



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

2010
First Quarterly Report



*For identification only

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This report, for which the directors (the “Directors”) of Sanmenxia Tianyuan Aluminum Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Achieved a turnover of approximately RMB319,926,000 for the three months ended 31 March 2010.
- Net profit amounted to approximately RMB3,648,000 for the three months ended 31 March 2010, as compared to a net loss of approximately RMB20,377,000 for the corresponding period in 2009.
- The Directors do not recommend the payment of dividend for the three months ended 31 March 2010.

FIRST QUARTERLY RESULTS

The board of Directors (the "Board") of the Company is pleased to announce the unaudited results of the Company for the three months ended 31 March 2010 ("three-month period") together with the comparative unaudited figures for the corresponding period in 2009. The first quarterly unaudited results of the three-month period have been reviewed by the audit committee of the Company.

STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

Three months ended 31 March 2010

		Three months ended 31 March	
	<i>Note</i>	2010 RMB'000	2009 <i>RMB'000</i>
Revenue	3	319,926	149,530
Cost of sales		(295,542)	(153,467)
Gross profit/(loss)		24,384	[3,937]
Other revenue	3	12,189	4,063
Expenses related to other revenue		(11,349)	(1,910)
Other revenue, net		840	2,153
Selling and distribution expenses		(5,430)	[3,203]
General and administrative expenses		(10,519)	(10,187)
Operating profit/(loss)		9,275	(15,174)
Finance costs		(5,627)	(5,203)
Profit/(loss) before income tax		3,648	(20,377)
Income tax	4	-	-
Profit/(loss) for the period		3,648	(20,377)
Other comprehensive income		-	-
Total comprehensive income for the year		3,648	(20,377)
Profit/(loss) attributable to the owners of the Company		3,648	(20,377)
Total comprehensive income attributable to the owners of the Company		3,648	(20,377)
Dividend		-	-
Earnings/(loss) per Share Basic and diluted	5	RMB0.09 cents	RMB[1.74] cents

STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share capital <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2009	116,820	57,970	33,966	73,653	282,409
Loss for the period	<u>–</u>	<u>–</u>	<u>–</u>	<u>(20,377)</u>	<u>(20,377)</u>
At 31 March 2009	<u>116,820</u>	<u>57,970</u>	<u>33,966</u>	<u>53,276</u>	<u>262,032</u>
At 1 January 2010	390,834	60,653	33,966	21,052	506,505
Profit for the period	<u>–</u>	<u>–</u>	<u>–</u>	<u>3,648</u>	<u>3,648</u>
At 31 March 2010	<u>390,834</u>	<u>60,653</u>	<u>33,966</u>	<u>24,700</u>	<u>510,153</u>

NOTES TO THE ACCOUNTS

1. Organisation and principal operation

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

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

At 31 March 2010, the parent company and the ultimate parent company of the Company is Tianrui Group Company Limited which is incorporated in PRC.

2. Basis of preparation

The unaudited results of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

The accounting policies and method of computation used in the preparation of the unaudited results are consistent with those adopted by the Company in its annual financial statements for the year ended 31 December 2009.

3. Turnover, revenues and segment information

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

	Unaudited Three months ended 31 March	
	2010 RMB'000	2009 RMB'000
Turnover		
Sales of goods, net of value-added tax	<u>319,926</u>	<u>149,530</u>
Other revenue		
Sales of scrap and other materials	<u>10,609</u>	<u>1,742</u>
Supply of water and electricity	<u>117</u>	<u>85</u>
	<u>10,726</u>	<u>1,827</u>
Interest income	<u>1,463</u>	<u>2,236</u>
Total other revenue	<u>12,189</u>	<u>4,063</u>
Total revenue	<u><u>332,115</u></u>	<u><u>153,593</u></u>

Primary reporting format – business segments

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

Secondary reporting format – geographical segments

	Unaudited	
	Three months ended	
	31 March	
	2010	2009
	RMB'000	RMB'000
Turnover		
- The PRC	<u>319,926</u>	<u>149,530</u>

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

4. Taxation

The provision for current PRC enterprise income tax is based on the statutory rate of 25% (2009: 25%) of the assessable income of the Company as determined in accordance with the relevant PRC income tax rules and regulations during the three months ended 31 March 2010 and 2009.

The amount of taxation charged to the profit and loss account represents:

	Unaudited	
	Three months ended	
	31 March	
	2010	2009
	RMB'000	RMB'000
PRC enterprise income tax	<u>-</u>	<u>-</u>

5. Earnings/(loss) per share

Basic earnings/(loss) per share for the three months ended 31 March 2010 are based on the unaudited profit attributable to shareholders of RMB3,648,000 (2009: loss of RMB20,377,000), and the weighted average number of 3,908,344,104 shares (2009: 1,168,200,000 shares) in issue during the respective periods.

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

DIVIDEND

The Directors do not recommend the payment of any dividend for the three months ended 31 March 2010 (2009: Nil).

MANAGEMENT'S DISCUSSIONS AND ANALYSIS

Business Review

For the period from January to March 2010, production volume of aluminum re-smelt ingots and alloy reached 23,291 tonnes, representing an increase of 7,922 tonnes or 51.55% against that of the corresponding period in 2009. Turnover for the three months ended 31 March 2010 reached approximately RMB319,926,000 representing an increase of approximately RMB170,396,000 or 113.95% against that of the corresponding period in previous year.

For the period from January to March of 2010, sales volume of the aluminum re-smelt ingots and alloy increased to 23,228 tonnes from 14,629 tonnes in the corresponding period in previous year, representing an increase of 8,599 tonnes or 58.78%.

Increase in production volume of the Company for the period from January to March 2010 was mainly due to the closure in part of the production line of aluminium re-smelt ingots was restored. The increase in the turnover for the period from January to March 2010 was mainly driven by the increase in both of the average selling price of aluminum ingots and aluminum alloys and sales volume.

Financial Review

For the three months ended 31 March 2010:

The Company recorded a turnover of approximately RMB319,926,000 for the three months ended 31 March 2010, representing an increase of approximately 170,396,000 or 113.95% when compared with that of approximately RMB149,530,000 for the same period in pervious year. The increase in turnover was mainly attributable to the increase in average selling price of aluminum ingots and increase in sales volume of aluminum ingots during the first quarter of the year 2010.

Of the total turnover amount, approximately RMB319,926,000 or 100% was generated from the sale of aluminum re-smelt ingots in the PRC.

The Company recorded a gross profit for the three months ended 31 March 2010 was approximately RMB24,384,000, representing a gross profit margin of approximately 7.62%, against the gross loss margin of about 2.63% for the three months ended 31 March 2009. The increase in gross profit was mainly due to the increase in selling price of aluminum re-smelt ingots.

Other revenue of the Company for the three months ended 31 March 2010 amounted to approximately RMB12,189,000, which comprised approximately RMB10,609,000 from sale of scrap and other materials, approximately RMB117,000 from supply of water and electricity to the other independent third parties, and approximately RMB1,463,000 of interest income. This represented an increase of RMB8,126,000 or 200% when compared to RMB4,063,000 for the three months ended 31 March 2009. The increase was mainly attributed by the increase in sale of pre-baked anode amounted to RMB8,420,000.

Expenses related to other revenue for the three months ended 31 March 2010 amounted to approximately RMB11,349,000, representing an increase of approximately RMB9,439,000 or 494.19% against RMB1,910,000 of the corresponding period in 2009. The increase was mainly due to the increase of cost of sales of materials, pre-baked anode amounted to approximately RMB9,270,000 during the period.

The selling and distribution expenses of the Company amounted to about RMB5,430,000 or 1.70% of the turnover for the three months ended 31 March 2010, representing an increase of approximately RMB2,227,000 or 69.53% from about RMB3,203,000 or 2.14% of the turnover for the three months ended 31 March 2009. The increase was mainly due to the increase in sales volume of aluminum ingots.

The general and administrative expenses were approximately RMB10,519,000 of the turnover for the three months ended 31 March 2010, representing an increase of RMB332,000 or 3.26% from about RMB10,187,000 for the three months ended 31 March 2009. The increase was mainly due to increase of consultation fee to approximately RMB477,000.

For the three months ended 31 March 2010, finance costs amounted to approximately RMB5,627,000, representing an increase of approximately RMB424,000 or 8.15% from RMB5,203,000 for the same period in 2009. The increase was mainly due to the increase in average bank loan interest rate during the period under review.

Net profit for the three months ended 31 March 2010 was RMB3,648,000, representing an increase of profit of approximately RMB24,025,000 from net loss of approximately RMB20,377,000 for the same period in previous year.

Significant Investment

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

The Company has not held any significant investment for the three months ended 31 March 2010.

Strategies and Plans

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

During the year 2010, the Company will still face challenges both in production and management including the increase pressure on product cost and operation cost, mainly due to the intensity of competition in aluminum market, the high prices of raw materials and energy sources after the implementation of macro-economic policies on the aluminum industry. The Company will continue to focus on its principal business, carry out a cost objective management model to effectively control cost and strive to increase the returns for shareholders by, inter alia, reducing energy consumption, improving internal management and enhancing production efficiency and quality.

Foreign exchange risk

The income and expenses of the Company are mainly denominated in Renminbi. During the period under review, the Company has neither experienced any significant difficulties nor any operating capital or cash flow problems resulting from 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.

Share capital

As at 31 March 2010, the shareholders of the Company are as follows:

Category of shares	Number of shares in issue	Percentage (%)
Domestic Shares	2,700,627,244	69.10%
H Shares	1,207,716,860	30.90%

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).

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

As at 31 March 2010, 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 period ended 31 March 2010, 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 period ended 31 March 2010, none of the Directors was granted any option to subscribe for shares of the Company. As at 31 March 2010, 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 March 2010, the Company had not adopted any share option scheme or granted any option.

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 March 2010, 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:

Substantial shareholders' interest

Long positions in Domestic Shares

Name of Shareholder	Capacity	Number of Shares	Percentage in the total issued Domestic Shares	Percentage in the entire issued share capital of the Company
Tianrui Group Company Limited (天瑞集團有限公司) ["Tianrui Group"] <i>(Note)</i>	Beneficial owner	2,661,799,752	97.92%	68.11%
Li Liu Fa <i>(Note)</i>	Interest of controlled corporation	2,661,799,752	97.92%	68.11%

Long positions in H Shares

Name of Shareholder	Capacity	Number of Shares	Percentage in the total issued H Shares	Percentage in the entire issued share capital of the Company
BOCOM International Securities Limited	Beneficial owner	709,904,000	59.65%	18.16%

Note:

The 2,661,799,752 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 2,661,799,752 Domestic Shares under Part XV of the SFO.

As at 31 March 2010, 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 March 2010, 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 March 2010.

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.

STAFF RETIREMENT PLAN

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 period.

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 March 2010, the Company has no significant pending litigation.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

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 March 2010.

COMPLIANCE ADVISER'S INTERESTS

Pursuant to an agreement dated 3 March 2008 entered into between the Company and Baron Capital Limited (the "Compliance Adviser"), the Compliance Adviser has received and will receive a fee for acting as the Company's compliance adviser for the period of two years commencing from the date of the agreement or until the above agreement is terminated upon the terms and conditions set out therein.

As updated and notified by the Compliance Adviser, neither the Compliance Adviser nor its directors, employees or associates (as defined under the GEM Listing Rules) had any interests as at 30 September 2009 pursuant to Rule 6A.32 of the GEM Listing Rules, nor did they have an interest in a business which competes or may compete with the business of the Company.

AUDIT COMMITTEE

The Company established an audit committee on 13 June 2004 with written terms of reference in compliance with the requirements as set out in Rules 5.28 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.

The unaudited first quarterly accounts for the three months ended 31 March 2010 have been reviewed by the audit committee.

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

Henan Province, the PRC, 11 May 2010

As at the date of this Report, the directors of the Company are as follows:

Executive Directors:

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

Non-executive Directors:

Mr. Li He Ping (Chairman of the Company)
Mr. Yan Li Qi
Mr. Li Zhiyuan

Independent Non-executive Directors:

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