

REPORT OF THE DIRECTORS

Dear Shareholders,

The Directors are pleased to present their 2007 report and the audited consolidated financial statements of the Company for the year ended 31 December 2007.

ESTABLISHMENT OF THE COMPANY

The Company was incorporated in the PRC on 25 August 2006 as a joint stock limited company in preparation for the listing of the Company's H shares on the Stock Exchange. Details are set out in the prospectus of the Company dated 26 April 2007.

On 26 April 2007, the Company completed its initial public offering and the H shares of the Company were successfully listed on the Stock Exchange.

PRINCIPAL ACTIVITIES

The principal activities of the Company are mining, smelting and renovation of serial products of molybdenum. Details of the principal activities of the substantial subsidiaries are set out in note 39 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

FINAL DIVIDEND AND SPECIAL DIVIDEND

The Board recommended the payment of a final dividend of RMB0.128 per share (including tax) for the year ended 31 December 2007. In view of the performance of the Company in 2007, the Board further recommended the payment of a special dividend of RMB0.03 per share (including tax). Both the final dividend for the year ended 31 December 2007 and the special dividend are subject to the approval of shareholders at the forthcoming annual general meeting.

It is expected that the final dividend for the year ended 31 December 2007 and the special dividend will be paid on or about Monday, 16 June 2008 to the shareholders whose names appear on the register of members of the Company on Friday, 6 June 2008.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The Company received an aggregate net proceeds of approximately HK\$8.1 billion from the issue of new H shares at the time of its listing on the Stock Exchange. Such net proceeds were derived after deduction of related issuance expenses. The directors are of the opinion that the remaining proceeds will be applied in the coming years to their intended uses as set out in the Company's prospectus dated 26 April 2007.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last four financial years, as extracted from the Company's audited consolidated financial statements for the year ended 31 December 2007, is set out on pages 95 to 96. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of changes to the property, plant and equipment of the Company and the Group during the year are set out in note 14 to the consolidated financial statements.



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SHARE CAPITAL

Details of changes the Company's share capital during the year are set out in note 31 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the People's Republic of China which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company's H Shares were listed on the Stock Exchange on 26 April 2007. So far as was known to the Board there was no purchase, sale or redemption of H Share by any members of the Group during the year ended 31 December 2007.

DISTRIBUTABLE RESERVE

The amount of the Group's reserves available for distribution to shareholders as at 31 December 2007, calculated in accordance with PRC rules and regulation was RMB1,086.7 million.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totaling RMB20.8 million (2006: RMB3.2 million).

MAJOR CUSTOMERS AND SUPPLIERS

As at 31 December 2007, the proportion of purchase and sales from our major suppliers and major customers to our total purchase and sales are as follows:

Purchase

The total purchase from our largest supplier is approximately 11.81% of our total purchase value.

The total purchase from our five largest suppliers is approximately 33.67% of our total purchase value.

Sales

The total sales to our largest customer is approximately 13.73% of our total sales value.

The total sales to our five largest customers is approximately 40.44% of our total sales value.

During the year, to the best of the directors' knowledge, none of the directors or supervisors or their related person or any shareholder who hold more than 5% of our shares, held any material interest or rights in our five largest customers or our five largest suppliers.

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DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The directors, supervisors and senior management of the Company during the year are:

Executive directors:

Mr. Duan Yuxian	(appointed in August 2006)
Mr. Li Chaochun	(appointed in January 2007)
Mr. Wu Wenjun	(appointed in January 2007)
Mr. Li Faben	(appointed in August 2006)
Mr. Wang Qinxi	(appointed in August 2006)

Non-executive directors:

Mr. Xu Jun	(appointed in August 2006)
Mr. Zhang Yufeng	(appointed in August 2006)

Independent non-executive directors:

Mr. Gao Dezhu	(appointed in October 2006)
Mr. Zeng Shaojin	(appointed in October 2006)
Mr. Gu Desheng	(appointed in October 2006)
Mr. Ng Ming Wah, Charles	(appointed in December 2006)

Supervisors:

Mr. Shu Hedong	(appointed in August 2006)
Mr. Yin Dongfang	(appointed in January 2007)
Mr. Deng Jiaoyun	(appointed in August 2006)

Senior management:

Mr. Yang Jianbo	(appointed as deputy general manager in August 2006)
Mr. Wang Bin	(appointed as deputy general manager in August 2006)
Ms. Gu Meifeng	(appointed as chief financial officer in August 2006)
Mr. He Feng	(appointed as Board secretary in August 2006)

In accordance with the Articles of Association, all directors and supervisors are elected for a term of three years and may serve consecutive terms upon re-election. The Company has received annual confirmations of independence from Mr. Gao Dezhu, Mr. Zeng Shaojin, Mr. Gu Desheng and Mr. Ng Ming Wah, Charles, and as at the date of this report still considers them to be independent.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors and supervisors of the Company and the senior management of the Group are set out on pages 30 to 33 of the annual report.



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DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S REMUNERATION

The directors' and supervisors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to directors' and supervisors' duties, responsibilities and performance and the results of the Group. In compliance with the CG Code, the Company has a remuneration committee to formulate compensation policies. Details of the directors' and supervisors' remuneration are disclosed in note 11 to the consolidated financial statements.

DIRECTORS' AND SUPERVISORS' MANAGEMENT CONTRACTS

Each of our executive directors and supervisors has entered into a service contract with our Company for a term of three years with effect from the day that the dealing in our H shares first commenced on the Stock Exchange.

No director proposed for the re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

None of the directors and supervisors had a material interest or was a party to either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries during the year.

MANAGEMENT CONTRACTS

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

DIRECTORS' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN SHARES

As of 31 December 2007, none of directors, supervisors and their respective associates had an interests or short positions in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which requires the Company and the Stock Exchange to be notified pursuant to Part XV of the SFO or which, pursuant to section 352 of the SFO, requires such interest or short position to be entered into the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director and supervisors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors or supervisors to acquire such rights in any other body corporate.

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SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

To the best knowledge of directors or supervisors, as at 31 December 2007, the persons or companies (other than a director or supervisor of the Company) who had interests or short positions in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 5% 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 were as follows:

Name	Number of shares held	Class of Share	Approximate percentage of shareholding in relevant class of shares
Luoyang Mining Group Co., Ltd.	1,796,593,475	Domestic share	50.39%
Cathay Fortune Corporation	1,768,421,050	Domestic share	49.61%
National Council for Social Security Fund of the PRC	119,196,000	H share	9.09%
Baring Asset Management Limited	104,778,000	H share	7.99%
Northern Trust Fiduciary Services (Ireland) Limited	80,485,000	H share	6.14%
JP Morgan Chase & Co.	138,275,816	H share	10.54%

Save as disclosed above, as at 31 December 2007, the directors were not aware of any other person (other than a director or supervisor of the Company) who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

CONNECTED TRANSACTIONS

The Group has not conducted any transactions with connected persons as defined in the Listing Rules during the reporting year.

NON-COMPETITION AGREEMENT

On 6 September 2006, non-compete agreements were entered into by our Company with Luoyang Mining Group Co., Ltd. ("LMG") and Cathay Fortune Corporation ("CFC"), respectively. LMG and CFC agreed not to compete with us in our businesses and granted us certain options and right of first refusal pursuant to the non-compete agreements, details of the non-compete agreements have already been disclosed in the prospectus of the Company dated 13 April 2007, under the section headed "Relationship with controlling shareholders — Non-compete agreements".



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Our independent non-executive directors were informed by our executive directors that LMG and CFC were not aware that there exists any such opportunity (business opportunity that competes, or may lead to competition, directly or indirectly with our business) exists any such opportunity during the period from the date of listing to 31 December 2007.

SUFFICIENCY OF PUBLIC FLOAT

Based on public information and to the knowledge of the directors, at least 26.89% of the Company's total issued share capital was held by the public as of the date of this report.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 40 to the consolidated financial statements.

CLOSURE OF REGISTER OF MEMBERS OF H SHARES

In order to determine the list of H Share shareholders who are entitled to attend the annual general meeting of the Company and to receive the final dividend for the year ended 31 December 2007 and the special dividend, the H Shares register of members will be closed from Tuesday, 6 May 2008 to Friday, 6 June 2008, both days inclusive, during which period no transfer of shares will be effected. In order to attend and vote at the annual general meeting and to qualify for the final dividend, holders of H Shares of the Company whose transfers have not been registered shall deposit the transfer documents together with the relevant share certificates at the H Share registrar of the Company, Computershare Hong Kong Investor Services Limited at or before 4:00 p.m. on Monday, 5 May 2008. The address of the transfer office of Computershare Hong Kong Investor Services Limited is Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

AUDITOR

The consolidated financial statements are audited by Deloitte Touche Tohmatsu. The auditor has to retire at the end of the year. However, they are eligible to be reappointment as auditor of the Company at the next annual general meeting.

The consolidated financial statements of the Company for the two financial years ended 31 December 2005 were audited by Luoyang Zhonghua Accountancy Co., Ltd. (洛陽中華會計師事務所有限責任公司). The consolidated financial statements of the Company for the year ended 31 December 2006 were audited by Deloitte Touche Tohmatsu CPA Limited.

By Order of the Board
Duan Yuxian
Chairman

Luoyang, the People's Republic of China
30 March 2008