



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

Interim Report

2010



* 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 RMB661,372,000 for the six months ended 30 June 2010.
- Net loss amounted to approximately RMB11,820,000 for the six months ended 30 June 2010, as compared to a net loss of approximately RMB29,442,000 for the corresponding period in 2009.
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010.

INTERIM RESULTS

The board of directors (the "Board") of Sanmenxia Tianyuan Aluminum Company Limited (the "Company") is pleased to announce the unaudited results of the Company for the three months ("three-month period") and the six months ("six-month period") ended 30 June 2010 together with the comparative unaudited figures for the corresponding periods in 2009. The interim report of six-month period has been reviewed by the audit committee of the Company.

STATEMENT OF RECOGNISED INCOME AND EXPENSE (UNAUDITED)

Three months and six months ended 30 June 2010

	Note	Three months ended 30 June		Six months ended 30 June	
		2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Turnover	3	341,446	172,219	661,372	321,749
Cost of goods sold		(343,676)	(164,923)	(639,218)	(318,390)
Gross profit		(2,230)	7,296	22,154	3,359
Other revenue	3	13,134	4,890	25,323	8,953
Expenses related to other revenue	4	(10,965)	(3,355)	(22,314)	(5,265)
Other revenue, net		2,169	1,535	3,009	3,688
Selling and distribution expenses		(4,633)	(3,323)	(10,063)	(6,526)
General and administrative expenses		(7,900)	(8,221)	(18,419)	(18,408)
Operating (loss)/profit	5	(12,594)	(2,713)	(3,319)	(17,887)
Finance costs		(2,874)	(6,352)	(8,501)	(11,555)
Loss before income tax		(15,468)	(9,065)	(11,820)	(29,442)
Income tax	6	—	—	—	—
Loss for the period		(15,468)	(9,065)	(11,820)	(29,442)
Other recognised income and expense for the period, net of tax		—	—	—	—
Total recognised income and expense for the period		(15,468)	(9,065)	(11,820)	(29,442)
Dividend		—	—	—	—
Loss per Share	7	RMB(0.4) cents	RMB(0.78) cents	RMB(0.3) cents	RMB(2.52) cents

BALANCE SHEET

As at 30 June 2010

		30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
ASSETS			
Non-current assets			
Prepaid land lease and land use rights		13,018	13,171
Fix Assets		871,064	851,449
Debenture, at cost		500	500
Deferred tax assets		23,697	23,697
		908,279	888,817
Current assets			
Inventories		95,776	91,688
Trade receivables	8	51,765	43,184
Other current assets	8	289,279	224,261
Held-for-trading Investment		—	2,000
Current tax assets		2,041	1,399
Pledged and restricted bank balances		679,965	493,574
Cash at banks and on hand		279,401	229,886
		1,398,227	1,085,992
LIABILITIES			
Current liabilities			
Trade payables	9	759,432	419,446
Other payables and accruals		458,392	463,757
Financial guarantee liabilities		4,086	4,086
Bank borrowings	10	589,911	531,802
		1,811,821	1,419,091
Net current liabilities		(413,594)	(333,099)
Non-current liabilities			
Financial guarantee liabilities		1,213	1,213
Long-term borrowings		—	48,000
Net assets		494,685	506,505
EQUITY			
Share capital		390,834	390,834
Reserves		103,851	115,671
		494,685	506,505

CASH FLOW STATEMENT (UNAUDITED)

	Six months ended 30 June	
	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Net cash inflow from operating activities	<u>62,512</u>	<u>34,312</u>
Net cash outflow from investing activities	<u>(7,023)</u>	<u>(2,927)</u>
Net cash outflow from financing activities	<u>(5,974)</u>	<u>(4,851)</u>
Increase in cash and cash equivalents	<u>49,515</u>	<u>26,534</u>
Cash and cash equivalents at beginning of the period	<u>229,886</u>	<u>198,924</u>
Cash and cash equivalents at end of the period, representing unpledged cash and bank balances	<u>279,401</u>	<u>225,458</u>

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
Profit for the period	—	—	—	(29,442)	(29,442)
At 30 June 2009	<u>116,820</u>	<u>57,970</u>	<u>33,966</u>	<u>44,211</u>	<u>252,967</u>
At 1 January 2010	390,834	60,653	33,966	21,052	506,505
Loss for the period	—	—	—	(11,820)	(11,820)
At 30 June 2010	<u>390,834</u>	<u>60,653</u>	<u>33,966</u>	<u>9,232</u>	<u>494,685</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 30 June 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 30 June		Six months ended 30 June	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Turnover				
Sales of goods, net of value-added tax	<u>341,446</u>	<u>172,219</u>	<u>661,372</u>	<u>321,749</u>
Other revenue				
Sales of scrap and other materials	<u>11,497</u>	<u>3,472</u>	<u>22,106</u>	<u>5,214</u>
Supply of water and electricity	<u>100</u>	<u>137</u>	<u>217</u>	<u>222</u>
Interest income	<u>11,597</u>	<u>3,609</u>	<u>22,323</u>	<u>5,436</u>
	<u>1,537</u>	<u>1,281</u>	<u>3,000</u>	<u>3,517</u>
Total other revenue	<u>13,134</u>	<u>4,890</u>	<u>25,323</u>	<u>8,953</u>
Total revenue	<u>354,580</u>	<u>177,109</u>	<u>686,695</u>	<u>330,702</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 re-smelt ingots and aluminium alloy ingots, which is considered as the single business of the Company.

Secondary reporting format – geographical segments

	Unaudited			
	Three months ended 30 June		Six months ended 30 June	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover				
– PRC	<u>341,446</u>	<u>172,219</u>	<u>661,372</u>	<u>321,749</u>
	<u>341,446</u>	<u>172,219</u>	<u>661,372</u>	<u>321,749</u>

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

4. Expenses related to other revenue

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

5. Operating loss

Operating loss is stated after charging and crediting the following:

	Unaudited			
	Three months ended 30 June		Six months ended 30 June	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
After charging:				
Depreciation of fixed assets	<u>10,684</u>	<u>10,849</u>	<u>21,363</u>	<u>21,670</u>
Staff costs including directors' emoluments	<u>14,114</u>	<u>13,968</u>	<u>36,992</u>	<u>28,784</u>
Net exchange loss	<u>54</u>	<u>12</u>	<u>135</u>	<u>3</u>
After crediting:				
Interest income from bank deposits	<u>1,537</u>	<u>1,281</u>	<u>3,000</u>	<u>3,517</u>
Write back provision for doubtful debts	<u>—</u>	<u>—</u>	<u>—</u>	<u>42</u>

6. 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 and the six months ended 30 June 2010 and 2009.

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

	Unaudited			
	Three months ended 30 June		Six months ended 30 June	
	2010	2009	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
PRC enterprise income tax	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

7. Loss per share

Basic loss per share for the three months and six months ended 30 June 2010 are based on the unaudited loss attributable to shareholders of RMB15,468,000 and RMB11,820,000 respectively (2009: loss of RMB9,065,000 and RMB29,442,000 respectively), 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.

8. Trade and other receivables

	As at	
	31 June	31 December
	2010	2009
	Unaudited	Audited
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables <i>(Note (a))</i>	83,643	84,076
Less: provision for impairment of receivables	(40,878)	(40,892)
	<u>42,765</u>	<u>43,184</u>
Bills receivable <i>(Note (b))</i>	9,000	—
	<u>51,765</u>	<u>43,184</u>
Trade receivables — Net	<u>51,765</u>	<u>43,184</u>

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

(a) *Trade receivables and receivables from related parties*

Aging analysis of trade receivables was as follows:

	As at	
	30 June	31 December
	2010	2009
	Unaudited	Audited
	RMB'000	RMB'000
1-30 days	42	22
31-60 days	11	—
61-90 days	11	—
91-120 days	9	—
121-365 days	18	—
Over 365 days	<u>42,674</u>	<u>43,162</u>
	<u>42,765</u>	<u>43,184</u>

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

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

(b) *Bills receivable*

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

(c) *Other Current Assets*

	2010	2009
	RMB'000	RMB'000
Other deposits and receivables	<u>58,748</u>	<u>19,204</u>
Interest receivables	2,502	1,549
Futures deposits	1,837	1,702
Purchase deposits to third parties	220,485	201,799
Purchase deposits to related parties	7	7
Bills receivable	<u>5,700</u>	<u>—</u>
	<u>289,279</u>	<u>224,261</u>

9. Trade and other payables

	As at	
	30 June 2010 Unaudited RMB'000	31 December 2009 Audited RMB'000
Trade payables (Note (a))	160,332	72,846
Bills payables (Note (b))	599,100	346,600
	<u>759,432</u>	<u>419,446</u>

Notes:

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

	As at	
	30 June 2010 Unaudited RMB'000	31 December 2009 Audited RMB'000
1-60 days	72,899	50,913
61-90 days	6,229	3,324
91-120 days	56,224	1,605
121-365 days	14,633	5,888
Over 1 year	10,347	11,116
	<u>160,332</u>	<u>72,846</u>

- (b) *Bills payable*
Bills payables are repayable within six months, and are supported by pledged bank deposits of RMB459,110,000 (31 December 2009: RMB182,848,000) and by guarantees.

- (c) *Other payables and accruals*

	30 June 2010 Unaudited RMB'000	31 December 2009 Audited RMB'000
Receipts in advance from customers	148,366	168,329
Payables to the National Social Security Fund	—	1,865
Staff welfare payables	43,461	37,488
Accrued construction costs	5,113	11,990
Amount due to ultimate holding company	835	835
Amount due to a fellow subsidiary	4,333	4,733
Others	256,284	238,517
	<u>458,392</u>	<u>463,757</u>

10. Borrowings

Bank borrowings comprised:

	As at	
	30 June 2010 Unaudited RMB'000	31 December 2009 Audited RMB'000
Bank borrowings due –		
Within 1 year	589,911	531,802
Between 1 and 2 years	—	48,000
	<hr/>	<hr/>
	589,911	579,802
	<hr/> <hr/>	<hr/> <hr/>

Bank borrowings are supported by:

	As at	
	30 June 2010 Unaudited RMB'000	31 December 2009 Audited RMB'000
Secured by:		
Plant and machinery	68,024	71,693
Bank deposits	215,371	211,761
Trade receivable	42,765	43,184
	<hr/>	<hr/>
	326,160	326,638
	<hr/> <hr/>	<hr/> <hr/>

11. Related party transactions

Save as disclosed elsewhere in this report, no significant related party transactions, which were carried out in the normal course of the Company's business during the periods.

12. Commitments

Capital commitments outstanding not provided for in the interim financial report are as follows:

	As at	
	30 June	31 December
	2010	2009
	RMB'000	RMB'000
Property, plant and equipment		
Contracted but not provided for	651,259	631,485

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.

13. Seasonality of operations

The Company experiences higher sales in the fourth quarter, compared to other quarters in the year, due to the increased demand for its products near the end of the year. The Company anticipates this demand by increasing its production to build up inventories during the second half of the year. As a result, the Company typically reports lower revenues and segment results for the first half of the year, than the second half.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010 (2009: Nil).

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the period from January to June of 2010, production volume of aluminum ingots reached 49,518 tonnes, representing an increase of 18,296 tonnes or 58.60% against that of the corresponding period in 2009 of 31,222 tonnes. For the period from April to June of 2010, the production volume of aluminum ingots reached 26,227 tonnes, representing an increase of 10,374 tonnes or 65.44% against that of the corresponding period of the previous year of 15,853 tonnes. Increase in production volume of the Company for the period from January to June of 2010 was mainly due to the increase in market demand of aluminum ingots.

On 20 July 2010, the board (the "Board") of directors (the "Directors") of the Company approved the plan prepared by the management of the Company regarding the close down of its 172 units of 75kA electrolytic cells (the "Production Facilities") located at Smelting Factory II by the third quarter of 2010. The close down of the Production Facilities is required by a notice issued by Bureau of Industry and Information Technology of Sanmenxia* (三門峽市工業和信息化局), pursuant to which the Production Facilities shall be closed down by the end of September 2010 in compliance with the policy of the State Council of the People's Republic of China (the "PRC") in the elimination of backward production capacity.

Smelting Factory II currently has an annual production capacity of 38,000 tonnes of aluminum re-smelt ingots, representing 38% of the annual production capacity of the Company in aluminum re-smelt ingots of 100,000 tonnes, and has a total of 601 employees. The remaining annual production facilities located at Smelting Factory I has original design capacity of 62,000 tonnes of aluminium re-smelt ingots. With minor modification work performed in prior years, based on the Company's past operation experience, the production capacity of Smelting Factory I can actually reach approximately 65,000 tonnes of aluminium re-smelt ingots.

As disclosed in the announcement and the circular of the Company dated 4 June 2010 and 28 June 2010 respectively, the Company and Mianchi Tianrui Aluminum Company Limited* (澠池天瑞鋁業有限公司) entered into a conditional asset acquisition agreement dated 4 June 2010 to acquire the production and ancillary facilities for the production of electrolytic aluminum and pre-baked carbon anode and the related land use rights located at Tiantan Industrial Park, Yangshao, Mianchi County, Henan Province, the PRC (the "Assets"). Acquisition of the Assets was approved on 27 July 2010 by the shareholders of the Company other than Tianrui Group Company Limited* (天瑞集團有限公司), BOCOM International Limited and their respective associates at the extraordinary general meeting of the Company.

* for identification purposes only

As the Assets have an annual production capacity of approximately 125,000 tonnes of aluminum re-smelt ingots and approximately 65,000 tonnes of pre-baked carbon anode, the Company will be able to maintain an annual production capacity of 190,000 tonnes of aluminum re-smelt ingots after closing down of the Production Facilities by the third quarter of 2010.

FINANCIAL REVIEW

For the six months ended 30 June 2010:

The Company recorded turnover of approximately RMB661,372,000 for the six months ended 30 June 2010, a 105.56% or RMB339,623,000 increase from approximately RMB321,749,000 for the corresponding period of the previous year. The increase in turnover was mainly due to the increase in sales volume and market price of aluminum ingots.

Of the total turnover amount, RMB661,372,000 or 100% was generated from sales of aluminum re-smelt ingots in the PRC.

For the six months ended 30 June 2010, the cost of goods sold amounted to approximately RMB639,218,000, representing an increase of RMB320,828,000 or 100.77% against the corresponding period of the previous year of approximately RMB318,390,000. The increase was mainly due to the increase in the sales volume, the cost of raw material and electricity.

The Company's gross profit for the six months ended 30 June 2010 was approximately RMB22,154,000, representing a gross profit margin of approximately 3.35%, against the gross profit margin of about 1.04% for the six months ended 30 June 2009. The increase in gross profit margin was mainly due to the increase in unit price of aluminum ingots.

Other revenue of the Company for the six months ended 30 June 2010 amounted to approximately RMB25,323,000, of which approximately RMB22,106,000 was derived from sales of scrap and other materials, approximately RMB217,000 from supply of water and electricity to other independent third parties and approximately RMB3,000,000 from interest income. This represented an increase of RMB16,370,000 or 182.84% against approximately RMB8,953,000 for the six months ended 30 June 2009.

Expenses related to other revenue of the Company for the six months ended 30 June 2010 amounted to RMB22,314,000 including expenses of approximately RMB21,803,000 from sales of scrap and other materials, approximately RMB511,000 from supply of water, which represented an increase of approximately RMB17,049,000 or 323.82% against approximately RMB5,265,000 for the six months ended 30 June 2009.

The selling and distribution expenses of the Company amounted to approximately RMB10,063,000 or 1.52% of the turnover for the six months ended 30 June 2010, as compared to about RMB6,526,000 or 2.03% of the turnover for the same period of the previous year. The increase was due to the increase in transportation.

For the six months ended 30 June 2010, general and administration expenses were approximately RMB18,419,000, representing an increase of approximately RMB11,000 or 0.06% against approximately RMB18,408,000 for the same period in 2009. The increase was mainly due to the increase in banks charges.

For the six months ended 30 June 2010, the finance costs amounted to approximately RMB8,501,000, representing a decrease of RMB3,054,000 or 26.43% from approximately RMB11,555,000 for the corresponding period of 2009. The decrease was mainly due to the decrease in average loan balances.

Net loss for the six months ended 30 June 2010 was approximately RMB11,820,000, as compared to a net loss of approximately RMB29,442,000 for the corresponding period in 2009.

For the three months ended 30 June 2010:

The Company recorded a turnover of approximately RMB341,446,000 for the three months ended 30 June 2010, representing a 98.26% increase from approximately RMB172,219,000 for the corresponding period of the previous year. The increase in turnover was mainly due to the increase in selling price and sales volume of aluminum ingots for the period under review.

Of the total turnover amount, RMB341,446,000 or 100% was generated from the sales of aluminum re-smelt ingots in the PRC.

For the three months ended 30 June 2010, the cost of goods sold amounted to approximately RMB343,676,000, representing an increase of RMB178,753,000 or 108.39% against approximately RMB164,923,000 for the corresponding period in 2009. The increase was mainly due to the increase in the sales volume, unit price of raw material and electricity for April to June 2010.

The Company experienced a gross loss for the three months ended 30 June 2010, approximately RMB2,230,000, representing a gross loss margin of approximately 0.65%, against the gross profit margin of about 4.24% for the three months ended 30 June 2009. The decrease in gross profit margin was mainly because of the increase in cost of sale is higher than the increase in selling price of aluminum ingots.

Other revenue of the Company for the three months ended 30 June 2010 amounted to approximately RMB13,134,000, which comprised approximately RMB11,497,000 from sales of scrap and other materials, approximately RMB100,000 from supply of water and electricity to other independent third parties, and interest income of approximately RMB1,537,000. This represented an increase of 168.59% or RMB8,244,000 when compared to RMB4,890,000 for the three months ended 30 June 2009. The increase was mainly due to the increase from selling of pre-baked anode by RMB7,290,000 compared to the corresponding period of 2009.

Expenses related to other revenue for the three months ended 30 June 2010 amounted to approximately RMB10,965,000 including expenses of approximately RMB10,781,000 from sales of scrap and other materials and approximately RMB184,000 from supply of water and electricity to other independent third parties, representing an increase of approximately RMB7,610,000 or 226.83% against approximately RMB3,355,000 of the corresponding period in 2009. The increase was mainly due to the selling of pre-baked anode which increase by RMB7,037,000.

The selling and distribution expenses of the Company amounted to about RMB4,633,000 or 1.36% of the turnover for the three months ended 30 June 2010, representing an increase of RMB1,310,000 or 39.42% when compare to about RMB3,323,000 or 1.93% of the turnover for the three months ended 30 June 2009. The increase was mainly due to the increase in transportation expenses which in line with the increase in sales.

The general and administrative expenses were approximately RMB7,900,000 for the three months ended 30 June 2010, representing a decrease of RMB321,000 or 3.90% from about RMB8,221,000 for the three months ended 30 June 2009. The decrease were mainly due to the decrease in professional fee.

For the three months ended 30 June 2010, finance costs amounted to approximately RMB2,874,000, representing a decrease of RMB3,478,000 or 54.75% from approximately RMB6,352,000 for the corresponding period in 2009. The decrease was mainly due to the decrease in average bank loans balance.

The net loss for the three months ended 30 June 2010 was RMB15,468,000, as compared to the net profit approximately RMB9,065,000 for the same period of the previous year.

SIGNIFICANT INVESTMENT

For the period ended 30 June 2010, the Company and Mianchi Tianrui Aluminum Company Limited (瀋池天瑞鋁業有限公司) entered into an asset acquisition agreement on 4 June 2010 to acquire the assets of Mianchi Tianrui Aluminum Company Limited, which includes the production and ancillary facilities for the production of electrolytic aluminum and pre-baked carbon anode and the related land use rights located at Tiantan Industrial Park, Yangshao, Mianchi County, Henan Province, the PRC, the total consideration for the Acquisition is RMB710,882,000. The resolution sets out in the Extraordinary General Meeting on 27 July 2010 was duly passed.

CONTINGENT LIABILITIES

As at 30 June 2010, the Company had given guarantees in favour of certain third parties in respect of these companies' bank facilities in the PRC. These companies also provided reciprocal guarantees in respect of the Company's borrowings. Details of the guarantees given are as follows:

	As at	
	30 June	31 December
	2010	2009
	Unaudited	Unaudited
	RMB'000	RMB'000
Third parties	<u>173,400</u>	<u>103,400</u>

The directors of the Company have reviewed the available financial information of some of the above companies to which the Company has given the guarantees. In addition, the Company has not been notified by any banks to honour its guarantee obligations and repay the relevant borrowings on behalf of the borrowers. Accordingly, the directors of the Company are of the opinion that it is unlikely that these guarantees will crystallize as liabilities of the Company as at 30 June 2009.

STRATEGIES AND PLANS

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

In the year 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.

LIQUIDITY AND CAPITAL RESOURCES

The major source of liquidity of the Company for the first half of 2010 was generated from short-term bank borrowings and deposit received in advance. As at 30 June 2010, the Company's non-current assets were approximately RMB908,279,000. Non-current assets mainly comprised fixed assets of approximately RMB871,064,000.

As at 30 June 2010, the Company had net current liabilities of approximately RMB413,594,000. Current assets comprised cash and bank balances of approximately RMB959,366,000, inventories of approximately RMB95,776,000, trade receivables of approximately RMB51,765,000, other current assets of approximately RMB289,279,000 and refundable tax of RMB2,041,000. Current liabilities comprised short-term bank loans of approximately RMB589,911,000, trade and bills payables of approximately RMB759,432,000 and other payables of approximately RMB458,392,000 and financial liabilities RMB4,086,000.

CAPITAL STRUCTURE

As at 30 June 2010, borrowings of the Company were mainly denominated in Renminbi, and other cash equivalents were mainly held in Renminbi.

The Company plans to maintain an appropriate share capital and debt portfolio to ensure the capital structure in effective. As at 30 June, 2010, the Company had an aggregate outstanding borrowings of approximately RMB1,189,011,000, including bills payables of RMB599,100,000. The gearing ratio was approximately 78.55% (2009: 86.28%).

EMPLOYEE INFORMATION

The remuneration for the employees of the Company amounted to approximately RMB36,992,000, including the Directors' emoluments of approximately RMB298,833 during the six months ended 30 June 2010 (2009: approximately RMB28,784,000, including the Directors' emoluments of approximately RMB288,209). The increase in employee remuneration was resulted from the increase in salary of employee. As at 30 June 2010, the Company has 1,858 employees (2009: 1,900).

DETAILS OF PLEDGED ASSETS OF THE COMPANY

As at 30 June 2010, the Company has pledged bank balances and plant and machinery of approximately 679,965,000 and approximately RMB68,024,000 respectively for the purpose to obtain bank borrowings and bills payables.

FOREIGN EXCHANGE RISK

The income and expenses of the Company are mainly denominated in Renminbi. During the period under review, the Company has neither experienced any significant difficulties nor any operating capital or cash flow problems resulting from the fluctuation in the exchange rate. The Directors believe that having regard to the working capital position of the Company, it is able to meet its foreign exchange liabilities as they become due.

SHARE CAPITAL

As at 30 June 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%

SUBSTANTIAL SHAREHOLDERS' AND OTHER SHAREHOLDERS' INTERESTS

As at 30 June 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	Approximate percentage in the entire issued share capital of the Company
Li Liu Fa (Note 1)	Interest of controlled corporation	2,661,799,752	97.92%	68.11%
Tianrui Group Company Limited (天瑞集團有限公司) ("Tianrui Group")	Beneficial owner	2,661,799,752	97.92%	68.11%

Notes:

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 30 June 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.

DISCLOSURE OF INTERESTS

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

As at 30 June 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 ASSETS AND CONTRACTS

None of the Directors and Supervisors has any direct or indirect interest in any assets which have been acquired or disposed of by or leased to the Company or are proposed to be acquired or disposed of by or leased to the Company since 31 December 2009, being the date to which the latest published audited accounts of the Company were made up.

None of the Directors or supervisors were materially interested in any contract or arrangement entered into by the Company subsisting at 30 June 2010 and which is significant in relation to the business of the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

During the year ended 30 June 2010, none of the Directors was granted any option to subscribe for shares of the Company. As at 30 June 2010, none of the Directors had any right to acquire shares in the Company.

OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS

As at 30 June 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 30 June 2010.

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 30 June 2010, the Company has no significant pending litigation.

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).

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 30 June 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.

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.

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 period ended 30 June 2010.

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.

AUDIT COMMITTEE

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

The unaudited condensed interim accounts for the six months ended 30 June 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, 10 August 2010

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

Executive Directors:

Mr. Tan Yu Zhong
Mr. Zhao Zheng Bin

Non-executive Directors:

Mr. Li He Ping (Chairman of the Company)
Mr. Yan Li Qi
Mr. Ma Yong Zheng
Mr. Shang Ling Zhou

Independent Non-executive Directors:

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