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
Annual Report

* For identification only

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Corporate Information

CHAIRMAN AND NON-EXECUTIVE DIRECTOR
Mr. Li He Ping

EXECUTIVE DIRECTORS
Mr. TAN Yu Zhong
Mr. ZHAO Zheng Bin

NON-EXECUTIVE DIRECTORS
Mr. YAN Li Qi
Mr. Ma Yong Zheng
Mr. Shang Ling Zhou

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

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COMPANY SECRETARY
Mr. YAO Yan Ping *FCPA, FCCA*

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
Mr. TAN Yu Zhong
Mr. YAO Yan Ping

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China Construction Bank
Sanmenxia Branch
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Sanmenxia City
Henan Province
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Shanghai Pudong Development Bank
No. 159, Jiankang Road
Zhengzhou City
The PRC

Bank of Communication
Zhengzhou Branch
Jianwen Sub-branch
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HONG KONG H SHARE REGISTRAR AND TRANSFER OFFICE

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As to PRC law:
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AUDITORS

Martin C.K. Pong & Company
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Central
Hong Kong

Financial Highlights

Profit and loss account	**2010 RMB'000**	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000
	For the year ended 31 December				
Turnover	**1,307,648**	786,593	1,429,619	1,664,872	1,674,433
Cost of goods sold	**(1,376,526)**	(760,661)	(1,359,858)	(1,389,869)	(1,481,362)
Gross profit/(loss)	**(68,878)**	25,932	69,761	275,003	193,071
Other revenue	**134,296**	28,344	64,779	41,869	20,502
Expenses related to other revenue	**(112,015)**	(19,004)	(19,462)	(15,511)	(5,899)
Other revenue, net	**22,281**	9,340	45,317	26,358	14,603
Selling and distribution expenses	**(15,886)**	(16,192)	(44,857)	(48,120)	(21,332)
General and administrative expenses	**(111,183)**	(49,491)	(41,967)	(69,394)	(53,722)
Operating (loss)/profit	**(173,666)**	(30,411)	28,254	183,847	132,620
Finance costs	**(44,090)**	(30,227)	(62,822)	(51,073)	(40,695)
(Loss)/profit before income tax	**(217,756)**	(60,638)	(34,568)	132,774	91,925
Income tax credit/(charge)	**(23,661)**	8,037	4,677	(33,564)	(5,742)
(Loss)/profit after income tax	**(241,417)**	(52,601)	(29,891)	99,210	86,183
(Loss)/profit attributable to shareholders	**(241,417)**	(52,601)	(29,891)	99,210	86,183
Dividend	**—**	—	—		
(Loss)/earnings per share	**RMB (0.06)**	RMB(0.03)	RMB(0.02)	RMB0.07	RMB0.06

Assets and liabilities	**2010 RMB'000**	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000
	As at 31 December				
Total assets	**2,659,328**	1,974,809	1,901,600	1,867,132	1,293,119
Total liabilities	**2,394,240**	1,468,304	1,619,191	1,550,703	1,075,900
Net assets	**265,088**	506,505	282,409	316,429	217,219

Chairman's Statement

Dear Shareholders,

The year 2010 was an extremely difficult year for Sanmenxia Tianyuan Aluminium Company Limited (the "Company") and for myself. Yet, it was also a year for us to work as one to overcome the difficulty and to lift our scale of production. Over the year, the Company got the unfavourable factors such as the steep rise in power tariff, elimination of the 75KA production line and a reduction in emission and consumption of power by 55% by adhering to our government's principle, which said that we should "focus on profitability and use our capital wisely; we should concentrate on development by adjustment achieved by our management, and should tighten our cost control so as to reduce it further and to increase effectiveness; and while we should ensure that our production capacity is maintained at a steady growth efficiently, we should also grow from strength to strength by merger and acquisition in the aluminium industry and upgrading our production". In this way, we affirmed our confidence to fight on, and with our efforts to go through the hardships, we managed to maintain the sustained production of the Company and accomplished the technological revamp for our Phase I project, in addition to our successful acquisition of production facilities from Mianci Tianrui Aluminium Company Limited such that our production capacity reached an all-time high and thereby bolstering up our overall strength and making our presence felt in the industry. And I am pleased to present our annual report for the year ended 31 December 2010 and on behalf of the Board and our staff, I also take this opportunity to sincerely thank our shareholders for their care and support of the Company.

REVIEW OF RESULTS FOR 2010

In 2010, our turnover and other revenue amounted to RMB1,441,944,000, representing an increase of RMB627,007,000 over the same period of last year; our net loss was RMB241,417,000 whereas the net loss for the same period of last year was approximately RMB52,601,000. Our loss per share was approximately RMB0.06, whereas it was RMB0.03 per share for the same period of last year.

The increase in loss was mainly attributable to the increase in cost of sale of re-smelted aluminium ingots which is higher than the increase in selling price.

BUSINESS OUTLOOK AND PROSPECTS FOR 2011

The year 2011 is the year when the State begins with the implementation of the "Twelfth Five-year Plan". In the wake of the recovery of the global economy and the introduction of favourable policies by the State, a series of policies favourable to the industry of electrolytic aluminium will no doubt follow. The real property industry, automobile industry and investment in infrastructure as well as construction in the rural area for urbanization will become the most important driving force for the consumption of electrolytic aluminium, and with the arrival of the peak season of the electrolytic aluminium industry, the price of electrolytic aluminium will find strong support and the industry will see a steady growth in profit.

In 2011, we shall adhere to our principle of "focusing on profitability, using our capital wisely, concentrating on development by adjustment achieved by our management, and heightening our cost control so as to reduce it further and to increase effectiveness". We shall apply ourselves to achieve the target of "maximizing our production capacity, minimizing our cost, optimizing our performance and maximizing our cost-effectiveness". We shall put our efforts to achieve the best value and return for our shareholders and the community at large based on our business concept that our staff should grow together with the Company.

OUR KEY STRATEGIES FOR 2011

Firstly, we shall step up our effort in production management and research and development; we shall innovate and optimize our technology and at the same time save energy and increase our efficiency. We shall also put more effort in process control and the tracking control in key processes and their costs (expenses).

We also need to demand our management to be more accountable and put more effort in their task execution and maintain the standards of operation, and use their best efforts to achieve our target of "maximizing our production capacity, minimizing our cost, optimizing our performance and maximizing our cost-effectiveness".

Secondly, we shall capture any opportunity that arises and create the conditions in order to break new grounds in the capital market so as to enhance our competitiveness.

Thirdly, we shall be in full swing in our technological revamp project for Phase II for production, thereby making a staying power available for our sustaineable development.

ACKNOWLEDGEMENT

In spite of the waves of challenges ahead, I believe that with our solid business foundation and the loyal and competent management team, our operations will continue to make steady contributions in the coming years.

Finally, I would like to take this opportunity to thank our shareholders, customers and partners who have lent their support over the years, and our management and staff for the dedication and support!

Li He Ping
Chairman

Sanmenxia, Henan Province, China
30 March 2011

Management's Discussion and Analysis of Financial Condition and Results of Operations for the year 2010

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 275,000 tonnes of aluminum re-smelt ingots and 50,000 tonnes aluminum alloy products. The Company had manufactured about 93,545 tonnes of aluminum re-smelt ingots in 2010, representing an increase of 35.03%, from 69,278 tonnes for 2009. Production volume of processing aluminum ingots was 9,554 tonnes in 2010 and there was no such production in 2009. The Company had not produced aluminum alloy in 2010 and had produced 38 tonnes in 2009.

BUSINESS REVIEW

Results of Operations

The Company's net loss amounted to approximately RMB241,417,000 for 2010, as compared with the net loss of about RMB52,601,000 for 2009.

The increase in loss from 2009 to 2010 was primarily due to the increase in the price of major raw material is higher than the selling price of aluminum ingots.

Turnover

The Company's total turnover amounted to approximately RMB1,307,648,000 in 2010, representing an increase of 66.24%, from about RMB786,593,000 in 2009. The increase in turnover was mainly due to the increase in both selling prices and sales volume for aluminum ingots in 2010. The average selling price of aluminum ingots was 12.09% higher than those in 2009.

During 2010, of the total turnover amount, approximately RMB1,226,528,000 or 93.80% was generated from the sale of aluminum re-smelt ingots, and about RMB81,120,000 or 6.20% was generated from the processing aluminum ingots.

The sales of aluminum re-smelt ingots amounted to approximately RMB1,226,528,000 in 2010, representing an increase of 56.02%, from about RMB786,146,000 in 2009.

The sales of processing aluminum ingots amounted to approximately RMB81,120,000 in 2010, and there was no such production in 2009.

No aluminum alloy was sold in 2010 and the sales of aluminum alloy amounted to approximately RMB447,000 in 2009.

Sales volume of processing aluminum ingots and aluminum ingots amounted to 103,093 tonnes in 2010, representing an increase of 35,853 tonnes or 53.32%, from 67,240 tonnes in 2009. The average price was RMB12,684 per tonne in 2010, representing an increase of RMB986 per tonne or 8.43%, from RMB11,698 per tonne in 2009. Of the total sales volume, the sales volume of aluminum ingots was 93,539 tonnes in 2010, representing an increase of 26,344 tonnes or 39.21%, from 67,195 tonnes in 2009; the selling price of aluminum ingots amounted to RMB13,112 per tonne in 2010, representing an increase of RMB1,413 per tonne or 12.08% from RMB11,699 per tonne in 2009. The sales volume of processing aluminum ingots was 9,554 tonnes in 2010, the selling price was RMB8,491 per tonne, there was no such sales in 2009.

No aluminum alloy was sold in 2010, the sales of aluminum alloy was 45 tonnes in 2009 and the selling price was RMB9,934.

Management's Discussion and Analysis of Financial Condition and Results of Operations for the year 2010 (continued)

Cost of Sales

The Company's total cost of sales amounted to approximately RMB1,376,526,000 in 2010, representing an increase of 80.96%, from about RMB760,661,000 in 2009. The increase was mainly due to the increase in the price of major raw material and sales volume.

The average selling cost for aluminum ingots was RMB13,569 per tonne in 2010, representing an increase of RMB2,256 per tonne or 19.94% from RMB11,313 per tonne in 2009.

The average selling cost for processing aluminum ingots was RMB11,211 per tonne in 2010.

The average purchase price for alumina was RMB2,263 per tonne in 2010, increased by RMB287 per tonne or 14.52%, from RMB1,976 per tonne in 2009.

The average purchase cost of electricity was RMB0.4441 per volt in 2010, increased by RMB0.0885 per volt or 24.89%, from RMB0.3556 per volt in 2009.

Gross Profit

The Company's gross loss for the year ended 31 December 2010 was approximately RMB68,878,000 and the gross loss ratio was 5.27%, when compared with approximately RMB25,932,000 and gross profit ratio of 3.30% for 2009. The decrease in 2010 was mainly due to the effect of the increase in the cost of sales of the aluminum ingots is higher than the increase in selling price. The average selling price of aluminum ingots and processing aluminum ingots was RMB12,684 per tonne in 2010, increased by 8.43% than in 2009. The cost of sales of RMB13,350 per tonne in 2010 which was 18.01% higher than 2009.

Selling and Distribution Expenses

The Company's selling and distribution expenses were approximately RMB15,886,000 or 1.21% of turnover in 2010, decreased by 1.89%, from about 16,192,000 or 2.06% of turnover in 2009. The decrease was mainly attributable to reduction of the transportation cost this year.

General and Administrative Expenses

The Company's general and administrative expenses were approximately RMB111,183,000 in 2010, representing an increase of RMB61,692,000 or 1.25 times, from about RMB49,491,000 in 2009. The increase was mainly attributable to the increase in provision for impairment of trade receivables during the year.

Other Revenue

Other revenue of the Company amounted to approximately RMB134,296,000 in 2010, representing an increase of RMB105,952,000 or 3.74 time, from about RMB28,344,000 in 2009. The increase was mainly due to: (1) the increase in sales volume of aluminum and pre-baked carbon anode; and (2) increase in government subsidies by RMB8,236,000.

Expenses Related to Other Revenues

The Company's expenses related to other revenues in 2010 were approximately RMB112,015,000, representing a increase of RMB93,011,000 or 4.89 times, from about RMB19,004,000 in 2009. The increase was due to the increase in cost of sales of pre-baked carbon anode and alumina.

Management's Discussion and Analysis of Financial Condition and Results of Operations for the year 2010 (continued)

Finance Costs

The finance costs for the Company in 2010 were approximately RMB44,090,000, representing an increase of RMB13,863,000 or 45.86%, from about 30,227,000 in 2009. The increase of finance costs was mainly due to the increase of bank loan and interest rate.

Net Profit

As a result of the foregoing, the Company record a net loss for the year approximately RMB235,590,000 (2009: net loss RMB52,601,000).

The Company adopts a conservative set of investment policies to ensure that no unnecessary risks are taken with the Company's assets.

The Company has not held any significant investment for the year ended 31 December 2010.

Working Capital and Liabilities

As of 31 December 2010, the Company's current assets amounted to approximately RMB1,170,170,000, representing an increase of RMB84,178,000 from about RMB1,085,992,000 as of 31 December 2009. The increase was due to: (1) the increase of pledged bank balances of approximately RMB309,425,000; (2) decrease in trade receivables by approximately RMB20,934,000; and (3) decrease in cash and cash equivalents by approximately RMB205,068,000.

As of 31 December 2010, the Company's current liabilities amounted to approximately RMB2,394,240,000, representing an increase of RMB975,149,000, from about RMB1,419,091,000 as of 31 December 2009. The increase was mainly attributable to the increase of trade payables by approximately RMB508,596,000; and increase of other payables and accruals by approximately by RMB385,943,000, and increase in bank borrowings by approximately RMB81,089,000.

Capital Structure

As of 31 December 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 liabilities to ensure having an effective capital structure from time to time. As at 31 December 2010, the Company had an aggregate outstanding borrowings of approximately RMB1,413,745,000 (including bills payables of about RMB800,854,000). The gearing ratio was 533.31% (being the aggregate outstanding borrowings of RMB1,413,745,000 divided by the total net assets of RMB265,088,000).

Contingent Liabilities

As at 31 December 2010, the Company had given guarantees in favour of certain third parties in respect of these companies' banking facilities in the PRC. These companies also provided reciprocal guarantees in respect of the Company's borrowings. Details of the banking facilities and finance leases utilised are as follows:

	2010	2009
	RMB'000	RMB'000
Third parties	**284,000**	100,340

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

Capital Commitments

Please refer to note 35 to the financial statements for details.

Cash and Cash Equivalents

Total cash of the Company as of 31 December 2010 (including foreign currency-denominated deposits) amounted to approximately RMB24,818,000.

Cash Flow

As at 31 December 2010, the Company had cash, bank balances and deposits in bank of RMB24,818,000 (2009: RMB229,886,000), representing a decrease of RMB205,068,000 from the beginning of the year. During the year, the Company had net cash inflow from operating activities of RMB696,035,000 (2009: RMB174,020,000 of net cash outflow), net cash outflow from investing activities of RMB625,833,000 (2009: RMB69,837,000 of net cash outflow), and net cash outflow from financing activities of RMB276,336,000 (2009: RMB274,482,000 of net cash inflow).

Details of pledged assets of the Company

As at 31 December 2010, the Company had pledged bank balances and plant and machinery amounted to approximately RMB802,999,000 and approximately RMB88,602,000 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 2010, the Company has 3,058 employees (2009: 1,890). Staff costs, including Directors' remuneration, were approximately RMB73,314,000 for the year under review. The Company remunerates its employees based on their performance, experience and the prevailing industry practice.

Management's Discussion and Analysis of Financial Condition and Results of Operations for the year 2010 (continued)

Staff Retirement Plan

Details of the retirement plan of the Company are set out in note 6 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 existing shareholders in proportion to their shareholding.

Litigation

As of 31 December 2010, the Company has no significant pending litigation.

CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Mr. LI He Ping (**李和平**), aged 55, 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 47, 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 26 years of experience in the aluminum industry. He has served as Chairman and General Manager of the Company for 2 years and 9 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. ZHAO Zheng Bin (**趙正斌**), aged 53, 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 57, 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.

Mr. MA Yong Zheng (馬永正), aged 54, obtained a Bachelor's degree and possesses the qualification of economist, accountant and political work engineer (政工師). From 1982 to 1992, Mr. Ma was the deputy head of mining operation (經營副礦長) of Pochi Coal Mine jointly operated by counties and villages of Linru County (臨汝縣縣鄉聯營坡池煤礦). From 1992 to 1994, he was the chief economist of Ruzhou City Baiyunshan Cement Factory (汝州市白雲山水泥廠). From 1994 to 2007, Mr. Ma served as deputy general manager of Tianrui Group. From 2007 to 2009, he was the general manager of Pingdingshan City Ruiping Coal Electricity Company Limited (平頂山市瑞平煤電有限公司). Mr. Ma currently is the deputy general manager of Tianrui Group and the chairman of Mianchi Tianrui Aluminum Company Limited (澠池天瑞鋁業有限公司).

Mr. Shang Ling Zhou (尚靈周), aged 60, graduated from Henan Polytechnic (河南職業技術學院) (formerly known as Henan Teachers University of Technology (河南技術師範學院)) with a major in party administration management (黨政管理) in 1991, and possesses the qualification of political work engineer (政工師). He had served consecutively as the deputy secretary and secretary of committee of communists' party (黨委副書記和書記), deputy head of revolutionary committee (革委會副主任), head of management committee (管委主任) of the village government of Mianchi County, Henan Province (河南省澠池縣鄉政府). Mr. Shang currently is the deputy head of the Standing Committee of People's Congress of Mianchi County (澠池縣人大常委會副主任) and chairman and general manager of Huanghe Aluminum Electricity Group (黃河鋁電集團).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. SONG Quan Qi (宋全啟), aged 46, 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 62, 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 68, 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 20 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. Xin Mindao (**辛明道**), aged 45, was appointed as the chairman of the Supervisory Committee of the Company in August 2009. Mr. Xin graduated from Henan University of Finance and Economics (河南財經學院) with a bachelor degree in economic management and possesses the qualifications of electric engineer (電氣工程師) and economist (經濟師). Mr. Xin commenced his career in the aluminum foil sub-factory of Sanmenxia Aluminum Factory (三門峽鋁廠鋁箔分廠) in January 1987. From July 1995 to August 2000, Mr. Xin worked in the organization department of Sanmenxia Aluminum Factory (三門峽鋁廠) and had served consecutive as deputy department head and department head. From August 2000 to February 2002, he served as the secretary of the communist party of the Company (黨總支書記) and the committee member of the committee of the communist party (黨委委員) and secretary to the board of directors of Tianyuan Aluminum Group Limited (天元鋁業集團公司) ("Tianyuan Group"). In February 2002, he served as the deputy secretary of the committee of the communist party (黨委副書記), the secretary of the disciplinary committee (紀委書記) and the head of the office of proprietary right and system reform (產權制度改革辦公室主任) Tianyuan Group. Since October 2007, Mr. Xin has served as the chairman of the labour union of the Company.

Mr. CHEN Xiao Guang (陳曉光), aged 41, graduated from Central South University (中南大學) (formerly known as Central South Industry University (中南工業大學)) with a Bachelor's degree in nonferrous metallurgy in 1992 and from Henan University of Science and Technology (河南科技大學) with a Master's degree in material engineering in 2006. Mr. Chen is a member of the Communists' Party of the PRC and possesses the qualification of senior engineer. He had served at various managerial positions of Tianyuan Group and the Company. Mr. Chen joined the Company in August 2000 and has been the manager of production department since December 2008.

Mr. ZHANG Zhao Kun (張照坤), aged 40, obtained a Master's degree in business administration from Zhengzhou University (鄭州大學) in 2004 and possesses the qualification of senior human resources management specialist (高級人力資源管理師) and senior career manager (高級職業經理人). Mr. Zhang had been the office manager, assistant to general manager and head of sales department of Ruzhou Leiyu Cement Company Limited (汝州市磊裕水泥股份有限公司) of Henan Province. In 1999, he joined Tianrui Group and had served at various managerial positions such as deputy general manager of sales company, deputy office head and head of economic operation. He is currently the head of enterprise management department of Tianrui Group, and deputy general manager and head of human resources department of Tianrui Group Cement Company Limited (天瑞集團水泥有限公司).

Mr. Zhou Yong (周勇), aged 43, graduated from Zhongzhou University with a major in construction engineering in 1989 and possesses the qualification of engineer. Mr. Zhou had served at various managerial positions of Company No. 4 of China Construction Seventh Engineering Division Corporation Limited (中國建築第七工程局有限公司四公司) and Henan Xingbo Construction Cost Consulting Company Limited (河南興博工程造價諮詢事務所有限公司). He is currently the head of audit division of Tianrui Group.

Mr. GE Dian Long (葛殿龍), aged 51, graduated from Zhengzhou University in 1996 with a major in Administrative Management and has obtained the qualification of assistant engineer. Mr. Ge has over 23 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 47, 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 37, 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 47, 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 46, 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 43, 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 46, 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 41, 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.

The Board submits to the Company the report together with the audited financial statements for the year ended 31 December 2010.

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 statement of comprehensive income of the Company for the year ended 31 December 2010 is set out on page 36 of this report.

DIVIDEND

The Directors do not propose any dividend for the year ended 31 December 2010.

RESERVES

Movements in the reserves of the Company during the year are set out in the statement of changes in equity on page 31 of this report.

PREPAID LEASE PAYMENTS AND PROPERTY, PLANT AND EQUIPMENT

Details of the movements in prepaid lease payments and property, plant and equipment of the Company are set out in notes 18 and 19 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. There is no distributable profits of the Company as of 31 December 2010, calculated based on the above principle.

TAXATION

Details of the treatment of the Company's taxation for the year ended 31 December 2010 are set out in note 15 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 2010 is set out on note 14 to the financial statements.

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

Disclosure of Interests

As at 31 December 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 year ended 31 December 2010, save as disclosed in the paragraph 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 2010, none of the Directors was granted any option to subscribe for shares of the Company. As at 31 December 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 December 2010, 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 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") *(Note)*	Beneficial owner	2,661,799,752	97.92%	68.11%
Li Liu Fa *(Note)*	Interest of controlled corporation	2,661,799,752	97.92%	68.11%

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 December 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 December 2010, save for the person described in the paragraph headed "Interests of substantial shareholder and other shareholders' interests" 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 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.

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 21.36% and approximately 58.07%, respectively, of the Company's total turnover for the year ended 31 December 2010.

The amount of raw materials (including electricity) provided by the largest supplier and the five largest suppliers of the Company accounted for approximately 48.35% and approximately 83.42%, 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 2010.

CONNECTED TRANSACTIONS

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

Connected Person

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.

Continuing Connected Transactions

The supply of pre-baked carbon anode by Dongxing to the Company under the Raw Material Supply Agreement dated 29 December 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 2010 amounted to RMB1,339,000.

In respect of transactions set out in the paragraph headed "Continuing Connected Transactions" above, the Company has obtained independent shareholder's approval on the transactions and their respective annual caps for each of the three years ending 31 December 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 2010.

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 2010. 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

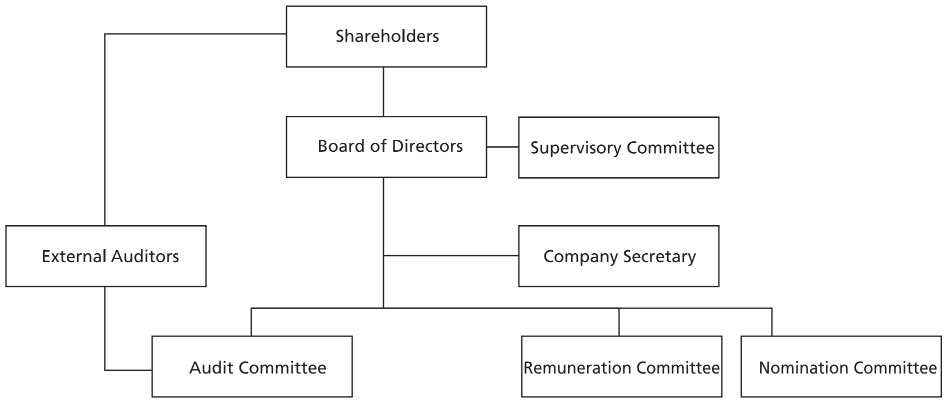
Sanmenxia City, Henan Province, the PRC
30 March 2011

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 2010.

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 two executive Directors, four 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 2010 and up to the date of the report were:

Executive directors
Mr. Tan Yu Zhong
Mr. Zhao Zheng Bin

Non-executive directors
Mr. Li He Ping *(Chairman)*
Mr. Yan Li Qi
Mr. Ma Yong Zheng (appointed on 13 June 2010)
Mr. Shang Ling Zhou (appointed on 13 June 2010)

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 2010, 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 and fund raising activity of the Company as set out below:

Date of Announcement	Type of Transaction	Description
4 June 2010	Very substantial acquisition and connected transaction	Acquisition of production and ancillary facilities
20 July 2010	Price sensitive information	Close down of production facilities
24 August 2010	Discloseable transaction	Cross guarantee 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 2010.

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

Board member	Attendance at meetings held in the year ended 31 December 2010
Mr. Tan Yu Zhong	12/12
Mr. Zhao Zheng Bin	12/12
Mr. Li He Ping	12/12
Mr. Yan Li Qi	12/12
Mr. Ma Yong Zheng (appointed on 13 June 2010)	9/9
Mr. Shang Ling Zhou (appointed on 13 June 2010)	9/9
Mr. Zhu Xiao Ping	11/12
Mr. Song Quan Qi	11/12
Mr. Chan Nap Tuck	11/12

(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 audit committee meetings for the year ended 31 December 2010:

Committee member	Attendance at meetings held in the year ended 31 December 2010
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 2010, there was one meeting held. The following was an attendance record of the remuneration committee meeting for the year ended 31 December 2010:

Committee member	Attendance at meetings held in the year ended 31 December 2010
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 nomin rectorships;

(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 2010, there was one meeting held. The following was an attendance record of the nomination committee meeting for the year ended 31 December 2010:

Committee member	Attendance at meetings held in the year ended 31 December 2010
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 2010, 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$1,300,000
Non audit services	HK$400,000
	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 2010, 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 2010, the following shareholder meetings were held by the Company:

Date	Venue	Type of Meeting	Particulars	Way of voting at the Meeting
30 March 2010	No. 10 South Dongfeng Road, Sanmenxia City, Henan Province, The PRC.	Extraordinary General Meeting	1. To consider to send or supply the corporate communication by means of the Company's own website. 2. To approve the amendments to the articles of association	By Poll
25 May 2010	No. 10 South Dongfeng Road, Sanmenxia City, Henan Province, The PRC.	Annual General Meeting	1. To consider and approve the report of the board of directors (the "Board") of the Company for 2009; 2. To consider and approve the report of the supervisory committee (the "Supervisory Committee") of the Company for 2009; 3. To consider and approve the audited financial statements and the auditors' report for 2009; 4. To consider and approve the appointment and/or the re-appointment of the Company's international and PRC auditors respectively for 2010 and to authorize the Board to determine their remunerations; 5. To consider and approve the re-election of the executive directors, non-executive directors and the indepentent non-executive directors of the fourth session of the Board for a term of three years commencing from 13 June 2010; 6. To consider and approve the appointment of the supervisors of the fourth session of the Supervisory Committee for a term of three years commencing from 13 June 2010; 7. To consider and authorize the Board to enter into service agreements with the directors and supervisors of the fourth session of the Board and the Supervisory Committee with terms and conditions which it, in its absolute discretion, may deem appropriate, and to do or authorize doing all such acts, matters and things as it may in its absolute discretion consider necessary, expedient or desirable in connection with the reelection and appointment of directors and supervisors of the fourth session of the Board and the Supervisory Committee; and 8. To consider and, if thought fit, to authorize the Board to fix the remuneration of directors and supervisors of the fourth session of the Board and the Supervisory Committee.	
27 July 2010	No. 10 South Dongfeng Road, Sanmenxia City, Henan Province, The PRC.	Extraordinary General Meeting and Class Meetings	1. To approve, confirm and ratify the asset acquisition agreement	By Poll

Report of the Supervisors

To the Shareholders:

The Supervisory Committee of Sanmenxia Tianyuan Aluminum Company Limited (the "Supervisory Committee"), in compliance with the provisions of the Company Law of the People's Republic of China (the "PRC Company Law"), the relevant laws and regulations of Hong Kong and the Articles of Association of the Company, under their fiduciary duty, took up an active role to work reasonably and cautiously with diligence to protect the interests of the Company and its shareholders.

During the year, the Supervisory Committee had reviewed cautiously the operation and development plans of the Company and provided reasonable suggestions and opinions to the Board. It also strictly and effectively monitored and supervised the Company's management in making significant policies and decisions to ensure that they are in compliance with the laws and regulations of the PRC and the Articles of Association of the Company, and in the interests of its shareholders.

We have reviewed and agreed to the report of the Directors and audited financial statements for presentation at the forthcoming annual general meeting. We are of the opinion that the Directors, the general manager and other senior management of the Company were able to strictly observe their fiduciary duty, to act diligently and to exercise their authority faithfully in the best interests of the Company. The transactions between the Company and connected parties are in the interests of the shareholders as a whole and/or under fair and reasonable price. Up till now, none of the Directors, general manager and senior management staff had been found damaging the interests of the Company and infringing upon the interests of its shareholders and employees.

The Supervisory Committee is satisfied with the achievement and cost-effectiveness of the Company in 2010 and has great confidence in the future of the Company.

By Order of the Supervisory Committee
Xin Mindao
Chairman

Sanmenxia City, Henan Province, the PRC
30 March 2011

龐志鈞會計師行
Martin C. K. Pong & Company

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

We were engaged to audit the financial statements of Sanmenxia Tianyuan Aluminum Company Limited (the "Company") set out on pages 36 to 76 which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation of financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

Except for the inability to obtain sufficient appropriate audit evidence as explained below, 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 about whether the financial statements are free from material misstatement. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

As explained in Note 3 to the financial statements, the financial statements have been prepared on the going concern basis, the validity of which depends upon the directors' plans to extend the existing banking facilities granted by its bankers, improve the Company's future operating results, obtain additional financing and whether the Company will be required to honour its guarantee obligations upon default by guaranteed third parties. However, the documents relating to the proposed plans and guarantee obligations available to us were limited. Accordingly, we were unable to determine the reasonableness of the directors' assumptions that the Company is a going concern and is able to pay its liabilities as they fall due in the foreseeable future. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to these matters, which may have a consequential effect on the Company's loss for the year and net current liabilities at 31 December 2010.

Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at other than the amount at which they are currently recorded in the statement of financial position. In addition, the Company may have to provide for further liability that might arise, and to reclassify non-current assets as current assets.

龐志鈞會計師行
Martin C. K. Pong & Company

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements. In all other respects, in our opinion the financial statements 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

30 March 2011

Statement of Comprehensive Income

For the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Revenue	8	**1,307,648**	786,593
Cost of sales		**(1,376,526)**	(760,661)
Gross (loss)/profit		**(68,878)**	25,932
Other revenue	10	**22,281**	9,340
Distribution costs		**(15,886)**	(16,192)
Administrative expenses		**(111,183)**	(49,491)
Finance costs	11	**(44,090)**	(30,227)
Loss before tax	12	**(217,756)**	(60,638)
Income tax (expense)/credit	15	**(23,661)**	8,037
Loss for the year		**(241,417)**	(52,601)
Other comprehensive income		**—**	—
Total comprehensive income for the year		**(241,417)**	(52,601)
Loss and total comprehensive income for the year attributable to owners of the Company		**(241,417)**	(52,601)
Loss per share (expressed in RMB)			
Basic and diluted	17	**(0.06)**	(0.03)

The notes on pages 40 to 76 are an integral part of these financial statements.

Statement of Financial Position

As at 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
ASSETS			
Non-current assets			
Prepaid lease payments	18	**8,730**	13,171
Property, plant and equipment	19	**1,019,852**	851,449
Payments for acquisition of property, plant and equipment	20	**460,076**	—-
Debenture, at cost		**500**	500
Deferred tax assets	16	**—**	23,697
		1,489,158	888,817
Current assets			
Inventories	21	**95,148**	91,688
Trade receivables	22	**22,250**	43,184
Other receivables and deposits	23	**222,654**	224,261
Held-for-trading investments	24	**—**	2,000
Current tax assets		**2,301**	1,399
Pledged bank balances	25	**802,999**	493,574
Cash and cash equivalents	25	**24,818**	229,886
		1,170,170	1,085,992
LIABILITIES			
Current liabilities			
Trade payables	26	**928,042**	419,446
Other payables and accruals	27	**849,700**	463,757
Financial guarantee liabilities	28	**3,607**	4,086
Borrowings	29	**612,891**	531,802
		2,394,240	1,419,091
Net current liabilities		**(1,224,070)**	(333,099)
Total assets less current liabilities		**265,088**	555,718
Non-current liabilities			
Financial guarantee liabilities	28	**—**	1,213
Long-term borrowings	29	**—**	48,000
		—	49,213
Net assets		**265,088**	506,505
EQUITY			
Share capital	30	**390,834**	390,834
Reserves	31	**(125,746)**	115,671
Total equity		**265,088**	506,505

The financial statements on pages 36 to 76 were approved and authorised for issue by the Board of Directors on 30 March 2011.

Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to owners of the Company				
	Share capital RMB'000 *(Note 30)*	**Capital reserve** RMB'000 *(Note 31(a))*	**Statutory surplus reserve** RMB'000 *(Note 31(b))*	**Retained earnings/ (accumulated losses)** RMB'000	**Total equity** RMB'000
Balance at 1 January 2009	116,820	57,970	33,966	73,653	282,409
Total comprehensive income for the year	—	—	—	(52,601)	(52,601)
Issue of shares	274,014	16,192	—	—	290,206
Share issue expenses	—	(13,509)	—	—	(13,509)
Balance at 31 December 2009	390,834	60,653	33,966	21,052	506,505
Total comprehensive income for the year	—	—	—	(241,417)	(241,417)
Balance at 31 December 2010	390,834	60,653	33,966	(220,365)	265,088

The notes on pages 40 to 76 are an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Cash flows from operating activities			
Cash generated from/(used in) operations	32	**774,833**	(120,740)
Interest paid		**(77,932)**	(53,280)
Income tax paid		**(866)**	—
Net cash from/(used in) operating activities		**696,035**	(174,020)
Cash flows from investing activities			
Proceeds from sales of property, plant and equipment		**39,628**	2,538
Interest received		**4,982**	4,061
Purchase of property, plant and equipment		**(210,527)**	(74,983)
Payment for prepaid lease payments		**(1,692)**	—
Payment for acquisition of property, plan and equipment		**(460,076)**	—
Proceeds from sales of available-for-sale investments		**—**	528
Purchase of held-for-trading investments		**—**	(2,494)
Proceeds from sales of held-for-trading investments		**1,852**	513
Net cash used in investing activities		**(625,833)**	(69,837)
Cash flows from financing activities			
(Increase)/decrease in pledged bank balances		**(309,425)**	65,973
Proceeds from borrowings		**694,291**	713,901
Repayment of borrowings		**(661,202)**	(782,089)
Proceeds from issue of shares		**—**	290,206
Share issue expenses		**—**	(13,509)
Net cash (used in)/from financing activities		**(276,336)**	274,482
Net (decrease)/increase in cash and cash equivalents		**(206,134)**	30,625
Cash and cash equivalents at beginning of the year		**229,886**	198,924
Effects of exchange rate changes on cash and cash equivalents		**1,066**	337
Cash and cash equivalents at end of the year		**24,818**	229,886
Analysis of cash and cash equivalents			
Cash and bank balances		**24,818**	229,886

The notes on pages 40 to 76 are an integral part of these financial statements.

1. GENERAL INFORMATION

Sanmenxia Tianyuan Aluminum Company Limited (the "Company") is incorporated in the People's Republic of China (the "PRC") as a joint stock company with limited liability. 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 are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is principally engaged in the production and distribution of aluminum ingots and alloy aluminum ingots.

These financial statements are presented in Renminbi ("RMB"), which is the functional currency of the Company, and all value are rounded to the nearest thousand except when otherwise indicated.

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

2. STATEMENT OF COMPLIANCE

These 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 ("HKAS") 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. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

3. BASIS OF PREPARATION

The financial statements have been prepared on the historical cost basis except for certain financial instruments are stated at fair values as explained in the accounting policies below.

The financial statements have also been prepared on a going concern basis notwithstanding the current liabilities of the Company exceeded its current assets by RMB1,224,070,000 as at 31 December 2010 and the Company incurred a loss of RMB241,417,000 for the year then ended. In addition, at the end of the reporting period, the Company had capital commitments of approximately RMB788,589,000 and had given guarantees in favour of third parties (the "Borrowers") amounting to RMB284,000,000 in respect of the banking facilities utilised by the Borrowers.

In the opinion of the directors of the Company, the Company's ability to continue its business depends upon the success of extension of the banking facilities granted by its bankers, the improvement on its future operating results 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 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 from the end of the reporting period and, therefore the financial statements have been prepared on a going concern basis.

3. BASIS OF PREPARATION *(CONTINUED)*

Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at other than the amounts at which they are currently recorded in the statement of financial position. In addition, the Company may have to provide for further liabilities that might arise, and to reclassify non-current assets as current assets.

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the applications of policies and reported amounts of assets, liabilities, income and expenses. Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 7.

4. APPLICATION OF NEW AND REVISED HKFRSs

In the current year, the Company has applied all of the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for annual periods beginning on or after 1 January 2010. The application of the new and revised HKFRSs in the current year has had no material effect on these financial statements unless otherwise stated below:

Amendments to HKAS 17 Leases

As part of *Improvements to HKFRSs* issued in 2009, HKAS 17 has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Company was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Company reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. The classification of leases in the PRC remained as operating leases.

5. ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Company has not early adopted the following new and revised HKFRSs that have been issued but are not yet effective up to the date of issue of these financial statements.

HKFRSs (Amendments)	*Improvements to HKFRSs* issued in 2010 except for the amendments to HKFRS 3 (as revised in 2008), HKFRS 7, HKAS 1 and HKAS 28[a]
HKFRS 1 (Amendments)	*Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*[c]
HKFRS 1 (Amendments)	*Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[e]
HKFRS 7 (Amendments)	*Transfers of Financial Assets*[e]
HKFRS 9	*Financial Instruments*[g]
HKAS 12 (Amendments)	*Deferred Tax: Recovery of Underlying Assets*[f]
HKAS 24 (Revised in 2009)	*Related Party Disclosures*[d]
HKAS 32 (Amendments)	*Classification of Rights Issues*[b]
HK(IFRIC)-Int 14 (Amendments)	*Prepayments of a Minimum Funding Requirement*[d]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[c]

(a) Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate
(b) Effective for annual periods beginning on or after 1 February 2010
(c) Effective for annual periods beginning on or after 1 July 2010
(d) Effective for annual periods beginning on or after 1 January 2011
(e) Effective for annual periods beginning on or after 1 July 2011
(f) Effective for annual periods beginning on or after 1 January 2012
(g) Effective for annual periods beginning on or after 1 January 2013

The Company is in the process of making an assessment of what the impact of these new and revised HKFRSs is to be expected in the period of initial application. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

6.1 Revenue recognition

Revenue is recognised in profit or loss when it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably, as follows:

(a) Sales of goods
Revenue from the sales 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 accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

6.2 Segment information

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Company's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Company's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

6.3 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is calculated on a straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. 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, useful lives and method of depreciation are reviewed at the end of each reporting period, and adjusted prospectively if appropriate.

An item of property, plant and equipment is derecognised upon disposal or no further economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement is the difference between the net sales proceed and the carrying amount of the relevant asset, recognised in profit or loss in the year of the asset is derecognised.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

6.3 Property, plant and equipment (Continued)

Construction in progress represents plant and machinery under construction which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the construction period.

Construction in progress is transferred to the plant and machinery when the asset is substantially ready for its intended use.

6.4 Impairment of assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

6.5 Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

6.5 Financial instruments (Continued)

Financial assets

Financial assets of the Company are classified into the following specified categories: financial assets at fair value through profit or loss (FVTPL), available-for-sale (AFS) financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables. Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in the Available-for-sale financial assets revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the Available-for-sale financial assets revaluation reserve is reclassified to profit or loss.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

6.5 Financial instruments (Continued)

Available-for-sale financial assets *(Continued)*

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected. For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment. For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

6.5 *Financial instruments* *(Continued)*

Impairment of financial assets *(Continued)*

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instrument

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Company's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expenses is recognised on an effective interest basis.

6.6 *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.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

6.7 Cash and cash equivalents

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

6.8 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

6.9 Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Company, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid lease payments under finance leases, are included in property, plant and equipment, and depreciated over the period consistent with that for depreciable assets that are owned. If there is no reasonable certainty that the leasee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life. The finance costs of such leases are charged to the to the statement of comprehensive income so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Company is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of comprehensive income on the straight-line basis over the lease terms.

Prepaid lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

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

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

6.10 Foreign currency translation *(Continued)*

(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 profit or loss.

6.11 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

6.12 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

6.12 Taxation (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

6.13 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.

6.14 Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred revenue in the statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest (received on or after 1 January 2009) is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan on initial recognition.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

6.15 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 statement of financial position at cost and are subsequently remeasured at their fair value. Changes in fair value of futures contracts are recognised immediately in profit or loss.

The fair value of futures contract is based on quoted market prices at the end of the reporting period.

6.16 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*.

6.17 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.

6.18 Related parties

A party is considered to be related to the Company if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Company (ii) has an interest in the Company that gives it significant influence over the Company; or (iii) has joint control over the Company;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Company or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

6.18 Related parties (Continued)

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Company, or of any entity that is a related party of the Company.

7. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

Estimates and judgments 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 RMB1,019,852,000 (2009: RMB851,449,000) at 31 December 2010 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 6.4. 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 the end of each of the reporting period, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs to disposal.

(b) Impairment of receivables

Trade and other receivables 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/debtors and the current market condition. Management reassesses the estimation at the end of each of the reporting period.

7. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES *(CONTINUED)*

(c) Legal titles of certain land and buildings

As stated in notes 18 and 19 to the financial statements, the Company has not obtained the relevant land use right certificates and building ownership certificates of certain land and buildings. Despite the fact that the Company has not obtained the relevant land use right certificates and building ownership certificates, the directors determine to recognise those land and buildings on the grounds that the Company is in substance subject to the risk and rewards of the ownership of those land and buildings.

8. REVENUE

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts and related value-added tax.

9. SEGMENT INFORMATION

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 segment, no operating segment information is separately presented.

No geographical information is shown as the revenue from external customers and non-current assets of the Company are substantially derived from activities or located in the PRC.

Included in revenues arising from sales of aluminium related products of RMB1,307,648,000 (2009: RMB786,593,000) are revenues of approximately RMB475,052,000 (2009: RMB275,512,000) which arose from sales to the Company's two largest customers. No other single customers contributed 10% or more to the Company's revenue for both 2010 and 2009.

10. OTHER REVENUE

	2010 **RMB'000**	2009 RMB'000
Other income and gains		
Sales of scrap and other materials	**110,617**	18,011
Cost of sales	**(112,015)**	(18,117)
Loss of sales of scrap and other materials	**(1,398)**	(106)
Interest income on bank deposits	**6,531**	5,610
Government subsidies	**11,736**	3,500
Write back of impairment on trade and other receivables	**—**	58
Gain on disposal of property, plant and equipment	**2,258**	—
Amortisation of financial guarantee contracts, net	**1,692**	—
Others	**1,462**	278
	22,281	9,340

11. FINANCE COSTS

	2010 RMB'000	2009 RMB'000
Interest expense on bank and other borrowings wholly repayable within five years	**79,172**	53,475
Less: Amount capitalised into construction in progress *(note 19)*	**(35,082)**	(23,248)
	44,090	30,227

The borrowing costs have been capitalised at a rate of 6.78% to 7.08% per annum (2009: 6.10% to 6.98%).

12. LOSS BEFORE TAX

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

	2010 RMB'000	2009 RMB'000
Cost of inventories sold	**706,047**	340,293
Staff costs including directors' remuneration *(Note 13)*	**74,278**	52,963
Depreciation of property, plant and equipment	**39,836**	42,229
Amortisation of prepaid lease payments	**306**	306
Loss on disposal of property, plant and equipment	**—**	933
Loss on disposal of held-for-trading investments	**148**	—
Auditors' remuneration — audit services	**1,606**	1,381
Impairment of trade and other receivables (written back)	**50,792**	(58)
Impairment of prepaid lease payments	**5,827**	—
Foreign exchange (gain)/loss, net	**(1,066)**	157

13. STAFF COSTS

	2010 RMB'000	2009 RMB'000
Salaries, wages and other benefits	**64,968**	44,826
Pension scheme contributions	**9,310**	8,137
	74,278	52,963

14. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS EMOLUMENTS

The total emoluments of the Company's directors for the year are as follows:

	2010 RMB'000	2009 RMB'000
Fees	**320**	320
Salaries and other benefits	**895**	201
Discretionary bonus	**—**	—
Pension scheme contributions	**40**	39
	1,255	560

Directors' remuneration disclosed pursuant to Section 161 of the Companies Ordinance is as follows:

For the year ended 31 December 2010

	Directors' fee RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonus RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr. Tan Yu Zhong	—	508	—	16	524
Mr. Xiao Chong Xin (resigned on 12 June 2010)	—	129	—	8	137
Mr. Zhao Zheng Bin	—	258	—	16	274
Non-executive directors					
Mr. Li He Ping	—	—	—	—	—
Mr. Li Zhi Yuan (resigned on 12 June 2010)	—	—	—	—	—
Mr. Yan Li Qi	—	—	—	—	—
Mr. Ma Yong Zheng (appointed on 13 June 2010)	—	—	—	—	—
Mr. Shang Ling Zhou (appointed on 13 June 2010)	—	—	—	—	—
Independent non-executive directors					
Mr. Song Quan Qi	100	—	—	—	100
Mr. Zhu Xiao Ping	100	—	—	—	100
Mr. Chan Lap Tuck	120	—	—	—	120
	320	895	—	40	1,255

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(CONTINUED)*

For the year ended 31 December 2009

	Directors' fee RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonus RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr. Tan Yu Zhong	—	67	—	13	80
Mr. Xiao Chong Xin	—	67	—	13	80
Mr. Zhao Zheng Bin	—	67	—	13	80
Non-executive directors					
Mr. Li He Ping	—	—	—	—	—
Mr. Li Zhi Yuan (appointed on 27 May 2009)	—	—	—	—	—
Mr. Yan Li Qi	—	—	—	—	—
Independent non-executive directors					
Mr. Song Quan Qi	100	—	—	—	100
Mr. Zhu Xiao Ping	100	—	—	—	100
Mr. Chan Lap Tuck	120	—	—	—	120
	320	201	—	39	560

(a) There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2009: Nil).

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Company, three (2009: five) were directors of the Company whose emoluments are included in above.

The emoluments of the remaining two (2009: nil) non-director, highest paid individuals in 2010 are as follows:

	2010 RMB'000	2009 RMB'000
Salaries and other benefits	**545**	—
Discretionary bonus	**—**	—
Pension scheme contributions	**40**	—
	585	—

The emoluments of the five highest paid individuals were all within HK$nil to HK$1,000,000.

15. INCOME TAX EXPENSE/(CREDIT)

	2010 RMB'000	2009 RMB'000
Current tax:		
PRC Enterprise Income Tax		
Current	**—**	36
Over-provision	**(36)**	—
	(36)	36
Deferred tax *(note 16)*	**23,697**	(8,073)
	23,661	(8,037)

The provision for the PRC Enterprise Income tax is calculated at 25% (2009: 25%) of the estimated taxable profits for the year.

A reconciliation of income tax expense/(credit) applicable to loss before tax using the statutory rate to the tax credit at the effective tax rate are as follows:

	2010 RMB'000	2009 RMB'000
Loss before tax	**(217,756)**	(60,638)
Tax at statutory rate	**(54,439)**	(15,159)
Over-provision of tax for previous year	**(36)**	—
Income not subject to tax	**(3,728)**	—
Expenses not deductible for tax	**2,332**	3,093
Tax loss not recognised	**34,341**	—
Unrecognised temporary difference	**45,191**	4,029
Income tax expense/(credit)	**23,661**	(8,037)

16. DEFERRED TAX ASSETS

The movements in deferred tax assets during the year and the balance as at the end of the reporting period are as follows:

	Provision for doubtful trade and other receivables RMB'000	Inventories RMB'000	Construction in progress RMB'000	Others RMB'000	Unutilised tax loss RMB'000	Total RMB'000
At 1 January 2009	10,549	3,001	—	53	2,021	15,624
(Charged)/credited to income statement	(15)	5,267	4,065	777	(2,021)	8,073
At 31 December 2009	10,534	8,268	4,065	830	—	23,697
Charged to income statement	(10,534)	(8,268)	(4,065)	(830)	—	(23,697)
At 31 December 2010	—	—	—	—	—	—

Deferred tax assets have not been recognised in respective of the following items:

	2010 RMB'000	2009 RMB'000
Deductible tax loss	**184,983**	—
Deductible temporary difference	**196,882**	16,116
	381,865	16,116

Deferred tax assets have not been recognised in respect of the above items as they are not considered probable that future taxable profits will be available against which the above items can be utilised. The tax losses of RMB47,620,000 and RMB137,363,000 will be expired in the year 2014 and 2015 respectively.

17. LOSS PER SHARE

(a) Basic

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

	2010 **RMB'000**	2009 RMB'000
Loss attributable to owners of the Company	**(241,417)**	(52,601)
Weighted average number of ordinary shares in issue (in thousand shares)	**3,908,344**	1,747,695
Basic loss per share (RMB)	**(0.06)**	(0.03)

The weighted average number of ordinary shares for the purpose of calculating basic loss per share for the year ended 31 December 2009 have been retrospectively adjusted for the rights issue as detailed in note 30 to the financial statements.

(b) Diluted

The Company did not have any dilutive potential ordinary shares during 2009 and 2010. As a result, diluted loss per share equals to basic loss per share.

18. PREPAID LEASE PAYMENTS

Prepaid lease payments represent the Company's interests in leasehold land in the PRC:

	2010 **RMB'000**	2009 RMB'000
Land outside Hong Kong		
Long term leases	**1,315**	1,353
Medium term leases	**7,415**	11,818
	8,730	13,171
Carrying amount at 1 January	**13,171**	13,477
Additions	**1,692**	—
Amortisation	**(306)**	(306)
Impairment	**(5,827)**	—
Carrying amount at 31 December	**8,730**	13,171

At the end of the reporting period, the Company's land held under medium term lease with carrying amount of RMB5,827,000 was levied by the local government and such land is non-transferrable and the net carrying amount is fully impaired accordingly.

At 31 December 2010, the relevant land use right certificates of the Company's prepaid lease payments with net carrying amount of approximately RMB7,416,000 have not been obtained.

19. 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
Year ended 31 December 2009						
At 1 January 2009						
Cost	425,336	102,792	411,944	10,147	69,285	1,019,504
Accumulated depreciation and impairment loss	(11,342)	(21,394)	(157,670)	(3,515)	(26,665)	(220,586)
Net carrying amount	413,994	81,398	254,274	6,632	42,620	798,918
Opening net carrying amount	413,994	81,398	254,274	6,632	42,620	798,918
Additions	73,752	—	—	1,151	80	74,983
Interest capitalised *(note 11)*	23,248	—	—	—	—	23,248
Disposals	—	(296)	(1,436)	(1,739)	—	(3,471)
Depreciation	—	(3,240)	(33,705)	(372)	(4,912)	(42,229)
Closing net carrying amount	510,994	77,862	219,133	5,672	37,788	851,449
At 31 December 2009						
Cost	522,336	102,496	410,507	9,559	69,365	1,114,263
Accumulated depreciation and impairment loss	(11,342)	(24,634)	(191,374)	(3,887)	(31,577)	(262,814)
Net carrying amount	510,994	77,862	219,133	5,672	37,788	851,449
Year ended 31 December 2010						
Opening net carrying amount	510,994	77,862	219,133	5,672	37,788	851,449
Additions	209,367	—	70	636	454	210,527
Interest capitalised *(note 11)*	35,082	—	—	—	—	35,082
Disposals	—	—	(36,132)	(398)	(840)	(37,370)
Depreciation *(note a)*	—	(3,327)	(30,393)	(1,280)	(4,836)	(39,836)
Closing net carrying amount	755,443	74,535	152,678	4,630	32,566	1,019,852
At 31 December 2010						
Cost	766,785	102,496	294,269	9,398	67,114	1,240,062
Accumulated depreciation and impairment loss	(11,342)	(27,961)	(141,591)	(4,768)	(34,548)	(220,210)
Net carrying amount	755,443	74,535	152,678	4,630	32,566	1,019,852

(a) Depreciation of RMB38,151,000 (2009: RMB40,657,000) have been included in cost of goods sold, and of RMB1,685,000 (2009: RMB1,572,000) in administrative expenses.

(b) Certain property, plant and equipment were pledged for the banking facilities granted to the Company as at the end of the reporting period (note 29).

19. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

At 31 December 2010, the relevant building ownership certificates of the Company's buildings with net carrying amount of approximately RMB31,641,000 have not been obtained.

20. PAYMENTS FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

On 4 June 2010, the Company entered into an agreement with a fellow subsidiary of the Company, Mianchi Tianrui Aluminum Company Limited, for the acquisition of certain property, plant and equipment and the related land use rights which are located the PRC (the "Acquisition"), in a total consideration of RMB710,882,000.

During the year, the Company paid RMB460,076,000 for the Acquisition. Upon the completion of legal title transferred, payments for the acquisition of property, plant and equipment will be transferred to respective categories of property, plant and equipment.

21. INVENTORIES

	2010 RMB'000	2009 RMB'000
Raw materials	**24,833**	28,684
Work-in-progress	**63,789**	40,221
Finished goods	**6,526**	22,783
	95,148	91,688

22. TRADE RECEIVABLES

	2010 RMB'000	2009 RMB'000
Trade receivables *(Note 22(a))*	**107,432**	84,076
Less: Provision for impairment	**(88,382)**	(40,892)
	19,050	43,184
Bills receivables *(Note 22(b))*	**3,200**	—
	22,250	43,184

22. TRADE RECEIVABLES *(CONTINUED)*

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date, and net of provisions, is as follows:

	2010 **RMB'000**	2009 RMB'000
1-30 days	**19,050**	22
31-60 days	**—**	—
61-90 days	**—**	—
91-120 days	**—**	—
121-1 year	**—**	—
Over 1 year	**—**	43,162
	19,050	43,184

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

The Company has provided the provision for impairment of its trade receivables during the year ended 31 December 2010 of RMB47,490,000 (2009: reversed the provision of RMB37,000).

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

(c) As at 31 December 2010 and 2009, the trade receivables were pledged under a floating charge to secure the Company's bank borrowings (note 29).

(d) As at 31 December 2010, the trade receivables were neither past due nor impaired.

(e) Movements of provision of impairment loss during the year were as follows:

	2010 **RMB'000**	2009 RMB'000
At 1 January	**40,892**	40,929
Impairment loss/(written back) for the year	**47,490**	(37)
At 31 December	**88,382**	40,892

23. OTHER RECEIVABLES AND DEPOSITS

	2010 RMB'000	2009 RMB'000
Other receivables	**78,309**	20,448
Less: Provision for impairment	**(4,547)**	(1,244)
	73,762	19,204
Purchase deposits	**123,508**	201,806
Interest receivables *(Note 37)*	**2,495**	1,549
VAT recoverable	**21,163**	—
Futures deposits *(Note 37)*	**1,726**	1,702
	222,654	224,261

24. HELD-FOR-TRADING INVESTMENTS

	2010 RMB'000	2009 RMB'000
Listed debt fund held outside Hong Kong, at fair value	**—**	2,000

Fair values of the listed investments are determined by reference to the quoted market bid prices available from the banks.

25. CASH AND BANK BALANCES

	2010 RMB'000	2009 RMB'000
Pledged bank balances:		
Bank balances	**243,502**	376,974
Fixed deposits	**559,497**	116,600
	802,999	493,574
Cash and bank balances	**24,818**	229,886
	827,817	723,460

25. CASH AND BANK BALANCES *(CONTINUED)*

The fixed deposits are maturity within 4 days to 6 months, and the interest rate is ranging from 1.71% to 2.20% per annum.

All cash and bank balances were denominated in RMB, Hong Kong dollars and United States dollars which were deposited with banks in the PRC. The conversion of RMB denominated balances into foreign currencies and the remittance of RMB 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 2010, total cash and bank balances in RMB, Hong Kong dollars and United States dollars were RMB636,326,000, RMB Nil and RMB191,491,000 (2009: RMB494,714,000, RMB1,866,000 and RMB226,880,000) respectively.

26. TRADE PAYABLES

	2010 RMB'000	2009 RMB'000
Trade payables	**127,188**	72,846
Bills payables *(Note 26(a))*	**800,854**	346,600
	928,042	419,446

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2010 RMB'000	2009 RMB'000
1–60 days	**88,670**	50,913
61–90 days	**16,791**	3,324
91–120 days	**2,811**	1,605
121–365 days	**10,584**	5,888
Over 1 year	**8,332**	11,116
	127,188	72,846

Bills payable are repayable within six months and are secured by pledged bank deposits of RMB654,337,000 (2009: RMB226,600,000) and by guarantees given by third parties and related companies.

27. OTHER PAYABLES AND ACCRUALS

	2010 RMB'000	2009 RMB'000
Receipts in advance from customers	**243,470**	168,329
Payables to the National Social Security Fund *(Note (a))*	**—**	1,865
Staff welfare payables	**45,740**	37,488
Accrued construction costs	**30,150**	11,990
Amounts due to directors and senior management *(Note (c))*	**1,606**	—
Amount due to ultimate holding company *(Note (c))*	**4,335**	835
Amounts due to fellow subsidiaries *(Note (c))*	**31,879**	4,733
Other payables	**492,520**	238,517
	849,700	463,757

(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 amount was paid during the year.

(b) As at 31 December 2010, the other payables and accruals denominated in United States dollars, RMB and Hong Kong dollars amounted to RMB185,573,000, RMB649,633,000 and RMB2,780,000 (2009: RMB241,465,000, RMB221,411,000 and RMB881,000) respectively.

(c) The amounts due to directors, senior management, ultimate holding company and fellow subsidiaries are unsecured, interest free and no fixed terms of repayment.

28. FINANCIAL GUARANTEE LIABILITIES

	2010 RMB'000	2009 RMB'000
Financial guarantees issued	**3,607**	5,299
Classified as current liabilities	**(3,607)**	(4,086)
Non-current portion	**—**	1,213

The fair values of initial recognised financial guarantees issued were valued by an independent qualified valuer, Grant Sherman Appraisal Limited, as at the end of the reporting period.

29. BORROWINGS

	2010 RMB'000	2009 RMB'000
Bank loans — secured	**564,891**	531,802
Other loans — secured	**48,000**	48,000
	612,891	579,802
Carrying amount repayable:		
On demand or within one year	**612,891**	531,802
More than one year, but not exceeding two years	**—**	48,000
	612,891	579,802
Less: Amounts due within one year shown under current liabilities	**(612,891)**	(531,802)
Non-current portion	**—**	48,000

The loans were secured by the following assets and financial guarantees given by related parties or third parties. The effective interest rate at the end of the reporting period was ranging from 4.86% to 23.40% (2009: from 4.78% to 21.60%) per annum.

	2010 RMB'000	2009 RMB'000
Plant and machinery	**88,602**	71,693
Pledged deposits	**141,593**	211,761
Trade receivables	**28,416**	43,184
Total	**258,611**	326,638

30. 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 1 January 2009	818,180,000	81,818	350,020,000	35,002	1,168,200,000	116,820
Issue of rights shares	1,900,096,104	190,010	840,048,000	84,004	2,740,144,104	274,014
Domestic shares transfer to H shares	(17,648,860)	(1,765)	17,648,860	1,765	—	—
At 31 December 2009 and 31 December 2010	2,700,627,244	270,063	1,207,716,860	120,771	3,908,344,104	390,834

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 RMB but paid in Hong Kong dollars.

On 14 November 2009, 2,740,144,104 ordinary shares of RMB0.10 each was issued and allotted by way of the rights issue, on the basis of twelve rights share for every five shares held on the 22 September 2009, at a subscription price RMB0.106 or equivalent to HK$0.12 per rights share ("Rights Issue"). The net proceeds of approximately RMB276.7 million from the Rights Issue were intended to be used for modification of production plants and facilities in order to enhance production capacity. The new shares rank pari passu with the existing shares in all respects.

By an approval dated 20 February 2008, State-owned Assets Supervision and Administration Commission of the PRC (國務院國有資產監督管理委員會) has approved the transfer of in aggregate 17,648,860 State-owned Domestic Shares held by Baiyin Fluoride Salt Limited ("Baiyin ") and Henan Six Architecture Construction Group Company Limited ("Six Construction") to National Social Security Fund Council of the PRC (全國社會保障基金理事會) ("NSSF"). By a letter dated 21 March 2008, NSSF entrusted the Company, as its agent, to effect the sale of in aggregate 17,648,860 State-owned Domestic Shares (to be converted into H Shares) held by Baiyin and Six Construction on behalf of NSSF. The State-owned Domestic Shares converted into H Shares on 14 November 2009.

31. 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.

31. RESERVES *(CONTINUED)*

(b) *Statutory surplus reserve*

In accordance with the PRC Company Law and relevant financial regulations, the Company is required to transfer 10% of the profit after tax arrived at in accordance with the 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.

32. CASH GENERATED FROM/(USED IN) OPERATIONS

	2010 **RMB'000**	2009 RMB'000
Loss before tax	**(217,756)**	(60,638)
Adjustments for:		
– Depreciation and amortisation	**40,142**	42,535
– (Gain)/loss on disposal of property, plant and equipment	**(2,258)**	933
– Amortisation of financial guarantee contracts, net	**(1,692)**	5,298
– Gain on disposal of available-for-sale investments	**—**	(28)
– Loss/(gain) on disposal of held-for-trading investments	**148**	(19)
– Impairment of prepaid lease payments	**5,827**	(—)
– Provided/(write back) of impairment on trade and other receivables	**50,792**	(58)
– Unrealised foreign exchange gains	**(1,066)**	(337)
– Interest income	**(6,531)**	(5,610)
– Interest expense	**44,090**	30,227
	(88,304)	12,303
Increase in inventories	**(3,460)**	(19,530)
Increase in trade and other receivables and deposits	**(26,702)**	(25,321)
Increase/(decrease) in trade and other payables and accruals	**893,299**	(88,192)
Cash generated from/(used in) operations	**774,833**	(120,740)

33. DIVIDENDS

The directors do not propose any dividend for the year ended 31 December 2010 (2009: RMB Nil).

34. CONTINGENT LIABILITIES

	2010 RMB'000	2009 RMB'000
Financial guarantee given to banks in connection with facilities granted to third parties	**284,000**	103,400

The Company had entered three agreements with three third parties on 7 May 2009, 24 August 2010 and 1 November 2010 for the periods of 2 years, 1 year and 10 months ("Effective Periods") respectively. Pursuant to which the Company shall provide guarantees for the maximum amount of RMB200,000,000, RMB53,000,000 and RMB31,000,000 respectively to secure the banking facilities granted to third parties during the Effective periods.

As at 31 December 2010, the banking facilities granted to the independent third parties subject to guarantee given to the banks and were utilised to the extent of approximately RMB223,000,000 (2009: RMB103,400,000).

35. COMMITMENTS

	2010 RMB'000	2009 RMB'000
Contracted but not provided for:		
Property, plant and equipment	**788,589**	631,485

36. CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to stakeholders.

The Company manages its capital by regularly monitoring its current and expected liquidity requirements. 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 35, 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.

37. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Company's major financial instruments include debenture, trade receivables, other receivables and deposit, held-for-trading investments, pledged bank balances, cash and bank balances, trade and other payables, other payables and accruals, financial guarantee liabilities, bank borrowings and long-term borrowing. Details of these financial instruments are disclosed in the respective notes.

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Company's objectives, policies and processes managing the risk and the methods used to measure the risk remains unchanged during the year ended 31 December, 2010.

(a) Categories of financial instruments

	2010 RMB'000	2009 RMB'000
Financial assets:		
Loan and receivables		
Debenture	**500**	500
Trade receivables	**22,250**	43,184
Other receivables	**77,984**	22,455
Pledged bank balances	**802,999**	493,574
Cash and bank balances	**24,818**	229,886
	928,551	789,599
Fair value through profit or loss		
Held-for-trading investments	**—**	2,000
	928,551	791,599
Financial liabilities:		
At amortised cost		
Trade payables	**928,042**	419,446
Other payables and accruals	**849,700**	463,757
Bank borrowings	**564,891**	531,802
Financial guarantee liabilities	**3,607**	5,299
Long-term borrowings	**48,000**	48,000
	2,394,240	1,468,304

37. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(CONTINUED)*

(b) Foreign currency risk

The Company undertakes certain transactions in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The carrying amounts of foreign currency denominated monetary assets of cash and bank balances (including pledged deposits) and other payables at the end of the reporting period are as follows:

	2010 **RMB'000**	2009 RMB'000
Financial assets denominated in foreign currencies:		
Cash and bank balances in US dollars	**191,491**	226,879
Cash and bank balances in HK dollars	**—**	1,866
	191,491	228,745
Financial liabilities denominated in foreign currencies:		
Other payables in US dollars	**185,573**	221,411
Other payables in HK dollars	**2,780**	881
	188,353	222,292

The Company's foreign currency risk on US dollars arises primarily from cash and bank balance and other payables. At the end of reporting period, the Company did not expose significant foreign currency risk as the sensitivity effect on this assets/(liabilities) was immaterial and hence no sensitivity analysis is prepared.

37. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(CONTINUED)*

(c) Cash flow and fair value interest rate risk

The Company are mainly exposed to fair value interest rate risk in relation to its fixed-rate bank deposits and borrowings. The Company is also exposed to cash flow interest rate risk in relation to its variable-rate deposits and borrowing which carry prevailing market interest rates.

The Company also aims at keeping its fixed-rate borrowings on a short-term basis so as to minimize the interest rate risk. In order to achieve this result, most borrowings made by the Company are within one year period. The Company currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the reporting date. The sensitivity analysis below have been determined based on the exposure to interest rates for variable interest rate borrowings. The analysis is prepared assuming the variable-interest rate deposits and borrowings outstanding at the reporting date were outstanding for the whole year. A 100 basis point increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been increased/decreased by 100 basis points and all other variables were held constant, the Company's loss for the year would increase/decrease by approximately RMB306,000 (2009: decrease/increase by RMB3,641,000) for the year ended 31 December 2010.

(d) Credit risk

As at 31 December 2010, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Company is arising from:

— the carrying amount of the respective recognised financial assets as stated in the statement of financial position; and

— the amount of contingent liabilities in relation to financial guarantees issued by the Company as disclosed in note 34.

In order to minimise the credit risk, the management of the Company has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews the recoverable amount of each individual trade receivables and other receivables at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Company's credit risk is significantly reduced.

The Company has concentration of credit risk as 90% (2009: 98%) of the total trade receivables was due from the Company's 3 major customers. The management of the Company generally grants credit only to customers with good credit ratings and also closely monitors overdue trade debts. The recoverable amount of each individual trade receivables is reviewed at each reporting date and adequate impairment for doubtful debts has been made for irrecoverable amounts. In this regard, the management of the Company considers that the credit risk associated with the Company's trade receivable is significantly reduced.

37. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(CONTINUED)*

(e) Liquidity risk (Continued)

In the management of the liquidity risk, the Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Company's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The following table details the remaining contractual maturity for non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. To the extent that interest flows are variable-rate, the undiscounted amount is derived from interest rate curve at the end of reporting period.

	Within 1 year RMB'000	More than 1 year but Less than 2 year RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount RMB'000
As at 31 December 2010				
Borrowings	**633,190**	**—**	**633,190**	**612,891**
Trade and other payables and accruals	**1,534,272**	**—**	**1,534,272**	**1,534,272**
	2,167,462	**—**	**2,167,462**	**2,147,163**
As at 31 December 2009				
Borrowings	545,113	60,413	605,526	579,802
Trade and other payables and accruals	714,874	—	714,874	714,874
	1,259,987	60,413	1,320,400	1,294,676

(f) Fair value of financial assets and financial liabilities

The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid and ask prices respectively.

The other fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as inputs.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

37. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(CONTINUED)*

(g) *Fair value measurements recognised in the statement of financial position*

Financial instruments are measured subsequent to initial recognition at fair value group into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1: fair values measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: fair values measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: fair values measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at 31 December 2009, the held-for-trading investments was subsequently measured a fair value group in Level 1.

38. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Company had the following transactions with its related parties during the year:

(a) *Transactions*

	Note	**2010 RMB'000**	2009 RMB'000
Other related parties			
Purchases of materials from a shareholder of the Company	*(i)*	**1,339**	2,751
Fellow subsidiary			
Materials and consumable goods consumed	*(ii)*	**11,715**	—

(i) The transactions were made in accordance with the underlying agreements.

(ii) The transactions were predetermined by both parties with reference to the carrying value as stated in the books of the fellow subsidiary.

(iii) During the period from September to December 2010, the Company occupied the property, plant and equipment and land and buildings owned by a fellow subsidiary without consideration.

38. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Outstanding balances

	2010 **RMB'000**	2009 RMB'000
Trade balance due from a shareholder of the Company	**7**	7
Trade balance due from a fellow subsidiary	**1,387**	1,387

(c) Compensation of key management personnel

	2010 **RMB'000**	2009 RMB'000
Short-term benefits	**1,255**	560

Further details of the compensation of key management personnel are included in note 14 to the financial statements.

39. EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period, the fellow subsidiary has transferred the plant and equipment with amount RMB431,451,000 to the Company, payments for the acquisition of property, plant and equipment will transfer accordingly.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issued by the board of directors on 30 March 2011.