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 2008

*For identification only

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

NON-EXECUTIVE DIRECTORS
Mr. YAN Li Qi

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

AUTHORISED REPRESENTATIVES
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Mr. YAO Yan Ping

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AUDITORS

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Financial Highlights

	For the year ended 31 December				
Profit and loss account	**2008 RMB'000**	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000
Turnover	**1,429,619**	1,664,872	1,674,433	1,326,256	1,416,839
Cost of goods sold	**(1,359,858)**	(1,389,869)	(1,481,362)	(1,343,019)	(1,315,781)
Gross profit/(loss)	**69,761**	275,003	193,071	(16,763)	101,058
Other revenue	**64,779**	41,869	20,502	12,332	33,966
Expenses related to other revenue	**(19,462)**	(15,511)	(5,899)	(7,828)	(25,238)
Other revenue, net	**45,317**	26,358	14,603	4,504	8,728
Selling and distribution expenses	**(44,857)**	(48,120)	(21,332)	(22,659)	(19,851)
General and administrative expenses	**(41,967)**	(69,394)	(53,722)	(83,980)	(30,808)
Operating profit/(loss)	**28,254**	183,847	132,620	(118,898)	59,127
Finance costs	**(62,822)**	(51,073)	(40,695)	(40,048)	(24,888)
(Loss)/profit before income tax	**(34,568)**	132,774	91,925	(158,946)	34,239
Income tax	**4,677**	(33,564)	(5,742)	(5,260)	(11,490)
(Loss)/profit after income tax	**(29,891)**	99,210	86,183	(164,206)	22,749
(Loss)/profit attributable to shareholders	**(29,891)**	99,210	86,183	(164,206)	22,749
Dividend	**–**	–	–	–	11,682
(Loss)/earnings per share	**RMB(0.03)**	RMB0.08	RMB0.07	(RMB0.14)	(RMB0.023)

Assets and liabilities	**As at 31 December 2008 RMB'000**	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	**1,901,600**	1,867,132	1,293,119	1,168,521	1,162,280
Total liabilities	**1,619,191**	1,550,703	1,075,900	1,037,485	855,356
Net assets	**282,409**	316,429	217,219	131,036	306,924

Chairman's Statement

Dear shareholders,

2008 was a challenging and difficult year for me and Sanmenxia Tianyuan Aluminum Company Limited (the "Company"), and I would like to conclude the road of 2008 by eight words: "full of frustrations, but we never give up".

During the past year, the Company has overcome the adverse effects stemming from snowstorm, earthquake and financial tsunami. We performed our duties based on the overall strategy of "focusing on profitability; emphasizing on capital; adopting development as main strategy; employing management methods; reinforcing cost and expense control measures; further reduce cost and increase efficiency; improving management and staff quality and realizing simultaneous growth of staff and enterprise", and through enhancing management, cost reduction and exploring potential to increase efficiency, to ensure our production operation can be carried on a going concern. I am pleased to present the annual report of the Company for the financial year ended 31 December 2008 and, on behalf of the board of directors of the Company and all the employees, express our sincere gratitude to our shareholders for their dedication and support to the Company.

BUSINESS REVIEW

Turnover and other revenues of the Company for 2008 amounted to RMB1,494,398,000, representing a decrease of RMB212,343,000 from the corresponding period last year. Operating loss was RMB29,891,000 as compared with a profit of approximately RMB99,210,000 for the corresponding period last year. Loss per share was RMB0.03, as compared with that earning per share of RMB0.08 for the corresponding period last year.

The decrease in profit was mainly attributable to: 1. reduction in unit sales price was 12.03% more than the reduction in cost of sales; and 2. decrease in production volume. First, the production volume of aluminum ingot has decreased. Due to the effect of financial crisis, global aluminum ingot price has dropped significantly to below the variable production cost. In order to reduce loss and protect the shareholders' interest to the largest extent, the Company closed down certain production lines which consume more energy and have higher cost in late-December. Second, the production volume of aluminum alloy has decreased. As the increase in price for raw materials used for producing aluminum alloy pushed up the cost, the Company had made adjustment to the production plan of aluminum alloy according to market reality, and has closed the production line of aluminum alloy since August of 2008.

2009 BUSINESS PROSPECT

The global financial crisis will continue to spread and worsen in 2009. The economic recession in major developed countries will further slow down the growth of the global economy. China's economic development is under pressure from both cyclical and structural adjustments.

As the global economic growth slows down, global consumption of aluminum will also be weakened. In the fourth quarter of 2008, the international and domestic production volume had reduced by 8 million tonnes per year, representing approximately 18% of the global alumina production capacity. The impact of the production cut will manifest itself in 2009. A substantial reduction in production will help balance the shrinking of consumption and restore the market to balance in 2009.

2009 will be a challenging and difficult year, full of risks, but also with opportunities. The Company's guiding principles in this difficult time are: "strive to survive, enhance management, identify opportunities and seek development".

Our business direction is to enhance production through exploring new markets, to maintain liquidity through financing, to reduce costs by strict management and to seek development through different kinds of capital activities.

Our overall strategy is: focusing on profitability; emphasizing on capital; adopting development as main strategy; employing management methods; reinforcing cost and expense control measures; further reduce cost and increase efficiency; maintaining normal production while at the same time advancing development in and striving for commencement in production of project.

Our main strategies are:

1. Strengthen internal control, reduce costs, and strive for profit maximization in production.

2. Optimization of external resources, secure existing long-term customers, canvass new customers, operate and raise fund by innovative means, use every effort to maximize resources to provide capital support for the Company to "strive to survive and seek development".

3. Carefully review and take advantage of the government's financial policies to revive and stimulate the economy, and of the platform and opportunities for capital activities. Upgrading the Company's facilities and properly expanding production scale, so as to lay a solid foundation for the Company's future development.

APPRECIATION

Despite the challenges ahead, 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
26 March 2009

Management's Discussion and Analysis of Financial Condition and Results of Operations for the year 2008

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 98,830 tonnes of aluminum re-smelt ingots in 2008, representing a decrease of 0.52%, from 99,347 tonnes for 2007. Production volume of aluminum alloy amounted to 5,682 tonnes in 2008, representing a decrease of 71.71%, from 20,087 tonnes for 2007.

BUSINESS REVIEW

Results of Operations

The Company's loss amounted to approximately RMB29,891,000 for 2008, as compared with the profit of about RMB99,210,000 for 2007.

The decrease in profit from 2007 to a loss in 2008 was primarily due to the decrease in the demand in the market and the selling price.

Turnover

The Company's total turnover amounted to approximately RMB1,429,619,000 in 2008, representing a decrease of 14.13%, from about RMB1,664,872,000 for 2007. The decrease in turnover was mainly due to the decrease in both selling prices and market demand for aluminum ingot and aluminum alloy in 2008. The average selling price of aluminum ingots was 13.73% lower than those in 2007.

During 2008, of the total turnover amount, approximately RMB1,332,472,000 or 93.20% was generated from the sale of aluminum re-smelt ingots, and about RMB97,147,000 or 6.80% was generated from the sale of aluminum alloy.

The sales of aluminum re-smelt ingots amounted to approximately RMB1,332,472,000 in 2008, representing a slight increase of 1.45%, from about RMB1,313,446,000 in 2007.

The sales of aluminum alloy amounted to approximately RMB97,147,000 in 2008, representing a decrease of 72.36%, from about RMB351,426,000 in 2007.

Sales volume of aluminum re-smelt ingots and aluminum alloy amounted to 99,118 tonnes in 2008, representing a slight decrease of 463 tonnes or 0.46%, from 99,581 tonnes in 2007. The average price was RMB14,423 per tonne in 2008, representing a decrease of RMB2,296 per tonnes or 13.73%, from RMB16,719 per tonne in 2007. Of the total sales volume, the sales volume of aluminum re-smelt ingots was 93,324 tonnes in 2008, representing an increase of 14,080 tonnes or 17.77%, from 79,244 tonnes in 2007; the average selling price of aluminum re-smelt ingots amounted to RMB14,278 per tonne for 2008, representing a decrease of RMB2,297 per tonne or 13.86%, from RMB16,575 per tonne in 2007; the sales volume of aluminum alloy was 5,794 tonnes in 2008, representing a decrease of 14,543 tonnes or 71.51%, from 20,337 tonnes in 2007; the average selling price of aluminum alloy amounted to RMB16,766 per tonne in 2008, representing a decrease of RMB514 per tonne or 2.97% from RMB17,280 per tonne in 2007.

Cost of sales

The Company's total cost of sales amounted to approximately RMB1,359,858,000 in 2008, representing a decrease of 2.16%, from about RMB1,389,869,000 in 2007. 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 RMB13,403 per tonne in 2008, representing a decrease of RMB486 per tonne or 3.50% from RMB13,889 per tonne in 2007.

The average selling cost for aluminum alloy was RMB14,585 per tonne, representing a slight increase of RMB362 per tonne or 2.55%, from RMB14,223 per tonne in 2007.

The average purchase price for alumina was RMB2,831 per tonne in 2008, decreased by RMB255 per tonne or 8.3%, from RMB3,086 per tonne in 2007.

Gross profit

The Company's gross profit for the year ended 31 December 2008 was approximately RMB69,761,000 and the gross profit ratio was 4.88%, when compared with approximately RMB275,003,000 and gross profit ratio of 16.52% for 2007. The decrease in 2008 was mainly due to the effect of the decrease in the selling price of the aluminum re-smelt ingots and aluminum alloy ingots is higher than the decrease in cost of major raw material, i.e. alumina. Average market price for aluminum re-smelt ingots and aluminum alloy ingots amounted to RMB14,423 per tonne, representing a decrease of 13.73% from that of the previous year. Cost of sales for aluminum re-smelt ingots and aluminum alloy ingots amounted to RMB13,472 per tonne, representing a decrease of 3.47% from that of the previous year.

Selling and Distribution Expenses

The Company's selling and distribution expenses were approximately RMB44,857,000 or 3.14% of turnover in 2008, decreased by 6.78%, from about RMB48,120,000 or 2.89% of turnover in 2007. The decrease was mainly attributable to the reduction in export trading this year.

General and Administrative Expenses

The Company's general and administrative expenses were approximately RMB41,967,000 in 2008, representing a decrease of RMB27,427,000 or 39.52%, from about RMB69,394,000 in 2007. The decrease was mainly attributable to: (1) there was no provision for impairment loss on construction in progress in 2008, while there was such provision of approximately RMB11,342,000 in 2007, and (2) the implementation of cost and expenses control measure, through which the Company further reduced the expenses in entertainment, travelling and consultancy by approximately RMB5,342,000 than that in 2007.

Other Revenue

Other revenue of the Company amounted to approximately RMB64,779,000 in 2008, representing an increase of RMB22,910,000 or 54.72%, from about RMB41,869,000 in 2007. The increase was mainly due to increase in interest income by about RMB5,113,000 than that in 2007; increase in government subsidies for enhancement of production facilities by about RMB8,480,000; and increase by reversal of staff welfare provision made in 2007 by approximately RMB10,113,000.

Expenses related to other revenues

The Company's expenses related to other revenues in 2008 were approximately RMB19,462,000, representing an increase of RMB3,951,000 or 25.47%, from about RMB15,511,000 in 2007. The increase was due to increase in cost of sales of pre-baked carbon anode amounted to about RMB3,000,000.

Finance Costs

The finance costs for the Company in 2008 were approximately RMB62,822,000, representing an increase of RMB11,749,000 or 23.0%, from about RMB51,073,000 in 2007. The increase of interest expenses was mainly due to the increase of average outstanding loan balance during the year.

Net Loss

As a result of the foregoing, the Company's net loss for the year was approximately RMB29,891,000 (2007: profit of RMB99,210,000).

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 2008.

Working Capital and Liabilities

As of 31 December 2008, the Company's current assets amounted to approximately RMB1,072,887,000, representing a decrease of RMB349,189,000 from about RMB1,422,076,000 as of 31 December 2007. The decrease was due to: (1) the decrease of bank balances of approximately RMB77,098,000; (2) decrease in purchase deposits to third parties of approximately RMB186,002,000; (3) decrease in inventories by approximately RMB48,550,000 and (4) decrease in trade receivables by approximately RMB41,006,000.

As of 31 December 2008, the Company's current liabilities amounted to approximately RMB1,619,191,000, representing an increase of RMB68,488,000, from about RMB1,550,703,000 as of 31 December 2007. The increase was mainly attributable to the increase of trade payables by approximately RMB321,770,000 and offset by the decrease in receipt in advance from customers by approximately RMB55,603,000 and reduce in bank borrowing by approximately RMB192,336,000.

Capital Structure

As of 31 December 2008, 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 2008, the Company had an aggregate outstanding borrowings of approximately RMB1,048,190,000 (including bills payables of about RMB400,200,000). The gearing ratio was 371.16% (being the aggregate outstanding borrowings of RMB1,048,190,000 divided by the total net assets of RMB282,409,000).

Contingent Liabilities

As at 31 December 2008, the Company had given guarantees in favour of certain third parties to the extent of RMB180,000,000 (2007: RMB90,000,000) in respect of these companies' banking facilities and finance leases in the PRC. These companies also provided reciprocal guarantees in respect of the Company's borrowings. Details of the banking facilities and finance leases utilised are as follows:

	2008 RMB'000	2007 RMB'000
Third parties	**92,280**	–

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

Capital Commitments

Please refer to note 29 to the financial statements for details.

Cash and Cash Equivalents

Total cash of the Company as of 31 December 2008 (including foreign currency-denominated deposits) amounted to approximately RMB758,471,000. Pledged and restricted deposits which do not fall into the definition of cash equivalents, cash and cash equivalent of the Company as at 31 December 2008 amounted to RMB198,924,000.

Cash Flow

As at 31 December 2008, the Company had cash, bank balances and deposits in bank of RMB198,924,000 (2007: RMB273,377,000), representing a decrease of RMB74,453,000 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 RMB535 million (2007: RMB296 million of net cash inflow), net cash outflow from investing activities of RMB385 million (2007: RMB5 million of net cash inflow), and net cash outflow from financing activities of RMB201 million (2007: RMB175 million of net cash outflow).

Details of pledged assets of the Company

As at 31 December 2008, the Company has pledged bank balances and plant and machinery amounted to approximately RMB559,530,000 and approximately RMB106,297,000 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 2008, the Company has 1,947 employees (2007: 2,329). Staff costs, including Directors' remuneration, was approximately RMB64,908,000 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 21 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 2008, the Company has no significant pending litigation.

Directors' and Supervisors' Profile

CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Mr. LI He Ping (李和平), aged 53, 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 45, 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 24 years of experience in the aluminum industry. He has served as Chairman and General Manager of the Company for 2 years and 7 years respectively and deputy general manager of Tianyuan Group for 6 years. Mr. Tan graduated from Beijing University (北京大學) with a master degree in business administration 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 43, is the executive director and deputy general manager of the Company. He joined Tianyuan Group in 1988 and has about 19 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 51, is the 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 DIRECTOR

Mr. YAN Li Qi (閆利啟), aged 55, 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

Mr. SONG Quan Qi (宋全啟), aged 44, was appointed independent non-executive Director in March 2001. Mr. Song has extensive experience in research, investments and business consulting. 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. Mr. 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.

Mr. ZHU Xiao Ping (朱小平), aged 60, 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 66, 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 19 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 50, 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 51, 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 35, 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 40, 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 49, graduated from Zhengzhou University in 1996 with a major in Administrative Management and has obtained the qualification of assistant engineer. Mr. Ge has over 21 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 Yuzhong (楊玉忠), aged 45, 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 1989, majoring in smelting of light metal. He became an engineer in December 1998 and joined the Company in August 2000.

Mr. Yang Xian Zhong (楊獻忠), aged 35, 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.

Mr. Li Xiaobi 李曉碧, aged 45, the deputy general manager of the Company. Mr. Li joined Tianyuan Group in 1983 and was appointed as company secretary, manager of futures division and the supervisor of Shanghai's representative office of Tianyuan Group and the Company. He was appointed as the deputy general manager of the Company in March 2008 and is responsible for the Company's operation. Mr. Li is a member of the Communist Party of China. He graduated from Yuxi Normal School of Henan Province (河南省豫西師範) in 1983 and obtained professional qualification. He joined the Company in August 2004.

Mr. Wang Guoxian (王國獻), aged 44, 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 Company. 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 41, the secretary of the board of directors of the Company. 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 September 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.

Ms. Gan Hong Yu (甘紅予), aged 44, is the finance manager of the Company. Ms. Gan has held various senior positions in Tianyuan Group and the Company responsible for accounting and finance matters. She graduated from Henan Province Zhonghua School of Accounting (河南省中華會計學校) in September 1991 and obtained the accountant qualification in October 1994. Ms. Gan is a member of the Communists' Party of the PRC. She joined the Company in August 2000.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Yao Yan Ping (姚恩平), aged 39, 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 2008.

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 2008 are set out on page 37 of this report.

DIVIDEND

The Directors do not propose any dividend for the year ended 31 December 2008.

RESERVES

Movements in the reserves of the Company during the year are set out in the statement of changes in equity on page 38 of this report.

PREPAID LAND LEASE AND LAND USE RIGHTS AND FIXED ASSETS

Details of the movements in prepaid land lease and land use rights and fixed assets of the Company are set out in note 8 and 9 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 2008, calculated based on the above principle, amounted to approximately RMB73,653,000.

TAXATION

Details of the treatment of the Company's taxation for the year ended 31 December 2008 are set out in note 24 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 2008 is set out on note 22 to the financial statements.

DIRECTORS', CHIEF EXECUTIVES', AND SUPERVISORS' INTERESTS IN SHARES OF THE COMPANY

Disclosure of Interests

As at 31 December 2008, none of the Directors, the Supervisors and chief executive of the Company had any interest or short position 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.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

During the year ended 31 December 2008, save as disclosed in the section headed "Connected Transaction" 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 2008, none of the Directors was granted any option to subscribe for shares of the Company. As at 31 December 2008, 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 2008, 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 2008, 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						
Li Liu Fa *(Note 1)*	Interest of controlled corporation	Domestic Shares	782,882,280	95.69%	–	67.02%
Tianrui Group Company Limited (天瑞集團有限公司) ("Tianrui Group")	Beneficial owner	Domestic Shares	782,882,280	95.69%	–	67.02%
Other shareholders						
BOCOM International (Asia) Limited (Formerly known as BOCOM International Holdings Limited) *(Note 2)*	Beneficial owner	H Shares	94,420,000	–	26.98%	8.08%
CCIB Opportunity Income Growth Fund *(Note 2)*	Beneficial owner	H Shares	26,200,000	–	7.49%	2.24%
Chen Yamin	Beneficial owner	H Shares	17,660,000	–	5.05%	1.51%

Notes:

1. These Domestic Shares were held by Tianrui Group, which was owned as to 52.08% by Li Liu Fa and 32.58% by Li Feng Luan, the spouse of Li Liu Fa. Li Liu Fa was deemed to be interested in these 782,882,280 Domestic Shares under Part XV of the SFO.

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

As at 31 December 2008, 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 2008, 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 2008.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The largest customer and the five largest customers of the Company's aluminum re-smelt ingots and aluminum alloy accounted for approximately 12% and approximately 46%, respectively, of the Company's total turnover for the year ended 31 December 2008.

The amount of raw materials (including electricity) provided by the largest supplier and the five largest suppliers of the Company accounted for approximately 41% and approximately 79%, 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 2008.

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.

3. Henan Ruixue Aluminum Company Limited (河南瑞雪鋁業有限公司) ("Ruixue"), a company incorporated in the PRC with limited liability and owned as to 51% by the brother-in-law of Mr. Li Liu Fa, the substantial shareholder of the Company.

Connected Transactions

The Company had entered into a Subscription Agreement dated 24 October 2007 as amended by a Supplemental Subscription Agreement dated 22 July 2008 with Tianrui Group, pursuant to which Tianrui Group agreed to subscribe for 625,000,000 new domestic shares of the Company.

Continuing Connected Transactions

1. The supply of pre-baked carbon anode by Dongxing to the Company under the Raw Material Supply Agreement dated 24 April 2008 entered into between the Company and Dongxing. The aggregate sum paid by the Company to Dongxing under the transactions during the year ended 31 December 2008 amounted to RMB742,000.

2. The supply of alumina by Ruixue to the Company under the Raw Material Supply Agreement dated 24 April 2008 entered into between the Company and Ruixue. The aggregate sum paid by the Company to Ruixue under the transactions during the year ended 31 December 2008 amounted to RMBNil.

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 2010 at the annual general meeting held on 4 July 2008.

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 2008.

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 2008. 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
26 March 2009

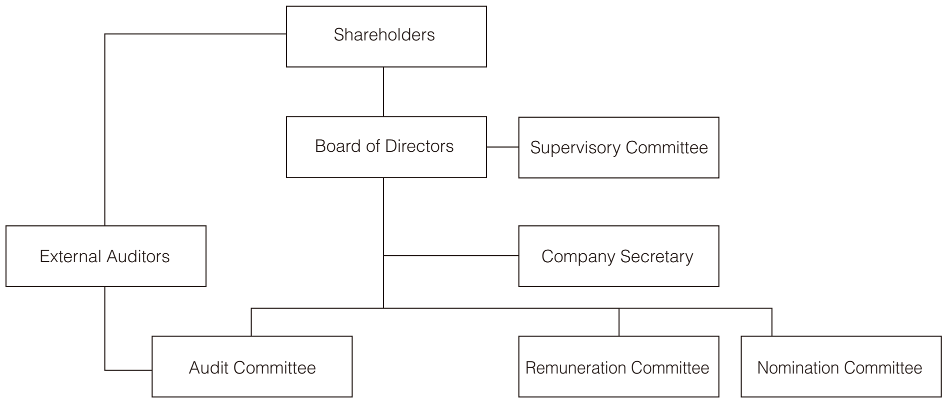
Corporate Governance Report

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 2008.

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, two 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 2008 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. Li He Ping *(Chairman)*
Mr. Yan Li Qi
Mr. Li Liu Fa (resigned on 4 July 2008)

Independent non-executive directors
Mr. Zhu Xiao Ping
Mr. 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 2008, 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
25 April 2008	Discloseable and continuing connected transaction	Cross guarantee agreement and raw material purchase agreements
22 July 2008	Connected transaction and Issue of shares under specific mandate	Supplemental subscription agreement and supplemental preliminary placing agreement

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 12 Board meetings held for the year ended 31 December 2008.

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 2008
Mr. Tan Yu Zhong	12/12
Mr. Xiao Chong Xin	12/12
Mr. Zhao Zheng Bin	12/12
Mr. Yan Li Qi	12/12
Mr. Li He Ping	12/12
Mr. Li Liu Fa (resigned on 4 July 2008)	3/6
Mr. Zhu Xiao Ping	12/12
Mr. Song Quan Qi	12/12
Mr. Chan Nap Tuck	12/12

(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 is the Chairman of the Company, and Mr. Tan Yu Zhong is the General Manager of the Company.

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
Mr. Song Quan Qi *(chairman of audit committee)*
Mr. Zhu Xiao Ping
Mr. Chan Nap Tuck

Role and function
The audit committee is mainly responsible for:

i. discussing with the external auditors before the audit commences, the nature and scope of audit;

ii. reviewing the Company's draft annual, half yearly and quarterly report and accounts before submission and provide advice and comments thereon to the Board;

iii. considering the appointment of external auditors, their audit fees and questions of resignation or dismissal; and

iv. discussing problems and reservations arising from audits and matters that the external auditors may wish to discuss (in the absence of the management, where necessary).

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 2008:

Committee member	Attendance at meetings held in the year ended 31 December 2008
Mr. Song Quan Qi	4/4
Mr. Zhu Xiao Ping	4/4
Mr. Chan Nap Tuck	4/4

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

(1) Financial Reporting

The audit committee met with the external auditors to discuss the interim, quarterly and annual financial statements and system of control of the Company. The auditors, the general manager, the company secretary and the financial controller of the Company were also in attendance to answer questions on the financial results.

Where there were questions on the financial statements and system of control of the Company reviewed by the audit committee, the management of the Company would provide breakdown, analysis and supporting documents to the audit committee members in order to ensure that the audit committee members were fully satisfied and make proper recommendation to the Board.

(2) External Auditors

The appointment of the external auditors and the audit fee were considered by the audit committee and recommendations were made to the Board on the selection of external auditors of the Company.

(b) Remuneration Committee

The remuneration committee was established on 12 August 2005. It currently consists two independent non-executive Directors and one non-executive Director.

Composition of remuneration committee
Mr. Li He Ping *(chairman of the remuneration committee)*
Mr. Song Quan Qi
Mr. Zhu Xiao Ping

Role and function
The remuneration committee is mainly responsible for:

1. making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

2. determining the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board for the remuneration of non-executive Directors;

3. reviewing and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

4. reviewing and approving the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

5. reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

6. ensuring that no Director or any of his associates is involved in deciding his own remuneration; and

7. advising the shareholders on how to vote in respect of any service contract of Director which shall be subject to the approval of shareholders (in accordance with the provisions of Rule 17.90 of the GEM Listing Rules).

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 2008, there was one meeting held. The following was an attendance record of the remuneration committee meeting for the year ended 31 December 2008:

Committee member	Attendance at meeting held in the year ended 31 December 2008
Mr. Li He Ping	1/1
Mr. Song Quan Qi	1/1
Mr. Zhu Xiao Ping	1/1

During the meeting, the remuneration committee reviewed the remuneration of each of the Directors.

(c) Nomination Committee

The nomination committee was established on 12 August 2005. It currently consists of two independent non-executive Directors and one non-executive Director.

Composition of nomination committee
Mr. Li He Ping *(chairman of the nomination committee)*
Mr. 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 2008, there was one meeting held. The following was an attendance record of the nomination committee meeting for the year ended 31 December 2008:

Committee member	Attendance at meeting held in the year ended 31 December 2008
Mr. Li He Ping	1/1
Mr. Song Quan Qi	1/1
Mr. Chau Nap Tuck	1/1

SHAREHOLDERS' RIGHTS

It is the Company's responsibility to ensure shareholders' interest is well protected. To do so, the Company maintains on-going dialogue with shareholders, to communicate with them and encourage their participation through annual general meetings or other general meetings.

Registered shareholders are notified by post for the shareholders' meetings. Notices of meeting which contains the proposed resolutions are despatched to the shareholders with proxy forms.

Registered shareholders are entitled to attend the annual and extraordinary general meetings, provided that their shares have been recorded in the Register of Shareholders.

Shareholders who are unable to attend a general meeting may complete and return the proxy form enclosed with the notice of meeting to give proxy to their representatives, another shareholder or chairman of the meetings.

EXTERNAL AUDITORS

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 2008, 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$1,000,000

	Beijing Xinghua
Annual audit services	RMB500,000

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 2008, 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 2008, the following shareholder meetings were held by the Company:–

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 with Tianrui Group; 2. To approve the preliminary placing agreement with Baron Capital Limited; 3. To approve the specific mandate to allot and issue new domestic shares and new H shares; and 4. To approve the proposed amendments to the Article of Association.	By poll
3 January 2008	No. 10 South Dongfeng Road, Sanmenxia City, Henan Province, the PRC	Class meeting for holders of H shares	1. To approve the subscription agreement with Tianrui Group; 2. To approve the preliminary placing agreement with Baron Capital Limited; and 3. To approve the specific mandate to allot and issue new domestic shares and new H shares.	By poll
3 January 2008	No. 10 South Dongfeng Road, Sanmenxia City, Henan Province, the PRC	Class meeting for holders of domestic shares	1. To approve the subscription agreement with Tianrui Group; 2. To approve the preliminary placing agreement with Baron Capital Limited; and 3. To approve the specific mandate to allot and issue new domestic shares and new H shares.	By poll

Date	Venue	Type of Meeting	Particulars	Way of voting at the Meeting
4 July 2008	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 2007; 2. To consider and approve the report of the supervisory committee of the Company for 2007; 3. To consider and approve the audited financial statements and the auditors' report for 2007; 4. To consider and approve the appointment and/or the re-appointment of the Company's international and PRC auditors respectively for 2008 and to authorize the Board to determine their remunerations; 5. To consider and approve the continuing connected transactions; 6. To consider and approve to grant an unconditional general mandate to allot, issue and deal with additional shares in the capital of the Company.	By show of hands

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 2008 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
26 March 2009

Report of the Auditors

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 36 to 75 which comprise the balance sheet as at 31 December 2008, 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.

MATERIAL UNCERTAINTY IN RELATION TO GOING CONCERN ASSUMPTION

Without qualifying our opinion, we draw attention to note 3.1 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As at 31 December 2008, the Company had net current liabilities amounting to approximately RMB546,304,000. In addition, as at 31 December 2008, the Company has capital commitments of approximately RMB642,366,000 and has given guarantees in favour of third parties ("Borrowers") amounting to approximately RMB180,000,000 in respect of their bank borrowings and finance leases. These conditions, along with the Company's ability to obtain the continuing support from the Company's bankers, the Company's capability to ensure the success of its future operations and the directors' assessment that the Company will not be required to honour its guarantee obligations upon default by the Borrowers, as set forth in note 3.1, indicate the existence of a material uncertainty which may cast significant doubts about the Company's ability to continue as a going concern.

OPINION

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2008 and of its loss 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 1807, 18/F, Wing On House
71 Des Voeux Road Central
Central, Hong Kong

Hong Kong, 26 March 2009

Balance Sheet

As at 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Prepaid land lease and land use rights	*8*	**13,171**	–
Property, plant and equipment	*9*	**798,918**	433,821
Debenture, at cost		**500**	500
Available-for-sale financial assets	*10*	**500**	–
Deferred tax assets	*24(b)*	**15,624**	10,735
		828,713	445,056
Current assets			
Prepaid land lease and land use rights	*8*	**306**	–
Inventories	*11*	**72,158**	120,708
Trade receivables	*12*	**49,267**	90,273
Other current assets	*13*	**191,250**	375,526
Income tax recoverable		**1,435**	–
Pledged and restricted bank balances	*14*	**559,547**	562,192
Cash at banks and on hand	*14*	**198,924**	273,377
		1,072,887	1,422,076
LIABILITIES			
Current liabilities			
Trade payables	*15*	**491,793**	170,023
Other payables and accruals	*16*	**479,408**	532,814
Income tax payable		**–**	7,540
Bank borrowings	*17*	**647,990**	840,326
		1,619,191	1,550,703
Net current liabilities		**(546,304)**	(128,627)
Net assets		**282,409**	316,429
EQUITY			
Share capital	*18*	**116,820**	116,820
Reserves		**165,589**	199,609
		282,409	316,429

The notes on pages 40 to 75 are an integral part of these financial statements.

Income Statement

For the Year Ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Turnover	7	**1,429,619**	1,664,872
Cost of goods sold		**(1,359,858)**	(1,389,869)
Gross profit		**69,761**	275,003
Other gains – net	7	**45,317**	26,358
Selling and distribution costs		**(44,857)**	(48,120)
Administrative expenses		**(41,967)**	(69,394)
Operating profit		**28,254**	183,847
Finance costs	23	**(62,822)**	(51,073)
(Loss)/profit before income tax	20	**(34,568)**	132,774
Income tax	24	**4,677**	(33,564)
(Loss)/profit for the year and attributable to shareholders		**(29,891)**	99,210
(Loss)/earnings per share (expressed in RMB)			
Basic and diluted	25	**(0.03)**	0.08
Dividends	27	**–**	–

The notes on pages 40 to 75 are an integral part of these financial statements.

Statement of Changes in Equity

For the Year Ended 31 December 2008

	Attributable to shareholders of the Company				
	Share capital *(Note 18)* RMB'000	Capital reserve *(Note 19(a))* RMB'000	Statutory surplus reserve *(Note 19(b))* RMB'000	Retained earnings RMB'000	Total RMB'000
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
Balance at 1 January 2008	116,820	62,099	33,966	103,544	316,429
Loss for the year	–	–	–	(29,891)	(29,891)
Transfer to Nation Social Security Fund	–	(4,129)	–	–	(4,129)
Balance at 31 December 2008	116,820	57,970	33,966	73,653	282,409

The notes on pages 40 to 75 are an integral part of these financial statements.

Cash Flow Statement

For the Year Ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Cash flows from operating activities			
Net cash generated from operations	26	**625,507**	388,002
Interest paid		**(81,649)**	(49,718)
Income tax paid		**(9,187)**	(42,501)
Net cash generated from operating activities		**534,671**	295,783
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**190**	189
Interest received		**19,739**	16,447
Purchase of property, plant and equipment		**(398,223)**	(11,138)
Purchase of prepaid land lease and land use rights		**(6,180)**	–
Acquisition of available-for-sale financial assets		**(500)**	–
Net cash (used in)/generated from investing activities		**(384,974)**	5,498
Cash flows from financing activities			
Decrease/(increase) in pledged cash and restricted bank balances		**2,645**	(268,699)
Payment to National Social Security Fund		**(11,418)**	–
Proceeds from bank borrowings		**1,536,690**	1,436,692
Repayments of bank borrowings		**(1,729,026)**	(1,342,746)
Net cash used in financing activities		**(201,109)**	(174,753)
Net (decrease)/increase in cash and cash equivalents		**(51,412)**	126,528
Cash and cash equivalents at beginning of the year		**273,377**	171,894
Effect of foreign exchange rate changes, net		**(23,041)**	(25,045)
Cash and cash equivalents at end of the year		**198,924**	273,377
Analysis of cash and cash equivalents			
Cash at banks and in hand		**198,924**	273,377

The notes on pages 40 to 75 are an integral part of these financial statements.

Notes to Financial Statements

For the Year Ended 31 December 2008

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 2008 have been approved and authorised for issue by the Board of Directors on 26 March 2009.

At 31 December 2008, 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 ("HKFRSs"), 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 HKFRSs 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.1 Basis of preparation *(Continued)*

As at 31 December 2008, the current liabilities of the Company exceeded the current assets by RMB546,304,000. In addition, as at 31 December 2008, the Company has capital commitments of approximately RMB642,366,000 and has given guarantees in favour of third parties ("Borrowers") amounting to RMB180,000,000 in respect of their bank borrowings and finance leases. The Company's ability to continue its business depends upon the continuing support from its bankers, the success of its future operations and whether the Company will be required to honour its guarantee obligations upon default by the Borrowers. Based on the revolving history of the bank loans, the directors are confident that the bank loans will be renewed by its bankers. The directors have reviewed the available financial information of the Borrowers, and the Company has not been notified by any banks or financial institutions to honour its guarantee obligations and repay the relevant borrowings on behalf of the Borrowers. Also, the parent company has undertaken to provide financial assistance to the Company whenever necessary. Accordingly, the directors are satisfied that the Company will be able to meet its financial obligations in the next twelve months and the financial statements have been prepared on a going concern basis.

3.2 Initial application of new/revised HKFRSs

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

These include the following:

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The application of new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

3.3 HKFRSs 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 2008 and which have not been adopted in these financial statements.

HKFRSs (Amendments)	Improvements to HKFRSs (a)
HKAS 1 (Revised)	Presentation of Financial Statements (b)
HKAS 23 (Revised)	Borrowing Costs (b)
HKAS 27 (Revised)	Consolidated and Separate Financial Statements (c)
HKAS 21 & 1(Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation (b)
HKAS 39 (Amendments)	Eligible hedged items (c)
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in Subsidiary, Jointly Controlled Entity or Associate (b)
HKFRS 2 (Amendments)	Vesting Conditions and Cancellations (b)
HKFRS 3 (Revised)	Business Combinations (c)
HKFRS 8	Operating Segments (b)
HK(IFRIC)-Int 13	Customer Loyalty Programmes (d)
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate (b)
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation (e)
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners (c)
HK(IFRIC)-Int 18	Transfers of Assets from Customers (c)

(a) Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
(b) Effective for annual periods beginning on or after 1 January 2009
(c) Effective for annual periods beginning on or after 1 July 2009
(d) Effective for annual periods beginning on or after 1 July 2008
(e) Effective for annual periods beginning on or after 1 October 2008

The Company has not applied the new HKFRSs that have been issued but are not yet effective. The Company has already commenced an assessment on the impact of these new HKFRSs but is not yet in position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

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(b) 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 machinery 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 plant and machinery 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 Financial assets

(a) Classification

The Company classifies its financial assets in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determine the classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Company's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the balance sheet (Notes 3.10 and 3.11).

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

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

3.8 Financial assets *(Continued)*

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary securities classified as available-for-sale financial assets are recognised in equity.

When securities classified as available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as ‘gains and losses from investment securities’.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company established fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset in impaired. In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in note 3.10.

3.9 Inventories

Inventories comprise raw materials, work-in-progress, finished goods and production supplies and are stated at the lower of cost and net realisable value. Inventories are calculated on a weighted average method. Work-in-progress and finished goods comprise 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.10 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".

3.11 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.

3.12 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.

3.13 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.

3.14 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.

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

3.16 Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating lease. Payments made under operating leases (net of any incentives received from the lessor), including upfront payment made for leasehold land and land use rights, are charged to the income statement on a straight-line basis over the period of the lease.

The Company does not have any assets under finance leases.

3.17 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions 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.

3.18 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.

3.19 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 profits will be available against which the temporary differences can be utilised.

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

3.20 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.

3.21 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.

3.22 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.

3.23 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)*

3.24 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 amortisation recognised in accordance with HKAS 18 "Revenue".

3.25 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.

3.26 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 29, the parent company has undertaken to provide financial assistance to the Company whenever necessary.

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

5. FINANCIAL RISK MANAGEMENT

Exposure to foreign currency, cash flow and fair value 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.

Carrying amounts of financial assets and financial liabilities as at 31 December 2008 that exposed to foreign currency risk were as follows:

	2008 RMB'000	2007 RMB'000
Financial assets denominated in foreign currencies:		
Cash at banks and on hand	**253,319**	393,220
Trade receivables	**–**	21,950
	253,319	415,170
Financial liabilities denominated in foreign currencies:		
Trade and other payables	**(280,778)**	(380,395)
Net financial (liabilities)/assets exposed to foreign currency risks	**(27,459)**	34,775
The financial assets were denominated in the following foreign currencies:		
US dollars	**253,319**	408,708
HK dollars	**–**	6,462
	253,319	415,170
The financial liabilities were denominated in the following foreign currencies:		
US dollars	**278,028**	379,443
HK dollars	**2,750**	952
	280,778	380,395

5. FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Foreign currency risk *(Continued)*

Should Renminbi at 31 December 2008 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 2008 determined in accordance with HKAS 21 "The Effects of Changes in Foreign Exchange Rates", and hence the equity at 31 December 2008, would be decreased by RMB2,746,000 (2007: increased by RMB3,478,000); and the loss for the year ended 31 December 2008 would be increased by a net amount of RMB2,746,000 (2007: profit increased by RMB3,478,000).

(b) Cash flow and fair value interest rate risk

The Company is subject to interest rate risk in relation to borrowings and bank balances. Borrowings and bank balances carried at floating rates expose the Company to cash flow interest rate risk whereas those carried at fixed rates expose the Company to fair value interest rate risk. The Company has not entered into any interest rate swaps to hedge its exposure to interest rate risks.

(i) Carrying amounts of financial liabilities as at 31 December 2008 that exposed to fair value interest rate risk were as follows:

	2008 **RMB'000**	2007 RMB'000
Financial liabilities bearing fixed interests:		
Bank borrowings	**281,890**	840,326

5. FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Interest rate risk *(Continued)*

(ii) Carrying amounts of financial assets and financial liabilities as at 31 December 2008 that exposed to cash flow interest rate risk were as follows:

	2008 **RMB'000**	2007 RMB'000
Financial assets earning variable interests:		
Deposits with banks and financial institutions	**758,281**	835,569
Deposit with Shanghai Futures Exchange	**663**	12,777
	758,944	848,346
Financial liabilities bearing variable interests:		
Bank borrowings	**366,100**	–
Net carrying amount of financial assets and financial liabilities exposed to interest rate risk	**392,844**	848,346

At 31 December 2008, it is estimated that a general increase of 100 basis points in interest rates, with all other variables held constant, would increase the Company's net assets and decrease the loss for the year by approximately RMB3,928,000 (2007: RMB8,483,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for variable rate borrowings in existence at that date all over other variables remain constant.

5. FINANCIAL RISK MANAGEMENT *(Continued)*

(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.

Carrying amounts of financial assets as at 31 December 2008, which represented the amounts of maximum exposure to credit risk, were as follows:

	2008 RMB'000	2007 RMB'000
Cash and bank balances *(note 14)*	**758,471**	835,569
Trade receivables *(note 12)*	**49,267**	90,273
Deposits and other receivables *(note 13)*	**23,624**	5,531
Interest receivables *(note 13)*	**1,822**	–
Futures deposits *(note 13)*	**663**	13,075
Security deposit paid to customer *(note 13)*	**–**	9,300
Debenture	**500**	500
Available-for-sale financial assets *(note 10)*	**500**	–

Except for the financial assets with carrying amount of RMB42,195,000 (2007: RMB42,491,000) 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 2008 but not impaired:

	2008 RMB'000	2007 RMB'000
Neither past due nor impaired	**49,267**	90,273
Past due but not impaired	**–**	–
Impaired	**40,929**	42,200
	90,196	132,473

Except for trade receivables whose recovery 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.

5. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Credit risk *(Continued)*

Movements of the allowance during the year were as follows:

	2008 RMB'000	2007 RMB'000
At 1 January	**42,200**	41,364
(Written back)/impairment loss for the year	**(1,271)**	836
At 31 December	**40,929**	42,200

Analysis of other deposits and receivables that were past due as at 31 December 2008 but not impaired:

	2008 RMB'000	2007 RMB'000
Neither past due nor impaired	**23,624**	5,531
Past due but not impaired	**–**	–
Impaired	**1,266**	291
	24,890	5,822

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

Movements of the allowance during the year were as follows:

	2008 RMB'000	2007 RMB'000
At 1 January	**291**	588
Impairment loss/(written back) for the year	**975**	(297)
At 31 December	**1,266**	291

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.

	2008 RMB'000	2007 RMB'000
Total amounts of contractual undiscounted obligations:		
Bank borrowings	**647,990**	840,326
Trade, other payables and accruals	**546,139**	222,172
	1,194,129	1,062,498
Due for payment		
Not later than one year	**1,194,129**	1,062,498

(e) Fair value

Debenture in Shanghai Future Exchange is not material to the Company's financial condition and it is non-transferable in the open market. The fair value of the available-for-sales financial assets and 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 RMB798,918,000 (2007: RMB433,821,000) at 31 December 2008 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 trade receivables

Trade receivables of RMB44,267,000 (2007: RMB90,273,000) and other deposits and receivables of RMB23,624,000 (2007: RMB5,531,000) at 31 December 2008 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

(a) 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:

	2008 RMB'000	2007 RMB'000
Turnover		
Sales of goods, net of valued-add tax	**1,429,619**	1,664,872
Other revenue		
Sales of scrap and other materials	**20,380**	16,857
Supply of electricity, heat and water	**1,367**	2,172
Realised gain on futures contracts	**120**	2,954
Interest income from bank deposits	**21,560**	16,447
Total other revenue	**43,427**	38,430
Expenses related to other revenue *(Note)*	**(19,462)**	(15,511)
	23,965	22,919
Government subsidies	**10,000**	1,520
Reversal of provision of impairment of receivables and other receivables, net	**296**	–
Reversal of staff welfare provision	**10,113**	–
Others	**943**	1,919
Other gains, net	**45,317**	26,358

Note: 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)*

(b) 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:

	2008 RMB'000	2007 RMB'000
The PRC	**1,373,831**	1,448,238
Republic of Korea	**27,333**	110,494
The United Kingdom	**28,455**	73,307
Hong Kong	**–**	32,833
	1,429,619	1,664,872

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. PREPAID LAND LEASE AND LAND USE RIGHTS

The Company's interests in prepaid land lease and land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	2008 **RMB'000**	2007 RMB'000
The PRC, held on:		
Leases of over 50 years	**1,391**	–
Leases of between 10 to 50 years	**12,086**	–
	13,477	–

	2008 **RMB'000**	2007 RMB'000
Reclassification from buildings *(note 9)*	**7,518**	–
Additions	**6,180**	–
Amortisation of prepaid operating lease payments	**(221)**	–
	13,477	–
Analysed for reporting purposes as:		
Current assets	**306**	–
Non-current assets	**13,171**	–
	13,477	–

9. 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 2007						
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
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 9(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

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

	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
Year ended 31 December 2008						
Opening net book amount	2,201	92,456	285,041	6,712	47,411	433,821
Additions	394,661	–	2,069	1,254	239	398,223
Interest capitalised *(note 23)*	18,568	–	–	–	–	18,568
Transfer	(1,436)	–	1,436	–	–	–
Reclassification to prepaid land lease and land use rights *(note 8)*	–	(7,518)	–	–	–	(7,518)
Disposals	–	(175)	–	(200)	–	(375)
Depreciation	–	(3,365)	(34,272)	(1,134)	(5,030)	(43,801)
Closing net book amount	413,994	81,398	254,274	6,632	42,620	798,918
At 31 December 2008						
Cost	425,336	102,792	411,944	10,147	69,285	1,019,504
Accumulated depreciation	–	(21,394)	(157,457)	(3,515)	(26,665)	(209,031)
Accumulated impairment losses	(11,342)	–	(213)	–	–	(11,555)
Net book amount	413,994	81,398	254,274	6,632	42,620	798,918

(a) Depreciation expenses of RMB42,254,000 (2007: RMB42,582,000) has been expensed in cost of goods sold, and of RMB1,547,000 (2007: RMB1,341,000) 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 2008, the Company's bank borrowings were secured by certain plant and machinery with carrying amount of RMB106,297,000 (2007: RMB61,213,000).

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets comprise:

	2008 RMB'000	2007 RMB'000
Unlisted debt fund held outside Hong Kong, at fair value	**500**	–

The fair value of the unlisted debt fund is based on the price quoted by a bank.

11. INVENTORIES

	2008 RMB'000	2007 RMB'000
Raw materials	**30,409**	40,732
Work-in-progress	**37,118**	44,436
Finished goods	**4,631**	35,540
	72,158	120,708

The cost of inventories recognised as expenses and included in cost of goods sold amounted to RMB971,919,000 (2007: RMB974,364,000).

The Company has made a provision for write-down of inventories of RMB11,768,000 (2007: reversal of write-down of inventories of RMB610,000) for its raw materials, working-in-process and finished goods.

12. TRADE RECEIVABLES

	2008 RMB'000	2007 RMB'000
Trade receivables *(Note 12(a))*	**85,196**	132,473
Less: Provision for impairment of receivables	**(40,929)**	(42,200)
	44,267	90,273
Bills receivable *(Note 12(b))*	**5,000**	–
	49,267	90,273

12. TRADE RECEIVABLES *(Continued)*

As of 31 December 2008, the aging analysis of trade receivables, net, was as follow:

	2008 RMB'000	2007 RMB'000
1–30 days	**35**	46,859
31–60 days	**94**	3
61–90 days	**13**	1
91–120 days	**44**	1
121–365 days	**10**	34,312
Over 1 year *(Note 12(c))*	**44,071**	9,097
	44,267	90,273

(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.

As at 31 December 2008, the trade receivables were denominated in United States dollars and Renminbi amounted to RMBNil and RMB44,267,000 (2007: RMB21,950,000 and RMB68,323,000) respectively.

The Company has reversed the provision for impairment of its trade receivables during the year ended 31 December 2008 of RMB1,271,000 (2007: provision of RMB836,000).

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

(c) Trade receivables aged over 1 year would principally be used for the settlement of the consideration for the acquisition of the properties and land use rights from its former parent company (note 29).

(d) As at 31 December 2008, all of the trade receivables are pledged under a floating charge (2007: RMBNil) to secure the Company's bank borrowings (note 17).

13. OTHER CURRENT ASSETS

	2008 RMB'000	2007 RMB'000
Other deposits and receivables	**24,890**	5,822
Less: Provision for impairment of other receivables	**(1,266)**	(291)
	23,624	5,531
Interest receivables	**1,822**	–
Futures deposits	**663**	13,075
Purchase deposits to third parties	**158,774**	344,776
Purchase deposits to related parties *(Note 30)*	**6,367**	2,844
Security deposit paid to customer	**–**	9,300
	191,250	375,526

14. CASH AND BANK BALANCES

	2008 RMB'000	2007 RMB'000
Pledged and restricted bank balances	**559,547**	562,192
Cash at banks and on hand	**198,924**	273,377
	758,471	835,569

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 2008, the cash and bank balances in Renminbi, Hong Kong dollars and United States dollars were RMB505,152,000, RMBNil and RMB253,319,000 (2007: RMB442,349,000; RMB6,462,000; RMB386,758,000) respectively.

As at 31 December 2008, the Company's bank borrowings, bills payable and letter of credit were secured by bank deposits of RMB261,197,000, RMB295,233,000 and RMB3,100,000 (2007: RMB396,425,000, RMB104,269,000 and RMBNil) respectively.

15. TRADE PAYABLES

	2008 RMB'000	2007 RMB'000
Trade payables	**91,593**	25,643
Bills payables *(Note 15(a))*	**400,200**	144,380
	491,793	170,023

As of 31 December 2008, the aging analysis of trade payables was as follow:

	2008 RMB'000	2007 RMB'000
1–60 days	**76,556**	19,610
61–90 days	**4,869**	1,035
91–120 days	**1,580**	766
121–365 days	**5,372**	1,409
Over 1 year	**3,216**	2,823
	91,593	25,643

(a) Bills payable are repayable within six months and are supported by pledged bank deposits of RMB295,233,000 (2007: RMB104,269,000) and by guarantees from third parties and related companies.

(b) As at 31 December 2008, the trade payables were denominated in United States dollars and Renminbi amounted to RMB30,520,000 and RMB61,073,000 (2007: RMBNil and RMB25,643,000) respectively.

16. OTHER PAYABLES AND ACCRUALS

	2008 RMB'000	2007 RMB'000
Receipts in advance from customers	**425,062**	480,665
Payables to the National Social Security Fund *(Note 16(a))*	**–**	7,289
Staff welfare payables	**21,330**	20,144
Accrued construction costs	**12,488**	3,023
Others	**20,528**	21,693
	479,408	532,814

16. OTHER PAYABLES AND ACCRUALS *(Continued)*

(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 (the "Fund"). The actual amount remitted by the Company to the Fund during the year ended 31 December 2008 was approximately RMB11,418,000 and the balance under-provided of RMB4,129,000 was charged to the capital reserve (note 19(a)).

(b) As at 31 December 2008, the other payables and accruals denominated in United States dollars, Renminbi and Hong Kong dollars amounted to RMB247,508,000, RMB229,150,000 and RMB2,750,000 (2007: RMB 379,443,000, RMB152,419,000 and RMB952,000) respectively.

17. BANK BORROWINGS

	2008 RMB'000	2007 RMB'000
Bank loans – secured	**647,990**	840,326
Carrying amount repayable on demand or within one year and under current liabilities	**647,990**	840,326

The bank loans were secured by the Company's plant and machinery with carrying value of RMB106,297,000 (2007: RMB61,213,000), bank deposits of RMB261,197,000 (2007: RMB396,425,000), all the trade receivables (2007: RMBNil) (note 12(d)) and financial guarantees provided by related parties and third parties. The effective interest rates at the balance sheet date was ranging from 5.04% to 13.45% (2007: 5.26% to 11.63%) per annum.

18. 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 2007	818,180,000	81,818	350,020,000	35,002	1,168,200,000	116,820
At 31 December 2008	**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.

19. 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 or offsetting with direct share issuing costs.

During the year, the Company remitted an amount of approximately RMB11,418,000 to National Social Security Fund of which RMB7,289,000 has been provided for in other payables in previous year. The balance under-provided of RMB4,129,000 was charged to the capital reserve. Please refer to note 16(a) for more details.

(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.

20. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/profit before income tax is arrived at after charging/(crediting):

	2008 RMB'000	2007 RMB'000
Cost of materials and consumables sold *(Note 11)*	**971,919**	974,364
Staff costs *(Note 21)*	**64,908**	61,931
Depreciation on property, plant and equipment *(Note 9)*	**43,801**	43,923
Amortisation of prepaid operating lease payment *(Note 8)*	**221**	–
Loss on disposal of property, plant and equipment, net	**185**	1,866
Auditors' remuneration – audit services	**1,283**	1,293
Provision for/(reversal of) write-down of inventories *(Note 11)*	**11,768**	(610)
Provision for impairment of property, plant and equipment *(Note 9)*	**–**	11,342
(Reversal of)/provision for impairment of trade and other receivables, net	**(296)**	539
Bad debt written off	**–**	18
Net foreign exchange loss	**776**	4,874

21. STAFF COSTS

	2008 RMB'000	2007 RMB'000
Wages and salaries	**48,414**	47,127
Pension costs – defined contribution plans *(Note 21(a))*	**8,485**	8,010
Housing benefits	**2,078**	1,951
Staff welfare	**5,931**	4,843
	64,908	61,931

(a) Pensions costs – 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 2008, the Company had outstanding payable to the retirement scheme amounting to approximately RMB9,510,000 (2007: RMB1,261,000), which was included in other payables and accruals.

22. 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:

	2008 RMB'000	2007 RMB'000
Fees	**320**	320
Basic salaries and bonus	**183**	183
Other benefits	**18**	9
Contribution to pension scheme	**27**	24
	548	536

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

The remuneration of each director for the year ended 31 December 2008 is set out below:

Name of Director	Fees RMB'000	Salary RMB'000	Others benefits RMB'000	Contribution to pension scheme RMB'000	Total RMB'000
Executive directors					
Mr. Tan Yu Zhong	**–**	**61**	**6**	**9**	**76**
Mr. Xiao Chong Xin	**–**	**61**	**6**	**9**	**76**
Mr. Zhao Zheng Bin	**–**	**61**	**6**	**9**	**76**
Non-executive directors					
Mr. Li He Ping	**–**	**–**	**–**	**–**	**–**
Mr. Li Liu Fa *(Note 22(b))*	**–**	**–**	**–**	**–**	**–**
Mr. Yan Li Qi	**–**	**–**	**–**	**–**	**–**
Independent and non-executive directors					
Mr. Song Quan Qi	**100**	**–**	**–**	**–**	**100**
Mr. Zhu Xiao Ping	**100**	**–**	**–**	**–**	**100**
Mr. Chan Lap Tuck	**120**	**–**	**–**	**–**	**120**
	320	**183**	**18**	**27**	**548**

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

Name of Director	Fees RMB'000	Salary RMB'000	Others benefits RMB'000	Contribution to pension scheme RMB'000	Total RMB'000
Executive directors					
Mr. Tau 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					
Mr. Song Quan Qi	100	–	–	–	100
Mr. Zhu Xiao Ping	100	–	–	–	100
Mr. Chan Lap Tuck	120	–	–	–	120
	320	183	9	24	536

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

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

During the year, no directors waived any emoluments (2007: RMBNil).

(b) The non-executive director – Li Liu Fa resigned on 4 July 2008.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Company for the year include 4 (2007: 4) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one individual in 2008 is as follows:

	2008 RMB'000	2007 RMB'000
Basic salaries	**70**	66
Contributions to the retirement scheme	**6**	7
Contributions to other statutory welfare funds	**9**	3
	85	76

23. FINANCE COSTS

	2008 RMB'000	2007 RMB'000
Interest expense on bank borrowings	**81,390**	51,073
Less: Amount capitalised to construction in progress *(note 9)*	**(18,568)**	–
	62,822	51,073

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate ranging from 6.16% to 7.63% (2007: RMBNil) per annum to expenditure on qualifying assets.

24. INCOME TAX EXPENSE

	2008 RMB'000	2007 RMB'000
Current income tax	**212**	44,299
Deferred tax *(note 24(b))*	**(4,889)**	(10,735)
	(4,677)	33,564

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

	2008 RMB'000	2007 RMB'000
(Loss)/profit before income tax	**(34,568)**	132,774
Tax calculated at a tax rate of 25% (2007: 33%)	**(8,642)**	43,815
Expenses not deductible for tax purposes	**6,281**	3,207
Income not subject to tax	**(2,528)**	(3,896)
Under-provision of current tax for previous year	**212**	1,353
Deferred tax assets not recognised in previous year and recognised in this year	**–**	(10,915)
Income tax (credit)/expense	**(4,677)**	33,564

The charge for income tax calculated at the rate of 25% (2007: 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.

24. INCOME TAX EXPENSE *(Continued)*

(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 RMB'000	Provision for obsolete inventories RMB'000	Impairment loss of property, plant and equipment RMB'000	Unutilised tax loss RMB'000	Total RMB'000
At 1 January 2008	10,623	59	53	–	10,735
(Charge)/credit to income statement	(74)	2,942	–	2,021	4,889
At 31 December 2008	**10,549**	**3,001**	**53**	**2,021**	**15,624**

The unutilised tax loss will be expired in the year 2013.

25. (LOSS)/EARNINGS PER SHARE

(a) Basic

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

	2008 RMB'000	2007 RMB'000
(Loss)/profit attributable to shareholders of the Company	**(29,891)**	99,210
Weighted average number of ordinary shares in issue *(in thousand shares)*	**1,168,200**	1,168,200
Basic (loss)/earnings per share *(RMB)*	**(0.03)**	0.08

(b) Diluted

The Company did not have any dilutive potential ordinary shares during 2008 and 2007. As a result, diluted (loss)/earnings per share equals to basic (loss)/earnings per share.

26. NET CASH GENERATED FROM OPERATIONS

	2008 RMB'000	2007 RMB'000
(Loss)/profit before income tax	**(34,568)**	132,774
Adjustments for:		
– Depreciation	**43,801**	43,923
– Amortization	**221**	–
– Loss on disposal of property, plant and equipment included in administrative expenses	**185**	1,866
– Reversal of impairment of receivables and other receivables, net	**(296)**	(539)
– Provision for/(reversal of) write-down of inventories	**11,768**	(610)
– Provision for impairment of property, plant and equipment	**–**	11,342
– Unrealised foreign exchange loss	**23,041**	25,045
– Interest income	**(21,560)**	(16,447)
– Interest expense	**62,822**	51,073
Operating profit before working capital change	**85,414**	248,427
Decrease/(increase) in inventories	**36,782**	(42,143)
Decrease/(increase) in trade and other receivables	**227,399**	(195,986)
Increase in trade and other payables	**275,912**	377,704
Net cash generated from operations	**625,507**	388,002

27. DIVIDENDS

	2008 RMB'000	2007 RMB'000
Proposed final dividend	**–**	–

The directors do not propose any dividend for the year ended 31 December 2008 (2007: RMBNil).

28. CONTINGENT LIABILITIES

As at 31 December 2008, the Company issued guarantees to third parties to secure banking facilities and finance leases to the extent of RMB180,000,000 (2007: RMB90,000,000). The amounts of banking facilities and finance leases utilised by the third parties are as follows:

	2008 RMB'000	2007 RMB'000
Independent third parties	**92,280**	–

29. COMMITMENTS

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

	2008 RMB'000	2007 RMB'000
Property, plant and equipment		
Contracted but not provided for	**642,366**	417,388

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 RMB168,088,000.The entire consideration is to be settled by (i) assignment of the Company's balances due from a former related company of RMB43,990,000 to the former parent company; (ii) assignment of purchase deposits of RMB72,213,000; and (iii) cash or inventories (at the option of the Company) or assuming bank borrowings originally owed by the former parent company of totally RMB51,885,000.

30. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, significant related party transactions as at and for the year ended 31 December 2008 are as follows:

		Note	2008 RMB'000	2007 RMB'000
(a)	Transactions –			
	Sales of materials and finished goods to			
	– other state-controlled enterprises		**–**	73,011
	Purchases of key and auxiliary materials from:	*30(a)*		
	– a shareholder of the Company		**742**	10,729
	– other state-controlled enterprises		**–**	79,252
	Provision of utility services by			
	– a state-controlled enterprise		**–**	178,013
	Interest income from			
	– state-controlled banks and companies		**–**	2,502
	Interest expenses to state-controlled banks		**–**	15,886

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

		2008 RMB'000	2007 RMB'000
(b)	Balances –		
	Purchase deposits *(Note 13)*		
	– a shareholder of the Company	**6,367**	2,844

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2008 RMB'000	2007 RMB'000
Short-term benefits	**521**	512
Post-employment benefits	**27**	24
	548	536

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

31. COMPARATIVE FIGURES

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