



Sanmenxia Tianyuan Aluminum Company Limited\*

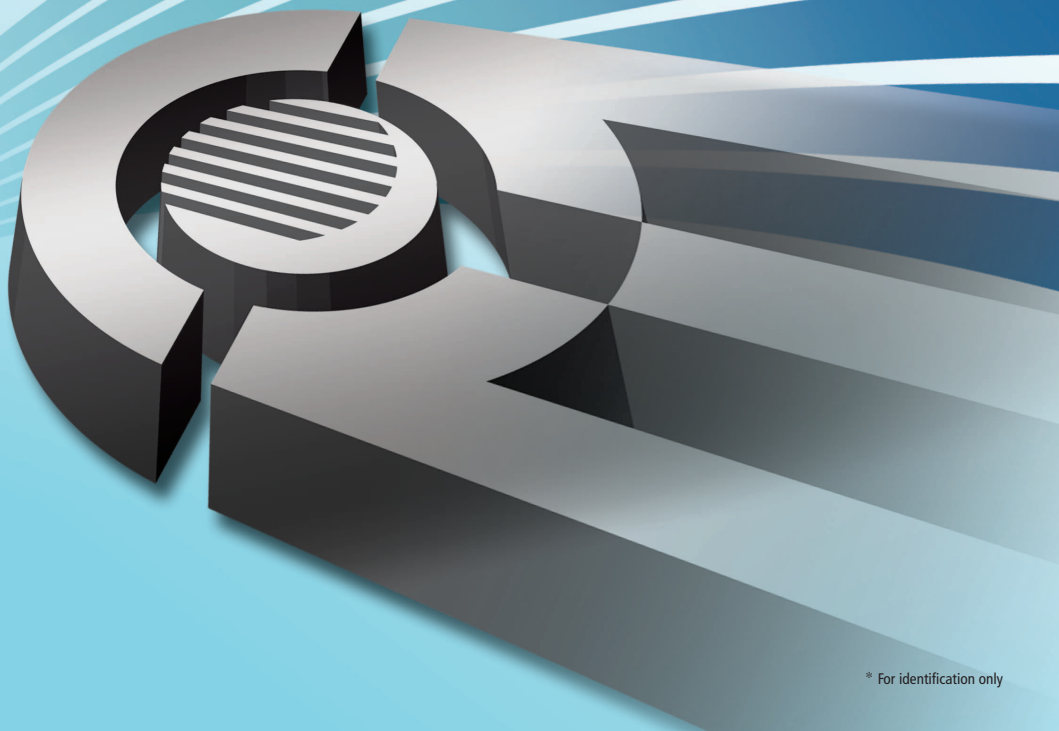
三門峽天元鋁業股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

Stock Code : 8253

# 2011

## First Quarterly Report



\* For identification only

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED ("STOCK EXCHANGE")**

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

**HIGHLIGHTS**

- Achieved a turnover of approximately RMB358,514,000 for the three months ended 31 March 2011.
- Net loss amounted to approximately RMB78,225,000 for the three months ended 31 March 2011, as compared to a net profit of approximately RMB3,648,000 for the corresponding period in 2010.
- The Directors do not recommend the payment of dividend for the three months ended 31 March 2011.

## FIRST QUARTERLY RESULTS

The board of Directors (the "Board") of the Company is pleased to announce the unaudited results of the Company for the three months ended 31 March 2011 ("three-month period") together with the comparative unaudited figures for the corresponding period in 2010. The first quarterly unaudited results of the three-month period have been reviewed by the audit committee of the Company.

### STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

Three months ended 31 March 2011

		<b>Three months ended 31 March</b>	
		<b>2011</b>	2010
	Note	<b>RMB'000</b>	RMB'000
Revenue	3	<b>358,514</b>	319,926
Cost of sales		<b>(406,797)</b>	(295,542)
Gross (loss)/profit		<b>(48,283)</b>	24,384
Other revenue	3	<b>355,588</b>	12,189
Expenses related to other revenue		<b>(350,229)</b>	(11,349)
Other revenue, net		<b>5,359</b>	840
Selling and distribution expenses		<b>(5,246)</b>	(5,430)
General and administrative expenses		<b>(15,559)</b>	(10,519)
Operating profit/(loss)		<b>(63,729)</b>	9,275
Finance costs		<b>(14,496)</b>	(5,627)
Loss/(profit) before income tax		<b>(78,225)</b>	3,648
Income tax	4	<b>—</b>	—
Loss/(profit) for the period		<b>(78,225)</b>	3,648
Other comprehensive income		<b>—</b>	—
Total comprehensive income for the year		<b>(78,225)</b>	3,648
Loss/(profit) attributable to the owners of the Company		<b>(78,225)</b>	3,648
Total comprehensive income attributable to the owners of the Company		<b>(78,225)</b>	3,648
Dividend		<b>—</b>	—
(Loss)/earnings per Share			
Basic and diluted	5	<b>RMB(2.00) cents</b>	RMB0.09 cents

## STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	<b>Share capital</b> <i>RMB'000</i>	<b>Capital reserve</b> <i>RMB'000</i>	<b>Statutory surplus reserve</b> <i>RMB'000</i>	<b>Retained earnings</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
At 1 January 2010	390,834	60,653	33,966	21,052	506,505
Profit for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,648</u>	<u>3,648</u>
At 31 March 2010	<u>390,834</u>	<u>60,653</u>	<u>33,966</u>	<u>24,700</u>	<u>510,153</u>
At 1 January 2011	390,834	60,653	33,966	(220,365)	265,088
Loss for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>(78,225)</u>	<u>(78,225)</u>
At 31 March 2011	<u>390,834</u>	<u>60,653</u>	<u>33,966</u>	<u>(298,590)</u>	<u>186,863</u>

## NOTES TO THE ACCOUNTS

### 1. Organisation and principal operation

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

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

At 31 March 2011, the parent company and the ultimate parent company of the Company is Tianrui Group Company Limited which is incorporated in PRC.

### 2. Basis of preparation

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

The accounting policies and method of computation used in the preparation of the unaudited results are consistent with those adopted by the Company in its annual financial statements for the year ended 31 December 2010.

### 3. Turnover, revenues and segment information

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

	<b>Unaudited</b>	
	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
Turnover		
Sales of goods, net of value-added tax	<b>358,514</b>	319,926
Other revenue		
Sales of scrap and other materials	<b>350,766</b>	10,609
Supply of water and electricity	<b>1,050</b>	117
	<b>351,816</b>	10,726
Interest income	<b>1,968</b>	1,463
Government Subsidization	<b>1,804</b>	—
Total other revenue	<b>355,588</b>	12,189
Total revenue	<b>714,102</b>	332,115

*Primary reporting format – business segments*

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

*Secondary reporting format – geographical segments*

	<b>Unaudited</b>	
	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
Turnover		
– The PRC	<b>358,514</b>	319,926

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

**4. Taxation**

The provision for current PRC enterprise income tax is based on the statutory rate of 25% (2010: 25%) of the assessable income of the Company as determined in accordance with the relevant PRC income tax rules and regulations during the three months ended 31 March 2011 and 2010.

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

	<b>Unaudited</b>	
	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
PRC enterprise income tax	–	–

**5. [Loss]/earnings per share**

Basic (loss)/earnings per share for the three months ended 31 March 2011 are based on the unaudited loss attributable to shareholders of RMB78,225,000 (2010: profit of RMB3,648,000), and the weighted average number of 3,908,344,104 shares (2010: 3,908,344,104 shares) in issue during the respective periods.

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

## **DIVIDEND**

The Directors do not recommend the payment of any dividend for the three months ended 31 March 2011 (2010: Nil).

## **MANAGEMENT'S DISCUSSIONS AND ANALYSIS**

### **Business Review**

For the period from January to March 2011, production volume of aluminum ingots and processing aluminum ingots reached 30,945 tonnes, representing an increase of 7,654 tonnes or 32.86% against that of the corresponding period in 2010. Turnover for the three months ended 31 March 2011 reached approximately RMB358,514,000 representing an increase of approximately RMB38,588,000 or 12.06% against that of the corresponding period in previous year.

For the period from January to March of 2011, sales volume of the aluminum ingots and processing aluminum ingots increased to 28,614 tonnes from 23,228 tonnes in the corresponding period in previous year, representing an increase of 5,386 tonnes or 23.19%.

Increase in production volume of the Company for the period from January to March 2011 was mainly due to the increase in market demand. The increase in the turnover for the period from January to March 2011 was mainly driven by the increase in both of the selling price and sales volume of aluminum ingots.

### **Financial Review**

For the three months ended 31 March 2011:

The Company recorded a turnover of approximately RMB358,514,000 for the three months ended 31 March 2011, representing an increase of approximately RMB38,588,000 or 12.06% when compared with that of approximately RMB319,926,000 for the same period in previous year. The increase in turnover was mainly attributable to the increase in selling price and sales volume of aluminum ingots during the first quarter of the year 2011.

Of the total turnover amount, approximately RMB293,257,000 or 81.80% was generated from the sale of aluminum re-smelt ingots in the PRC and RMB65,257,000 or 18.2% was generated from the processing aluminum ingots.

The Company recorded a gross loss for the three months ended 31 March 2011 was approximately RMB48,283,000, representing a gross loss margin of approximately 13.47%, against the gross profit margin of about 7.62% for the three months ended 31 March 2010. The decrease in gross profit was mainly due to the increase in cost of sales is higher than the effect of increase in sales.

Other revenue of the Company for the three months ended 31 March 2011 amounted to approximately RMB355,588,000, which comprised approximately RMB350,766,000 from sale of scrap and other materials, approximately RMB1,050,000 from supply of water and electricity to the other independent third parties, and approximately RMB1,968,000 of interest income and RMB1,804,000 of government subsidization. This represented an increase of RMB343,399,000 or 28 times when compared to RMB12,189,000 for the three months ended 31 March 2010. The increase was mainly attributed by the increase in sale of raw materials amounted to RMB333,541,000.



Expenses related to other revenue for the three months ended 31 March 2011 amounted to approximately RMB350,229,000, representing an increase of approximately RMB338,880,000 or 30 times against RMB11,349,000 of the corresponding period in 2010. The increase was mainly due to the increase in cost of sales of raw materials amounted to RMB335,435,000.

The selling and distribution expenses of the Company amounted to about RMB5,246,000 or 1.02% of the turnover for the three months ended 31 March 2011, representing a decrease of approximately RMB184,000 or 3.39% from about RMB5,430,000 or 1.70% of the turnover for the three months ended 31 March 2010. The decrease was mainly due to the slight decrease in the transportation cost of aluminum ingots.

The general and administrative expenses were approximately RMB15,559,000 for the three months ended 31 March 2011, representing an increase of RMB5,040,000 or 47.91% from about RMB10,519,000 for the three months ended 31 March 2010. The increase was mainly due to increase of consultation fee to approximately RMB617,000, and staff costs to approximately RMB3,238,000.

For the three months ended 31 March 2011, finance costs amounted to approximately RMB14,496,000, representing an increase of approximately RMB8,869,000 or 157.62% from RMB5,627,000 for the same period in 2010. The increase was mainly due to the increase in average bank loan interest rate during the period under review.

Net loss for the three months ended 31 March 2011 was RMB78,225,000, compare with net profit of approximately RMB3,648,000 for the same period in previous year.

### **Significant Investment**

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

The Company has not held any significant investment for the three months ended 31 March 2011.

### **Strategies and Plans**

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

During the year 2011, the Company will still face challenges both in production and management including the increase pressure on product cost and operation cost, mainly due to the intensity of competition in aluminum market, the high prices of raw materials and energy sources after the implementation of macro-economic policies on the aluminum industry. The Company will continue to focus on its principal business, carry out a cost objective management model to effectively control cost and strive to increase the returns for shareholders by, inter alia, reducing energy consumption, improving internal management and enhancing production efficiency and quality.

### **Foreign exchange risk**

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

### **Share capital**

As at 31 March 2011, the shareholders of the Company are as follows:

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

### **DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS AND REMUNERATION**

Each of the Directors (including non-executive Directors) and supervisors of the Company (the "Supervisors") has entered into a service contract with the Company for a term of three years. No Director or Supervisor has entered into a service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

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

As at 31 March 2011, none of the Directors, the Supervisors and chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and The Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange.

### **DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS**

During the period ended 31 March 2011, none of the Directors or Supervisors had a material interest, directly or indirectly, in any contract of significance to the business of the Company to which the Company was a party.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES**

During the period ended 31 March 2011, none of the Directors was granted any option to subscribe for shares of the Company. As at 31 March 2011, none of the Directors had any right to acquire shares in the Company.

## REMUNERATION POLICY

Remuneration policy of the employees of the Company is set on the basis of their merit, qualifications and experience.

The remuneration of the Directors are decided, having regard to the Company's operating results, individual performance and comparable market statistic.

## SHARE OPTION SCHEME

Up to 31 March 2011, the Company had not adopted any share option scheme or granted any option.

## DIRECTORS' AND SUPERVISORS' INTERESTS IN A COMPETING BUSINESS

None of the Directors or Supervisors and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Company.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER SHAREHOLDERS' INTERESTS

As at 31 March 2011, 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 March 2011, save for the persons described in the paragraph headed "Substantial shareholders' and other shareholders' interests" above, the Directors were not aware of any other person (other than the Directors, the Supervisors or chief executives of the Company) who had an interest or a short position in the shares or underlying shares of the Company that was required to be disclosed under Division 2 and 3 of Part XV of the SFO and the GEM Listing Rules.

#### **OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS**

As at 31 March 2011, save for the person described in the paragraph headed "Substantial shareholders' 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 March 2011.

#### **MANAGEMENT CONTRACTS**

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

#### **STAFF RETIREMENT PLAN**

The employees of the Company participate in a retirement benefit plan organised by municipal and provincial governments under which the Company was required to make monthly defined contributions to this plan at the rate of 20% of the employees' basic salary. The Company's contributions to this defined contribution scheme are expensed as incurred. The assets of the scheme, which is operated by the respective governments, are held separately from the Company. There were no forfeited contributions during the period.

#### **PRE-EMPTIVE RIGHTS**

Under the Articles of Association of the Company and the laws of the PRC, no pre-emptive rights exist that require the Company to offer new shares to its exiting shareholders in proportion to their shareholding.

#### **LITIGATION**

As of 31 March 2011, the Company has no significant pending litigation.

#### **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

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

#### **CODE ON CORPORATE GOVERNANCE PRACTICES**

In the opinion of the Board, the Company has complied with the code provisions in the Code on Corporate Governance Practice set out in Appendix 15 of the GEM Listing Rules in the financial year ended 31 March 2011.

## **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.

The unaudited first quarterly accounts for the three months ended 31 March 2011 have been reviewed by the audit committee.

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

Henan Province, the PRC, 11 May 2011

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

*Executive Directors:*

Mr. Tan Yu Zhong  
Mr. Zhao Zheng Bin

*Non-executive Directors:*

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

*Independent Non-executive Directors:*

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