2006: RMB42,934,000) which were either past due or impaired, the management are satisfied with the credit quality of finance assets.

Analysis of trade receivables that were past due as at 31 December 2007 but not impaired:

	2007 *RMB'000*	2006 *RMB'000*
Neither past due nor impaired	**90,273**	98,925
Past due but not impaired	**–**	1,570
Impaired	**42,200**	41,364
	132,473	141,859

Except for trade receivables whose recovery were considered remote and impairment of which were considered remote and impairment of which were written off directly from the carrying amount, an allowance for impairment of past due trade receivables was maintained.

Movements of the allowance during the year were as follows:

	2007 *RMB'000*	2006 *RMB'000*
At 1 January	**41,364**	42,646
Impairment loss/(written back) for the year	**836**	(1,282)
At 31 December	**42,200**	41,364

5. FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

The Company manages liquidity risk by monitoring its liquidity position through periodic preparation of cash flows and cash balances forecasts and periodic evaluation of the ability of Company to meet its financial obligations by monitoring its current and expected liquidity requirements.

	2007	2006
	RMB'000	*RMB'000*
Total amounts of contractual undiscounted obligations:		
Bank borrowings	**840,326**	746,380
Income tax payable	**7,540**	5,742
Trade other payables and accruals	**702,837**	323,778
	1,550,703	1,075,900
Due for payment		
Not later than one year	**1,550,703**	1,075,900

(e) 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 carrying amounts of the Company's financial assets and financial liabilities, other than debenture and bank borrowings, approximate their fair values owing to short-term maturity of these instruments.

The carrying amounts of bank borrowings also approximate their fair values because the applicable interest rates approximate current market rates.

6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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, plant and equipment

Property, plant and equipment of RMB433,821,000 (2006: RMB480,003,000) at 31 December 2007 are stated at cost less accumulated depreciation and impairment losses. The Company's management determines their estimated useful lives. 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 recognised for the amount by which the carrying amount exceeds its recoverable amount in accordance with the accounting policy stated in Note 3.7. 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

Trade receivables of RMB90,273,000 (2006: RMB100,495,000) at 31 December 2007 are carried at amortised cost less allowance for impairment. The Company's management determines the provision for impairment. 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.

7. TURNOVER, REVENUE AND SEGMENT INFORMATION

7.1 Turnover and revenue

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

	2007 RMB'000	2006 RMB'000
Turnover		
Sales of goods, net of valued-add tax	**1,664,872**	1,674,433
Other revenue		
Sales of scrap and other materials	**16,857**	5,780
Supply of electricity, heat and water	**2,172**	3,401
Realised gain on futures contracts	**2,954**	743
Interest income from bank deposits	**16,447**	7,514
Total other revenue	**38,430**	17,438
Expenses related to other revenue *(Note (a))*	**(15,511)**	(5,899)
	22,919	11,539
Government subsidies	**1,520**	1,640
Others	**1,919**	1,424
Other gains, net	**26,358**	14,603

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.

7. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

7.2 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 aluminum related products including aluminum ingots and alloy aluminum 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:

	2007	2006
	RMB'000	*RMB'000*
The PRC	**1,448,238**	1,382,864
Republic of Korea	**110,494**	86,969
The United Kingdom	**73,307**	57,440
Hong Kong	**32,833**	147,160
	1,664,872	1,674,433

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.

8. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress *RMB'000*	Buildings *RMB'000*	Plant and machinery *RMB'000*	Motor Vehicles and transportation facilities *RMB'000*	Office and other equipment *RMB'000*	Total *RMB'000*
At 1 January 2006						
Cost	13,256	105,010	234,792	8,895	51,963	413,916
Accumulated depreciation	–	(11,800)	(66,106)	(1,916)	(12,945)	(92,767)
Accumulated impairment losses	–	–	(855)	–	–	(855)
Net book amount	13,256	93,210	167,831	6,979	39,018	320,294
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	410,617	8,903	66,955	604,482
Accumulated depreciation	–	(15,177)	(89,663)	(2,158)	(16,794)	(123,792)
Accumulated impairment losses	–	–	(687)	–	–	(687)
Net book amount	12,548	90,282	320,267	6,745	50,161	480,003
Year ended 31 December 2007						
Opening net book amount	12,548	90,282	320,267	6,745	50,161	480,003
Additions	1,507	5,848	210	1,007	2,566	11,138
Transfer	(512)	512	–	–	–	–
Disposals	–	(749)	(945)	(107)	(254)	(2,055)
Impairment loss *(note (b))*	(11,342)	–	–	–	–	(11,342)
Depreciation	–	(3,437)	(34,491)	(933)	(5,062)	(43,923)
Closing net book amount	2,201	92,456	285,041	6,712	47,411	433,821
At 31 December 2007						
Cost	13,543	110,825	408,651	9,403	69,046	611,468
Accumulated depreciation	–	(18,369)	(123,397)	(2,691)	(21,635)	(166,092)
Accumulated impairment losses	(11,342)	–	(213)	–	–	(11,555)
Net book amount	2,201	92,456	285,041	6,712	47,411	433,821

8. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) Depreciation expenses of RMB42,582,000 (2006: RMB32,467,000) has been expensed in cost of goods sold, and of RMB1,341,000 (2006: RMB1,249,000) in administrative expenses.

(b) During the year 31 December 2007, as certain plant and machinery under construction were badly damaged in the testing stage, full provision of impairment loss of RMB11,342,000 was made in these financial statements.

(c) As at 31 December 2007, the Company's bank borrowings were secured by certain plant and machinery with carrying amount of RMB61,213,000 (2006: RMB173,778,000).

9. INVENTORIES

	2007	2006
	RMB'000	*RMB'000*
Raw materials	**40,732**	21,805
Work in progress	**44,436**	36,056
Finished goods	**35,540**	20,094
	120,708	77,955

The cost of inventories recognised as expenses and included in cost of goods sold amounted to RMB974,364,000 (2006: RMB1,105,497,000).

The Company has reversed the provision for impairment of inventories of RMB610,000 (2006: RMB249,000) for its raw materials. The reversal of provision has been included in cost of goods sold in the income statement.

10. TRADE RECEIVABLES

	2007 RMB'000	2006 RMB'000
Trade receivables *(Note (a))*	**132,473**	64,639
Less: Provision for impairment of receivables	**(42,200)**	(2,876)
	90,273	61,763
Trade receivables from related parties *(Note 28)*	**–**	48,620
Provision for impairment of receivables from related parties *(Note 28)*	**–**	(38,488)
	–	10,132
	90,273	71,895
Bills receivable *(Note (b))*	**–**	28,600
	90,273	100,495

As of 31 December 2007, the aging analysis of trade receivables, net, was as follow:

	2007 RMB'000	2006 RMB'000
1-30 days	**46,859**	51,888
31-60 days	**3**	8,607
61-90 days	**1**	136
91-120 days	**1**	225
121-365 days	**34,312**	1,038
Over 365 days *(Note (c))*	**9,097**	10,001
	90,273	71,895

10. TRADE RECEIVABLES *(Continued)*

Notes:

(a) 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.

The Company has made the provision for impairment of its trade receivables during the year ended 31 December 2007 of RMB836,000 (2006: Reversal of 1,282,000).

(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.

11. OTHER CURRENT ASSETS

	2007	2006
	RMB'000	*RMB'000*
Futures deposits	**13,075**	2,993
Prepaid operating expenses	**–**	585
Purchase deposits to third parties	**344,776**	110,711
Purchase deposits to related parties *(Note 28)*	**2,844**	43,598
Security deposit paid to customer	**9,300**	5,000
Other deposits and receivables	**5,531**	5,892
	375,526	168,779

12. CASH AND CASH EQUIVALENTS

	2007	2006
	RMB'000	*RMB'000*
Pledged and restricted bank balances	**562,192**	293,493
Cash at banks and on hand	**273,377**	171,894
	835,569	465,387

12. CASH AND CASH EQUIVALENTS *(Continued)*

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 2007, the cash and bank balances in Renminbi, Hong Kong dollars and United States dollars were RMB442,349,000, RMB6,462,000 and RMB386,758,000 (2006: RMB360,693,000, RMB76,591,000 and RMB28,103,000) respectively.

As at 31 December 2007, the Company's bank borrowings and bills payable were secured by bank deposits of RMB396,425,000 and RMB104,269,000 (2006: RMB198,100,000 and RMB74,093,000) respectively.

13. TRADE PAYABLES

	2007	2006
	RMB'000	*RMB'000*
Trade payables *(Note (a))*	**25,643**	19,884
Payables to related parties *(Note (a), Note 28)*	**–**	35,325
	25,643	55,209
Bills payables *(Note (b))*	**144,380**	103,200
	170,023	158,409

Notes:

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

	2007	2006
	RMB'000	*RMB'000*
1-60 days	**19,610**	46,499
61-90 days	**1,035**	1,441
91-120 days	**766**	912
121-365 days	**1,409**	3,473
Over 1 year	**2,823**	2,884
	25,643	55,209

(b) Bills payable are repayable within six months and are supported by pledged bank deposits of RMB104,269,000 (2006: RMB74,093,000) and by guarantees from third parties and related companies.

14. OTHER PAYABLES AND ACCRUALS

	2007	2006
	RMB'000	*RMB'000*
Receipts in advance from customers	**480,665**	95,773
Payables to the National Social Security Fund *(Note (a))*	**7,289**	7,289
Staff welfare payables	**20,144**	25,578
Accrued construction costs	**3,023**	3,796
Others	**21,693**	32,933
	532,814	165,369

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 Aluminum Group Limited, the former parent company, should be remitted to the National Social Security Fund. As at 31 December 2007, such proceeds were kept by the Company pending to be remitted on behalf of the former parent company.

15. BANK BORROWINGS

	2007	2006
	RMB'000	*RMB'000*
Bank loans	**840,326**	746,380
Secured	**840,326**	677,130
Unsecured	**–**	69,250
	840,326	746,380
Carrying amount repayable:		
On demand or within one year	**840,326**	746,380
Less: Amounts due within one year shown under current liabilities	**(840,326)**	(746,380)
	–	–

The bank loans were secured by the Company's plant and machinery with carrying value of RMB 61,213,000 (2006: RMB173,778,000), bank deposits of RMB396,425,000 (2006: RMB198,100,000) and financial guarantees provided by related parties and third parties. The effective interest rate during the year was 6.98% (2006: 6.40%) per annum.

16. SHARE CAPITAL

	Registered, issued and fully paid					
	Domestic shares of RMB0.10 each		**H shares of RMB0.10 each**		**Total**	
	No. of shares	*RMB'000*	*No. of shares*	*RMB'000*	*No. of shares*	*RMB'000*
At 31 December 2006	818,180,000	81,818	350,020,000	35,002	1,168,200,000	116,820
At 31 December 2007	818,180,000	81,818	350,020,000	35,002	1,168,200,000	116,820

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.

17. RESERVES

(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, RMB6,530,000 was transferred from retained earnings 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.

18. PROFIT BEFORE INCOME TAX

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

	2007	2006
	RMB'000	*RMB'000*
Cost of materials and consumables sold *(Note 9)*	**974,364**	1,105,497
Staff costs *(Note 19)*	**61,931**	63,190
Depreciation on property, plant and equipment *(Note 8)*	**43,923**	33,716
Loss on disposal of property, plant and equipment, net	**1,866**	2,682
Operating lease rental in respect of		
– Plant and machinery *(Note 28)*	**–**	6,826
– Land and buildings *(Note 28)*	**–**	696
Auditors' remuneration – audit services	**1,293**	1,407
Reversal of impairment of inventories *(Note 9)*	**(610)**	(249)
Provision for/(reversal of) impairment of property, plant and equipment	**11,342**	(167)
Provision for/(reversal of) impairment of trade and other receivables, net	**539**	(967)
Bad debts written off	**18**	–
Net foreign exchange loss	**4,874**	2,888

19. STAFF COSTS

	2007	2006
	RMB'000	*RMB'000*
Wages and salaries	**47,127**	46,809
Pension costs – defined contribution plans *(Note a)*	**8,010**	5,983
Housing benefits	**1,951**	1,613
Staff welfare	**4,843**	8,785
	61,931	63,190

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 2007, the Company had outstanding payable to the retirement scheme amounting to approximately RMB1,261,000 (2006: RMB4,645,000), which was included in other payables and accruals.

20. 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:

	2007	2006
	RMB'000	*RMB'000*
Fees	**320**	320
Basic salaries and bonus	**183**	189
Other benefits	**9**	6
Contribution to pension scheme	**24**	20
	536	535

The remuneration of each director for the year ended 31 December 2007 is set out below:

Name of Director	**Fees**	**Salary**	**Others benefits**	**Employer's contribution to pension scheme**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Mr. Tan Yu Zhong	–	61	3	8	72
Mr. Xiao Chong Xin	–	61	3	8	72
Mr. Zhao Zheng Bin	–	61	3	8	72
Non-executive directors					
Mr. Li He Ping	–	–	–	–	–
Mr. Li Liu Fa	–	–	–	–	–
Mr. Yan Li Qi	–	–	–	–	–
Independent and non-executive directors					
Dr. Song Quan Qi	100	–	–	–	100
Professor Zhu Xiao Ping	100	–	–	–	100
Mr. Chan Lap Tuck	120	–	–	–	120

20. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

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

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

Notes:

(a) The emoluments of Directors and senior management fell within the band of Nil to RMB1,000,000.

During the year, no directors waived any emoluments (2006: Nil).

20. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Company for the year include 4 (2006: 5) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one individual in 2007 is as follows:

	2007	2006
	RMB'000	*RMB'000*
Basic salaries	**66**	–
Contributions to the retirement scheme	**7**	–
Contributions to other statutory welfare funds	**3**	–
	76	–

21. FINANCE COSTS

	2007	2006
	RMB'000	*RMB'000*
Interest expense on bank borrowings	**51,073**	40,695

22. INCOME TAX EXPENSE

	2007	2006
	RMB'000	*RMB'000*
Current income tax	**44,299**	5,742
Deferred tax *(note (b))*	**(10,735)**	–
	33,564	5,742

22. INCOME TAX EXPENSE *(Continued)*

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

	2007	2006
	RMB'000	*RMB'000*
Profit before income tax	**132,774**	91,925
Tax calculated at a tax rate of 33%	**43,815**	30,335
Expenses not deductible for tax purposes	**3,207**	5,206
Income not subject to tax	**(3,896)**	–
Under-provision of current tax for previous year	**1,353**	–
Deferred tax assets not recognised in previous year and recognised in this year	**(10,915)**	–
Tax losses not recognised in previous year and utilised in this year	**–**	(29,343)
Other temporary differences with no deferred tax recognised	**–**	(456)
Income tax expense	**33,564**	5,742

The charge for income tax calculated at the rate of 33% (2006: 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) The following is the components of deferred tax assets recognised by the Company and movements thereon during the year:

	Provision for doubtful trade and other receivables	**Provision for obsolete inventories**	**Impairment loss of property, plant and equipment**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007	–	–	–	–
Credit/(charge) to income statement *(note (a))*				
– Deferred tax assets not recognised in previous year and recognised in this year	10,445	260	210	10,915
– Charge for the year	178	(201)	(157)	(180)
	10,623	59	53	10,735
At 31 December 2007	10,623	59	53	10,735

22. INCOME TAX EXPENSE *(Continued)*

(c) The components of unrecognised deductible temporary differences are as follows:

	2007	2006
	RMB'000	*RMB'000*
Provision for doubtful trade and other receivables	**–**	41,951
Provision for obsolete inventories	**–**	844
Impairment loss of property, plant and equipment	**–**	687
	–	43,482

(i) At 31 December 2006, deductible temporary differences have not been recognised owing to the absence of objective evidence in respect of the availability of sufficient taxable profits that are expected to arise to offset against the deductible temporary differences.

(ii) Apart from the above, pursuant to the relevant PRC income tax rule 「技術改造國產設備投資抵免企業所得税暫行辦法」, the Company is entitled to a special tax concession equivalent to 40% of the qualifying capital expenditure as defined under the relevant PRC income tax rule. At 31 December 2007 and 2006, tax concession in an amount of approximately RMB2,838,000 has not been recognised owing to the fact that the Company is not likely to incur such qualifying capital expenditure before the expiry date in the year 2008.

23. EARNINGS PER SHARE

(a) Basic

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

	2007	2006
	RMB'000	*RMB'000*
Profit attributable to shareholders of the Company	**99,210**	86,183
Weighted average number of ordinary shares in issue (in thousand shares)	**1,168,200**	1,168,200
Basic earnings per share (RMB)	**0.08**	0.07

(b) Diluted

The Company did not have any dilutive potential ordinary shares during 2007 and 2006. As a result, diluted earnings per share equals basic earnings per share.

24. NET CASH GENERATED FROM OPERATIONS

	2007	2006
	RMB'000	*RMB'000*
Profit before income tax	**132,774**	91,925
Adjustments for:		
– Depreciation	**43,923**	33,716
– Loss on disposal of property, plant and equipment included in administrative expenses	**1,866**	2,630
– Loss on disposal of property, plant and equipment included in cost of goods sold	**–**	52
– Reversal of impairment of receivables	**(539)**	(967)
– Reversal of impairment of inventories	**(610)**	(249)
– Provision for/(reversal of) impairment of property, plant and equipment	**11,342**	(167)
– Unrealized foreign exchange loss	**25,045**	3,343
– Interest income	**(16,447)**	(7,514)
– Interest expense	**51,073**	40,695
Operating profit before working capital change	**248,427**	163,464
(Increase)/decrease in inventories	**(42,143)**	38,418
Increase in trade and other receivables	**(195,986)**	(41,973)
Increase/(decrease) in trade and other payables	**377,704**	(88,417)
Net cash generated from operations	**388,002**	71,492

25. DIVIDENDS

	2007	2006
	RMB'000	*RMB'000*
Proposed final dividend	**–**	–

The directors do not propose any dividend for the year ended 31 December 2007 (2006: Nil).

26. CONTINGENT LIABILITIES

As at 31 December 2007, the Company issued guarantees to third parties to secure banking facilities to the extent of RMB90,000,000 (2006: RMB18,500,000). The amounts of banking facilities utilised by the third parties are as follows:

	2007	2006
	RMB'000	*RMB'000*
Independent third parties	**–**	–
Other state-controlled enterprises	**–**	17,500
	–	17,500

27. COMMITMENTS

(a) Capital commitments

Capital commitments at the balance sheet date but not yet recorded are as follows:

	2007	2006
	RMB'000	*RMB'000*
Property, plant and equipment		
Contracted but not provided for	**417,388**	196,352
Authorised but not contracted for	**–**	–
	417,388	196,352

Included within is a contract between the Company and its former parent company, Sanmenxia Tianyuan Group Limited, whereby the Company would acquire the properties and land use rights currently leased from the former 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 former related company of RMB10,000,000 to the former 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 former parent company of totally RMB51,888,000.

27. COMMITMENTS (Continued)

(b) Operating lease commitments

As at 31 December 2007, 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:

	2007	2006
	RMB'000	*RMB'000*
Land use rights		
Not later than 1 year	–	668
Later than 1 year and not later than 5 years	–	2,671
Later than 5 years	–	21,701
	–	25,040

28. RELATED-PARTY TRANSACTIONS

Sanmenxia Tianyuan Aluminum Group Limited (owned by PRC government) sold all its shares in the Company to Tianrui Group Company Limited on 30 April 2007. Thereafter, state-controlled enterprises, Sanmenxia Tianyuan Aluminum Group Limited and other members of the group under Sanmenxia Tianyuan Aluminum Group Limited are not regarded as related parties.

28. 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 2007 are as follows:

	Notes	**2007** **RMB'000**	2006 RMB'000
Transactions –			
Sales of materials and finished goods to	*(a)*		
– parent company		**–**	12,703
– other state-controlled enterprises		**73,011**	233,439
Purchases of key and auxiliary materials from	*(b)*		
– shareholder of the Company		**10,729**	17,324
– other state-controlled enterprises		**79,252**	351,239
Provision of utility services to			
– parent company		**–**	7
– fellow subsidiaries		**–**	3
Provision of utility services by			
– a state-controlled enterprise	*(c)*	**178,013**	492,542
Operating lease rentals charged by the parent company in respect of			
– plant and machinery		**–**	6,826
– land and buildings		**–**	696
Disposals of fixed assets to			
– a state-controlled enterprise		**–**	381
Purchase of property, plant and equipment from			
– parent company		**–**	194,695
Interest income from			
– state-controlled banks and companies		**2,502**	7,514
Interest expenses to state-controlled banks		**15,886**	40,695

28. RELATED-PARTY TRANSACTIONS *(Continued)*

	Notes	**2007** **RMB'000**	2006 RMB'000
Transactions *(Continued)* –			
Balances –			
Bank deposits balances			
– state-controlled banks		**–**	465,387
Receivables from related parties *(Note 10)*			
– fellow subsidiaries		**–**	16
– associate of the parent company		**–**	48,604
		–	48,620
Less: Provision for impairment of receivable		**–**	(38,488)
		–	10,132
Purchase deposits *(Note 11)*			
– shareholders of the Company		**2,844**	946
– other state-controlled enterprises		**–**	42,652
		2,844	43,598
Payables to related parties *(Note 13)*			
– parent company		**–**	7,707
– other related companies		**–**	47
– other state-controlled enterprises		**–**	27,571
		–	35,325
Borrowings *(Note 15)*			
– state-controlled banks *(Note 15)*		**–**	746,380

28. RELATED-PARTY TRANSACTIONS *(Continued)*

(a) Materials and finished goods sold to other state-controlled enterprises during the year were made at terms in accordance with the underlying agreements.

(b) Key and auxiliary materials purchased from a shareholder and other stated-controlled enterprises were made at terms in accordance with the underlying agreements.

(c) 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.

29. SUBSEQUENT EVENTS

On 3 January 2008, the special resolutions for the proposed subscription of domestic shares and proposal placing of H shares have been passed by independent shareholders at extraordinary general meeting and class meetings (see note 4 for more details).