CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	NOTES	2007 RMB'000	2006 RMB'000
Turnover	5	**5,897,806**	3,826,221
Cost of sales		**(2,277,920)**	(1,218,789)
Gross profit		**3,619,886**	2,607,432
Other income	6	**446,265**	25,502
Selling and distribution expenses		**(21,344)**	(20,408)
Administrative expenses		**(208,622)**	(95,646)
Other expenses	7	**(268,886)**	(21,367)
Finance costs	8	**(19,871)**	(48,275)
Share of results of associates		**12,827**	7,048
Profit before taxation		**3,560,255**	2,454,286
Taxation	9	**(1,053,333)**	(739,821)
Profit for the year	10	**2,506,922**	1,714,465
Attributable to:			
Equity holders of the Company		**2,240,834**	1,515,263
Minority interests		**266,088**	199,202
		2,506,922	1,714,465
Earnings per share - Basic	13	**RMB0.50**	RMB0.43

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2007

	NOTES	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	14	**3,002,560**	2,004,462
Land use rights - non-current portion	15	**305,618**	211,037
Mining rights	16	**365,193**	392,413
Deposits paid for acquisition of property, plant and equipment		**—**	8,000
Interests in associates	17	**45,412**	45,095
Available-for-sale investments	18	**2,300**	2,300
Deferred tax assets	19	**34,877**	16,868
		3,755,960	2,680,175
Current assets			
Inventories	20	**354,558**	220,680
Trade and other receivables	21	**1,396,352**	680,974
Amount due from an associate	22	**61,243**	2,630
Land use rights - current portion	15	**6,526**	5,271
Available-for-sale investments	18	**492,987**	—
Held-for-trading investments	23	**116,340**	101,493
Pledged bank deposits	24	**2,685**	6,909
Bank balances and cash	25	**5,680,676**	827,447
		8,111,367	1,845,404
Current liabilities			
Trade and other payables	26	**(582,595)**	(800,421)
Dividend payables	27	**(10,000)**	(193,156)
Tax payable		**(372,018)**	(300,059)
Bank borrowings - due within one year	28	**(125,000)**	(555,250)
		(1,089,613)	(1,848,886)
Net current assets (liabilities)		**7,021,754**	(3,482)
Total assets less current liabilities		**10,777,714**	2,676,693

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2007

	NOTES	2007 RMB'000	2006 RMB'000
Non-current liabilities			
Bank borrowings - due after one year	28	**(25,000)**	(490,000)
Provision	29	**(36,813)**	(35,060)
Long term payable	30	**(9,032)**	(12,777)
		(70,845)	(537,837)
		10,706,869	2,138,856
Capital and reserves			
Share capital	31	**975,234**	736,842
Reserves		**9,394,033**	1,122,646
Attributable to equity holders of the Company		**10,369,267**	1,859,488
Minority interests		**337,602**	279,368
Total equity		**10,706,869**	2,138,856

The consolidated financial statements on pages 37 to 94 were approved and authorised for issue by the Board of Directors on 30 March 2008 and are signed on its behalf by:

Duan Yuxian
DIRECTOR

Wu Wenjun
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2007

	Attributable to equity holders of the Company										
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000 (Note 32)	Statutory surplus reserve RMB'000 (Note 32)	Statutory public welfare fund RMB'000 (Note 32)	Investment revaluation reserve RMB'000	Translation reserve RMB'000	Retained profits RMB'000	Attributable to equity holders of parent entity RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2006	280,020	—	230,655	23,221	8,014	—	—	508,709	1,050,619	140	1,050,759
Profit for the year, total recognized income for the year	—	—	—	—	—	—	—	1,515,263	1,515,263	199,202	1,714,465
Conversion to a joint stock limited company	419,980	—	(223,766)	(196,214)	—	—	—	—	—	—	—
Issue of shares	36,842	16,874	—	—	—	—	—	—	53,716	—	53,716
Dividends	—	—	—	—	—	—	—	(760,110)	(760,110)	—	(760,110)
Transfer from/to reserves	—	—	—	280,105	(8,014)	—	—	(272,091)	—	—	—
Transfer *(Note)*	—	—	187,371	—	—	—	—	(187,371)	—	—	—
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	77,315	77,315
Winding up of a subsidiary	—	—	—	—	—	—	—	—	—	(289)	(289)
Capital injection from a minority shareholder	—	—	—	—	—	—	—	—	—	3,000	3,000
At 31 December 2006 and at 1 January 2007	736,842	16,874	194,260	107,112	—	—	—	804,400	1,859,488	279,368	2,138,856
Gain on change in fair value of available-for-sale investments	—	—	—	—	—	836	—	—	836	—	836
Exchange differences arising on translation of foreign operation recognised	—	—	—	—	—	—	(464)	—	(464)	—	(464)
Net income (expense) recognised directly in equity	—	—	—	—	—	836	(464)	—	372	—	372
Profit for the year	—	—	—	—	—	—	—	2,240,834	2,240,834	266,088	2,506,922
Total recognised income for the year	—	—	—	—	—	836	(464)	2,240,834	2,241,206	266,088	2,507,294
Issue of shares	238,392	7,762,656	—	—	—	—	—	—	8,001,048	—	8,001,048
Share issue expense	—	(433,270)	—	—	—	—	—	—	(433,270)	—	(433,270)
Capital injection from minority shareholders	—	—	—	—	—	—	—	—	—	40,000	40,000
Dividends	—	—	—	—	—	—	—	(1,299,205)	(1,299,205)	(247,854)	(1,547,059)
Transfer from reserves	—	—	—	231,970	—	—	—	(231,970)	—	—	—
Transfer *(Note)*	—	—	167,673	—	—	—	—	(167,673)	—	—	—
At 31 December 2007	975,234	7,346,260	361,933	339,082	—	836	(464)	1,346,386	10,369,267	337,602	10,706,869

Note: Pursuant to regulations in the People's Republic of China ("PRC") relating to the mining industry, the Group is required to transfer an amount to the capital reserve account, and such amount is entitled as additional deduction from operating income for PRC Enterprise Income Tax purposes. The amount is calculated as the shortfall of the amount of depreciation on property, plant and equipment in respect of mines and the amount calculated based on the volume of molybdenum ore extracted each year and at the applicable rate per tonne of molybdenum ore ("Appropriation for Mining Company"). The utilisation of the amount in the capital reserve account will be subjected to the rules in the PRC Companies Law and is not available for distribution to shareholders. The directors represented that the Group currently has no authorized plan for the utilization of the fund.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	2007 *RMB'000*	2006 *RMB'000*
Operating activities		
Profit before taxation	**3,560,255**	2,454,286
Adjustments for:		
Interest income	**(358,622)**	(13,401)
Interest expenses	**19,871**	48,275
Depreciation for property, plant and equipment	**148,938**	71,700
Amortisation of land use rights	**8,357**	3,993
Amortisation of mining right	**27,220**	9,073
Loss on disposal of property, plant and equipment	**13,987**	11,254
Share of results of associates	**(12,827)**	(7,048)
Allowance for (written back of) doubtful debts	**15,061**	(784)
Change in fair value of financial assets classified as held-for-trading	**—**	(488)
Gain arising on disposal of available-for-sale investments	**(368)**	—
Discount on acquisition of a subsidiary	**—**	(5,102)
Goodwill written off on acquisition of subsidiaries	**—**	3,439
Gain on winding up of a subsidiary	**—**	(289)
Operating cash flows before movements in working capital	**3,421,872**	2,574,908
Increase in inventories	**(133,878)**	(3,590)
Increase in trade and other receivables	**(730,955)**	(457,140)
Increase in held-for-trading investments	**(14,847)**	(40,490)
Increase in amount due from an associate	**(58,613)**	(631)
Increase (decrease) in trade and other payables	**73,387**	(90,757)
Decrease in long term payable	**(3,745)**	(3,746)
Cash generated from operations	**2,553,221**	1,978,554
PRC Enterprise Income Tax paid	**(999,383)**	(720,468)
Net cash from operating activities	**1,553,838**	1,258,086

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	NOTES	**2007** **RMB'000**	2006 RMB'000
Investing activities			
Interest received		**358,622**	13,401
Dividend received from an associate		**12,510**	—
Purchases of property, plant and equipment		**(1,063,954)**	(738,437)
Deposit for property, plant and equipment		**—**	(8,000)
Proceeds from disposal of available-for-sale investments		**28,217**	—
Purchases of land use right		**(104,193)**	(27,976)
Purchases of mining right		**(360,337)**	(41,149)
Purchases of available-for-sale investments		**(520,000)**	—
Proceeds from disposal of property, plant and equipment		**2,160**	16,552
Acquisition of subsidiaries	33	**—**	9,368
Disposal of a subsidiary	34	**—**	9,887
Decrease in loan receivables		**—**	101,000
Decrease in pledged bank deposits		**4,224**	11,158
Net cash used in investing activities		**(1,642,751)**	(654,196)
Financing activities			
Interest paid		**(40,171)**	(46,605)
Dividends paid to shareholders		**(1,492,361)**	(589,171)
Dividends paid to minority shareholders of subsidiaries		**(237,854)**	—
New bank borrowings raised		**688,000**	1,743,050
Repayment of bank borrowings		**(1,583,250)**	(1,297,990)
Issue of shares		**8,001,048**	53,716
Share issue expense		**(433,270)**	—
Capital contribution from minority shareholders		**40,000**	3,000
Net cash generated from (used in) financing activities		**4,942,142**	(134,000)
Net increase in cash and cash equivalents		**4,853,229**	469,890
Cash and cash equivalents at 1 January		**827,447**	357,557
Cash and cash equivalents at the end of the year		**5,680,676**	827,447
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		**5,680,676**	827,447

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

1. GENERAL

The Company was established in the People's Republic of China (the "PRC") on 22 December 1999 as a wholly state-owned company with limited liability as a result of the merger of two state-owned enterprises. The registered capital was RMB251,000,000 upon establishment. As part of the corporate restructuring in September 2004, Cathay Fortune Corporation Holdings 鴻商控股有限公司, later renamed as Cathay Fortune Corporation 鴻商產業控股集團有限公司 ("CFC") subscribed for 49% of equity interest in the Company with the subscription price of approximately RMB137,210,000 being paid into the registered capital of the Company. In addition, the corporate restructuring also resulted in the repayment of paid-in capital of RMB92,369,000 and distribution of certain land use rights of the Group to its shareholder amounting to RMB15,821,000. Accordingly, the registered capital of the Company was then changed to RMB280,020,000. The People's Government of Luoyang City held the 51% equity interest in the Company until 5 December 2005 when it authorised the State-owned Assets Supervision and Administration Commission of the People's Government in Luoyang City ("Luoyang SASAC") to hold the interest in the Company. In August 2006, Luoyang SASAC transferred the 51% equity interest to Luoyang Mining Group Co., Ltd. ("LMG"). The Company was transformed into a joint stock limited company on 25 August 2006 by converting its registered capital and reserves as at 31 May 2006 into 700,000,000 shares of RMB1 each.

In September 2006, the Company issued 36,842,105 shares with a nominal value of RMB1.00 each to Luoyang Huamu Investment Co., Ltd. ("Luoyang Huamu"). In September 2006, Luoyang Huamu transferred 26,157,895 shares to LMG and 10,684,210 shares to CFC.

Pursuant to a resolution passed on 3 December 2006, the Company undertook a share split whereby each of the then issued ordinary share was split into 5 ordinary shares with effect from 13 April 2007. Accordingly, the total number of shares increased from 736,842,105 shares to 3,684,210,525 shares and the nominal value of each share was changed from RMB1.00 each to RMB0.20 each.

On 26 April 2007, the Company's shares are listed on the Mainboard of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") by issuance of 1,083,600,000 H shares of RMB0.20 each. On 4 May 2007, as a result of the exercise of the over-allotment option by the joint global coordinators on 26 April 2007, the Company issued additional 108,360,000 H shares of RMB0.20 each.

The Group is an integrated producer of molybdenum in the PRC. Its operations consist of molybdenum mining, floating, smelting and refining to produce molybdenum and other related products, including molybdenum oxide, ferromolybdenum and molybdenum concentrate. The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

The consolidated financial statements are presented in Renminbi which is the same as the functional currency of the Company.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new and revised standard, amendment and interpretations (hereinafter collectively referred to as "new IFRSs") issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are effective for the Group's financial year beginning 1 January 2007. The adoption of the new IFRSs has no material effect on how the results and financial position for the current and prior accounting periods are prepared and presented. Accordingly, no prior year adjustment has been required.

At the date of issue of the consolidated financial statements, the following new and revised standards and interpretations were in issue but not yet effective for the period reported:

IAS 1 (Revised)	Presentation of financial statements [1]
IAS 23 (Revised)	Borrowing costs [1]
IAS 27 (Revised)	Consolidated and separate financial statements [2]
IAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation [1]
IFRS 2 (Amendment)	Share based payments : Vesting conditions and cancellations [1]
IFRS 3 (Revised)	Business combinations [2]
IFRS 8	Operating segments [1]
IFRIC 11	IFRS 2: Group and treasury share transactions [3]
IFRIC 12	Service concession arrangements [4]
IFRIC 13	Customer loyalty programmes [5]
IFRIC 14	IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction [5]

[1] Effective for annual periods beginning on or after 1 January 2009.

[2] Effective for annual periods beginning on or after 1 July 2009.

[3] Effective for annual periods beginning on or after 1 March 2007.

[4] Effective for annual periods beginning on or after 1 January 2008.

[5] Effective for annual periods beginning on or after 1 July 2008.

The directors anticipate that the adoption of these standards, amendment and interpretations in future periods will have no material impact on the financial position and the result of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies used in line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on an acquisition of business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of business is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of business represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination after reassessment. Discount on acquisition is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interests in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profit and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset including financial assets at fair value through profit and loss 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 the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the Group's rights to receive payment has been established.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the year in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation before 1 January 2005 is treated as non-monetary foreign currency items of the acquirer and reported using the historical cost prevailing at the date of acquisition.

Retirement benefits schemes

The Group participates in retirement plans administered by the provincial government pursuant to which the Group pays a fixed percentage of the salaries and wages of its qualifying staff and employees as a contribution to the plan. The contribution payable in respect of the period to the retirement plans is charged as an expense when employees have rendered service entitling them to the contributions.

Borrowing costs

Borrowing cost directly attributable to the acquisition, construction or production of qualifying asset are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the year in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the results for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled. Deferred tax is charged or credited to profit or loss.

Property, plant and equipment

Construction in progress

Construction in progress is stated at cost, which includes construction costs and other direct costs attributable to such projects including borrowing costs, capitalised in accordance with the Group's accounting policy, less any recognised impairment loss. It is not depreciated until completion of construction. The cost of completed construction work is transferred to the appropriate category of property, plant and equipment. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Other property, plant and equipment

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

Provision for restoration, rehabilitation and environmental expenses is recognised as part of the cost of buildings and mining structure. Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in the discount rate, shall be added to, or deducted from, the cost of the related asset in the current year provided that the amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognised immediately in profit or loss.

Depreciation is provided to write off the cost of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Land use rights

Payments for obtaining land use rights is considered as prepaid operating lease payments and charged to profit or loss over the period of the right using the straight-line method.

Mining rights

Mining rights are stated at cost less accumulated amortisation and accumulated impairment losses and are amortised on a straight line basis over the shorter of their useful life based on the total proven and probable reserves of the mines or contractual period from the date of available for use.

Impairment of tangible assets and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 in prior years. A reversal of an impairment loss is recognised as income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet 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.

Financial assets

The Group's financial assets are classified into one of the four categories including financial assets as at fair value through profit or loss ("FVTPL"), available-for-sales financial assets and loans and receivables. 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 asset within the time frame established by regulation or convention in the market place.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Financial assets at fair value through profit or loss

Financial assets at FVTPL including financial assets held-for-trading.

A financial asset is classified as held-for-trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the year in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, amount due from an associate, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Certain shares held by the Group are classified as being available-for-sale and are stated at cost. The 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 each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset 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 losses will not reverse in subsequent periods.

Dividends on available-for-sale equity instruments are recognised in profit and loss when the Group's right to receive payments is established.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. 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 investment have been impacted.

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
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets *(Continued)*

For certain categories of financial asset, 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 Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, 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.

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

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment 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

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 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 accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables, dividend payables, long term payable and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Equity instruments

Equity instruments issued by the group entities are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received or receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, canceled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or receivable is recognised in profit or loss.

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Provision

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Provisions for the Group's restoration, rehabilitation and environmental expenses are based on estimates of required expenditure at the mines in accordance with PRC rules and regulations. The Group estimates its liabilities for final reclamation and mine closure based upon detailed calculations of the amount and timing of the future cash expenditure to perform the required work, escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation.

Government grants

Government grants are recognised as income when there is reasonable assurance that the conditions attaching to such grants are complied with and the rights to receive payment have been established.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key sources of estimation uncertainty at the balance sheet date that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

Provision for restoration, rehabilitation and environmental expenditure

The provision for restoration, rehabilitation and environmental costs has been determined by the directors based on their best estimates. The directors estimated this liability for final reclamation and mine closure based upon detailed calculations of the amount and timing of future cash flows spending for a third party to perform the required work, escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability, such that the provision reflects the present value of the expenditures expected to be required to settle the obligation. However, in so far as the effect on the land and the environment from current mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to change in the near term. The provision is reviewed regularly to verify that it properly reflects the present value of the obligation arising from the current and past mining activities.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Allowances for doubtful debts

The management regularly reviews the recoverability and aging of the trade receivables. Allowance for trade receivables is made based on the evaluation of collectability and aging analysis of accounts and on management's judgement by reference to the estimation of the future cash flow discounted at an effective interest rate to calculate the present value.

A considerable amount of judgement is required in assessing the ultimate realisation of these trade receivables, including the current creditworthiness of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Useful lives of property, plant and equipment

The management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions and on the assumption that the mining rights certificate will be continue to renew by the PRC government upon its expiration in year 2021. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charges where useful lives and less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

5. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amounts received and receivable for goods sold, less discount and sales related taxes, for the year. An analysis of the Group's turnover is as follows:

	2007	2006
	RMB'000	*RMB'000*
Sales of goods		
— molybdenum concentrate	**886,432**	924,584
— molybdenum oxide	**1,011,111**	946,469
— ferromolybdenum	**3,273,151**	1,477,131
— molybdenum ore	**5,994**	34,778
— others	**721,118**	443,259
	5,897,806	3,826,221

The Group's turnover and profit for the year are almost entirely derived from the production and sale of molybdenum related products. The directors consider that these activities constitute one single business segment since the products are related and are subject to common risks and returns.

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Primary reporting segment - geographical segments

The Group primarily operates in PRC, sales are made to overseas customers as well as customers in the PRC. The Group's turnover and segment result by geographical locations of customers are determined by the final destination to where the products are delivered:

Consolidated income statements

	2007	2006
	RMB'000	*RMB'000*
Turnover		
PRC	**3,934,266**	2,491,594
Korea	**470,378**	680,556
US	**480,319**	484,020
Germany	**616,616**	35,346
Others	**396,227**	134,705
	5,897,806	3,826,221
Segment result		
PRC	**2,473,547**	1,684,642
Korea	**288,302**	460,144
US	**290,447**	327,260
Germany	**398,596**	23,899
Others	**147,650**	91,079
	3,598,542	2,587,024
Interest income	**358,622**	13,401
Other income (excluding interest income)	**87,643**	12,101
Share of results of associates	**12,827**	7,048
Unallocated expenses	**(477,508)**	(117,013)
Finance costs	**(19,871)**	(48,275)
Profit before taxation	**3,560,255**	2,454,286
Taxation	**(1,053,333)**	(739,821)
Profit for the year	**2,506,922**	1,714,465

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Primary reporting segment - geographical segments *(Continued)*

Assets and liabilities

	2007 ***RMB'000***	2006 *RMB'000*
Segment assets		
PRC	**709,983**	270,724
Korea	**36,956**	57,841
US	**131,522**	274,266
Germany	**200,637**	14,521
Others	**226,199**	16,107
	1,305,297	633,459
Unallocated assets	**10,562,030**	3,892,120
Consolidated total assets	**11,867,327**	4,525,579

In the opinion of the directors, it is not practicable and meaningful to separate all the cost and expenses for each geographical segment except direct cost of sales and certain directly attributable selling and distribution expenses. In addition, except for trade receivables from the customers in the respective segment, the remaining consolidated total assets and the entire consolidated liabilities are presented as unallocated.

No geographical segment for other information is disclosed as additions of property, plant and equipment are substantially come from the PRC. No carrying amount of segment assets by geographical location of the assets is disclosed as all of the production facilities of the Group are located in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

6. OTHER INCOME

	2007	2006
	RMB'000	*RMB'000*
Interest income		
— bank deposits	**120,004**	7,244
— arising from global offering of the Company's shares	**213,052**	—
— loan receivables	**—**	4,431
— debentures	**1,726**	1,726
— available-for-sale investments	**23,840**	—
Gain on fair value change of financial assets classified as held-for-trading	**82,471**	488
Discount on acquisition of a subsidiary	**—**	5,102
Gain arising on disposal of available-for-sale investments	**368**	—
Waiver of long outstanding payables	**—**	2,122
Net gain on sales of scrap materials	**388**	478
Government grants recognised (Note)	**—**	2,020
Others	**4,416**	1,891
	446,265	25,502

Note: The amounts represented unconditional government grants received by the Group from the relevant PRC government to facilitate the business operation of the Group.

7. OTHER EXPENSES

	2007	2006
	RMB'000	*RMB'000*
Loss on disposal of property, plant and equipment	**13,987**	11,254
Foreign exchange losses	**230,307**	1,532
Penalty expenses	**857**	900
Donations	**20,833**	3,225
Goodwill written off on acquisition of subsidiaries	**—**	3,439
Others	**2,902**	1,017
	268,886	21,367

8. FINANCE COSTS

	2007	2006
	RMB'000	*RMB'000*
Interests on bank borrowings wholly repayable within five years	**40,171**	62,444
Other interest expenses - unwinding discounts on provision	**1,753**	1,670
Less: Amount included in the cost of qualifying assets	**(22,053)**	(15,839)
	19,871	48,275

Borrowing costs included in the cost of qualifying assets on the general borrowing pool and are calculated by applying a capitalisation rate of 6.0% per annum for the year ended 31 December 2007 (2006: 6.8%), to expenditure on such assets for the year.

9. TAXATION

	2007	2006
	RMB'000	*RMB'000*
The charge comprises PRC Enterprise Income Tax:		
Taxation		
— current year	**1,057,417**	722,718
— underprovision in prior year	**13,925**	—
	1,071,342	722,718
Deferred taxation		
— current year	**(20,017)**	17,103
— attributable to a change in tax rate	**2,008**	—
	1,053,333	739,821

The Group, except for Luoyang High Tech Molybdenum & Tungsten Co., Ltd. ("Luoyang High Tech"), was subject to PRC Enterprise Income Tax levied at a rate of 33% of taxable income determined in accordance with the relevant laws and regulations in the PRC. Luoyang High Tech is regarded as a high technology enterprise and is subject to PRC Enterprise Income Tax of 15% with the first two years' result being exempted from Enterprise Income Tax. Luoyang High Tech is currently applying for the Foreign Invested Advanced-Technology Certificate under the new tax law, which would entitle Luoyang High Tech to enjoy the favorable tax rate of 15% from 1 January 2008 if the favorable tax rate can be granted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

9. TAXATION *(Continued)*

Taxation for the year can be reconciled to the profit before taxation as follows:

	2007	2006
	RMB'000	*RMB'000*
Profit before taxation	**3,560,255**	2,454,286
Tax at the domestic income tax rate of 33%	**1,174,884**	809,914
Tax effect of expenses not deductible for tax purposes	**20,577**	1,837
Tax effect of Appropriation for Mining Company deductible for tax purposes under PRC Enterprise Income Tax	**(55,332)**	(61,833)
Tax effect of global offering of the Company's shares related expense which are not deductible for tax purposes	**5,952**	—
Tax effect of income not taxable for tax purposes	**—**	(7,071)
Reduction of income tax in respect of Tax Benefit *(note a)*	**(101,906)**	—
Tax effect of different tax rate of a subsidiary	**(2,661)**	—
Underprovision in prior year	**13,925**	—
Tax effect of tax loss not recognised	**838**	—
Decrease in opening deferred tax assets resulting from a decrease in domestic income tax rate from 33% to 25% effective from 2008 *(note b)*	**2,008**	—
Tax effect of share of results of associates	**(4,233)**	(2,326)
Others	**(719)**	(700)
Tax charge for the year	**1,053,333**	739,821

The domestic income tax rate represents the tax rate in the jurisdiction where the operation of the Group is substantially based.

Note:

(a) The Company entitled to a tax benefit ("Tax Benefit"), which is calculated as 40% of the current year's purchase of PRC manufactured plant and equipment for production use. The Tax Benefit is, however, limited to the amount of increase in PRC Enterprise Income Tax for the current year in which the plant and equipment are acquired as compared with the tax amount of the previous year. The portion of the Tax Benefit that is not utilized in the current year can be carried forward for future application for a period of not more than five years.

(b) On 16 March 2007, the Tenth National People's Congress enacted the new Enterprise Income Tax Law that unifies the income tax treatment of domestic and foreign enterprise which becomes effective on 1 January 2008. Accordingly, the nominal tax rate applicable to the Group will drop from 33% to 25%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

10. PROFIT FOR THE YEAR

	2007	2006
	RMB'000	*RMB'000*
Profit for the year has been arrived at after charging:		
Directors' remuneration *(Note 11)*	**7,067**	1,512
Other staff's salary, bonus and allowance	**267,910**	209,271
Other staff's contribution to retirement benefit cost	**17,973**	12,901
Total staff costs	**292,950**	223,684
Auditor's remuneration	**2,700**	970
Cost of inventories recognised as an expense	**2,250,700**	1,209,716
Depreciation of property, plant and equipment	**148,938**	71,700
Amortisation of land use rights	**8,357**	3,993
Amortisation of mining rights (include in cost of sales)	**27,220**	9,073
Allowance for (written back of) doubtful debts	**15,061**	(784)
Expenses arising from global offering of the Company's shares recognised as an expense	**23,239**	—
Share of tax of associates (included in share of results of associates)	**7,323**	3,575
Resources compensation fee *(Note)*	**73,018**	45,117

Note: Resources compensation fee is calculated on the basis of a ratio of the sales income of mineral products during the year by reference to the compensation fee rate and coefficient of mining recovery rate and include in cost of sales.

11. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS

	2007	2006
	RMB'000	*RMB'000*
Directors' fees	**700**	728
Other emoluments for executive directors		
— basic salaries and allowances	**1,900**	729
— performance related bonus	**4,446**	39
— retirement benefits contributions	**21**	16
	7,067	1,512

Note: The performance related bonus is determined based on the record of growth of the Group's annual result.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

11. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

	Directors' fees	Basic salaries and allowances	Retirement benefit contribution	Performance related bonus	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2007					
Name of director					
Executive director					
段玉賢 Duan, Yuxian	—	400	6	936	1,342
李朝春 Li, Chaochun	—	380	—	889	1,269
吳文君 Wu, Wenjun	—	380	5	889	1,274
李發本 Li, Faben	—	380	5	889	1,274
王欽喜 Wang, Qinxi	—	360	5	843	1,208
	—	1,900	21	4,446	6,367
Non-executive director					
許　軍 Xu, Jun	100	—	—	—	100
張玉峰 Zhang, Yufeng	100	—	—	—	100
	200	—	—	—	200
Independent non-executive director					
高德柱 Gao, Dezhu	100	—	—	—	100
曾紹金 Zeng Shaojin	100	—	—	—	100
古德生 Gu, Desheng	100	—	—	—	100
吳明華 Ng Ming Wah, Charles	200	—	—	—	200
	500	—	—	—	500
Total directors' emoluments	700	1,900	21	4,446	7,067

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

11. DIRECTORS, SUPERVISORS AND EMPLOYEES' EMOLUMENTS *(Continued)*

	Directors' fees	Basic salaries and allowances	Retirement benefit contribution	Performance related bonus	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2006					
Name of director					
段玉賢 Duan, Yuxian	260	271	6	13	550
趙　毅 Zhao, Yi	—	—	—	—	—
孫克治 Sun, Ke Zhi	—	—	—	—	—
許　軍 Xu, Jun	—	—	—	—	—
張玉峰 Zhang, Yufeng	—	—	—	—	—
高德柱 Gao, Dezhu	—	—	—	—	—
曾紹金 Zeng Shaojin	—	—	—	—	—
古德生 Gu, Desheng	—	—	—	—	—
吳明華 Ng Ming Wah, Charles	—	—	—	—	—
陳　剛 Chen, Gary	—	—	—	—	—
李發本 Li, Faben	234	229	5	13	481
王欽喜 Wang, Qinxi	234	229	5	13	481
	728	729	16	39	1,512

11. DIRECTORS, SUPERVISORS AND EMPLOYEES' EMOLUMENTS *(Continued)*

	Basic salaries and allowances *RMB'000*	Retirement benefit contribution *RMB'000*	Total *RMB'000*
For the year ended 31 December 2007			
Supervisors			
鄧交雲 Deng, Jiaoyun	1,169	5	1,174
舒鶴棟 Shu, Hedong	60	—	60
尹東方 Yin, Dongfang	60	—	60
	1,289	5	1,294
For the year ended 31 December 2006			
Supervisor			
鄧交雲 Deng, Jiaoyun	476	5	481

Highest paid individuals

The five highest paid individuals represented five directors (2006: three) for the year ended 31 December 2007. The emoluments of the remaining two highest paid individuals for the year ended 31 December 2006, are as follows:

	2007 ***RMB'000***	2006 *RMB'000*
Employees		
— basic salaries and allowances	—	458
— bonus	—	494
— retirement benefits scheme contributions	—	10
	—	962

The emoluments of each of the five highest paid individuals in the Group in current year were all above HKD1,000,000 (2006: all within HKD1,000,000).

No emoluments were paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments for the years ended 31 December 2007 and 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

12. DIVIDENDS

	2007	2006
	RMB'000	*RMB'000*
Special dividend to LMG and CFC	**1,299,205**	760,110

Pursuant to a resolution passed at the board of directors' meeting held on 26 June 2006, it was resolved to declare dividend totaling approximately RMB760,110,000 to LMG and CFC, being the distributable profits for the period from 1 January 2005 to 31 May 2006. The dividend was financed by the Group's internal cash resources and was fully paid by 19 January 2007.

Pursuant to the resolutions of the shareholders passed at the general meeting on 19 October 2006, it is proposed that the distributable profits as at 31 December 2006 and the distributable profits for the period from 1 January 2007 to the date immediately preceding the date of its listing on the Stock Exchange be entirely distributed to LMG and CFC (the "Special Dividend"). And pursuant to a general resolution passed on 25 March 2007, the Company declared part of the Special Dividend out of the distributable profits as at 31 December 2006 totaling RMB720,000,000 to LMG and CFC. The dividend was fully paid in April 2007 and was financed by the Group's internal resources.

Pursuant to a resolution passed at the directors' meeting held on 25 June 2007, it was resolved to declare and pay the rest of the Special Dividend amounting to RMB579,205,000.

The final dividend of RMB0.128 (2006: RMB nil) and a special dividend of RMB0.03 (2006: RMB nil) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

13. EARNINGS PER SHARE - BASIC

The calculation of the basic earnings per share for the year is based on the following data:

	2007	2006
Profit for the year attributable to equity holders of the Company and earnings for the purpose of basic earnings per share (RMB'000)	**2,240,834**	1,515,263
Weighted average number of shares for the purpose of basic earnings per share	**4,498,246,470**	3,563,085,796

The number of shares for the purpose of calculating basic earnings per share for the year ended 31 December 2006 is based on the assumption that the 700,000,000 shares issued and outstanding upon transformation of the Company into a joint stock limited company as at 25 August 2006 had been outstanding as at 1 January 2006 and also has been adjusted for the share split as disclose in note 31(c).

There are no diluted earnings per share presented for both years as there are no potential ordinary shares outstanding.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings and mining structures *RMB'000*	**Plant and machinery** *RMB'000*	**Furniture, fixtures and equipment** *RMB'000*	**Motor vehicles** *RMB'000*	**Construction in progress** *RMB'000*	**Total** *RMB'000*
COST						
At 1 January 2006	472,208	239,234	22,151	45,612	565,717	1,344,922
Additions	48,567	38,664	6,558	23,375	714,104	831,268
Acquired on acquisition of subsidiaries	53,169	58,752	454	4,658	11,413	128,446
Disposal of a subsidiary	—	—	(5)	—	—	(5)
Disposals	(21,222)	(23,289)	(3,829)	(12,761)	—	(61,101)
Transfers	776,329	158,878	44,245	258	(979,710)	—
At 31 December 2006	1,329,051	472,239	69,574	61,142	311,524	2,243,530
Additions	27,897	133,930	10,042	10,128	981,186	1,163,183
Disposals	(5,904)	(20,727)	(730)	(1,475)	—	(28,836)
Transfers	410,188	213,347	11,894	347	(635,776)	—
At 31 December 2007	1,761,232	798,789	90,780	70,142	656,934	3,377,877
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2006	(96,916)	(82,242)	(4,885)	(16,620)	—	(200,663)
Provided for the year	(28,439)	(28,775)	(9,448)	(5,038)	—	(71,700)
Eliminated on disposals	8,938	15,377	787	8,193	—	33,295
At 31 December 2006	(116,417)	(95,640)	(13,546)	(13,465)	—	(239,068)
Provided for the year	(65,577)	(66,542)	(5,856)	(10,963)	—	(148,938)
Eliminated on disposals	1,248	9,662	419	1,360	—	12,689
At 31 December 2007	(180,746)	(152,520)	(18,983)	(23,068)	—	(375,317)
CARRYING VALUES						
At 31 December 2007	1,580,486	646,269	71,797	47,074	656,934	3,002,560
At 31 December 2006	1,212,634	376,599	56,028	47,677	311,524	2,004,462

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group's buildings and mining structures are situated in Luoyang, the PRC under medium-term lease.

The above items of property, plant and equipment are depreciated on a straight-line basis as follows:

Buildings and mining structures	8 - 45 years
Plant and machinery	8 - 10 years
Furniture, fixtures and equipment	5 years
Motor vehicles	8 years

15. LAND USE RIGHTS

	2007	2006
	RMB'000	*RMB'000*
CARRYING AMOUNT		
At beginning of the year	**216,308**	196,232
Additions	**104,193**	24,069
Charged to consolidated income statement	**(8,357)**	(3,993)
At end of the year	**312,144**	216,308

Analysed of the carrying amount of land use rights is as follows:

	2007	2006
	RMB'000	*RMB'000*
Land use rights	**312,144**	216,308
Less: Portion to be charged to consolidated income statement in the coming twelve months and shown as current assets	**(6,526)**	(5,271)
Amount due after one year	**305,618**	211,037

The land use rights were under medium term lease and were acquired with the lease period of 50 years and were situated in the PRC. The land use rights were amortised over their lease periods.

16. MINING RIGHTS

	RMB'000
COST	
At 1 January 2006	—
Addition	401,486
At 31 December 2006 and at 31 December 2007	401,486
ACCUMULATED AMORTISATION	
At 1 January 2006	—
Amortisation	9,073
At 31 December 2006	9,073
Amortisation	27,220
At 31 December 2007	36,293
CARRYING VALUES	
At 31 December 2007	365,193
At 31 December 2006	392,413

In accordance with relevant PRC rules and regulations, the Group is required to acquire the mining rights with consideration if it undergoes a reorganisation. Accordingly, pursuant to the reorganisation for the purposes of the listing of the Company's H shares on the Main Board of Stock Exchange, the Group purchased the mining rights from the PRC government for an aggregate cash consideration of approximately RMB401 million. In September 2006, the Group obtained the mining right certificate which will expire in year 2021.

The mining rights are amortised over the initial license period of 15 years.

17. INTERESTS IN ASSOCIATES

	2007	2006
	RMB'000	*RMB'000*
Capital contribution	**21,650**	21,650
Share of post-acquisition profits, net of dividends received	**23,762**	23,445
	45,412	45,095

Details of the Company's associates are set as follows:

Name of company	**Date of establishment**	**Place of establishment and operation**	**Issued and fully paid/ registered capital**	**Proportion of equity held directly by the Company**	**Principal activities**
洛陽豫鷺礦業有限責任公司 Luoyang Yulu Mining Co., Ltd.	24 April 2002	PRC - Limited liability company	RMB50,000,000	40% *(Note)* (2006: 40%)	Manufacturing of tungsten concentrate
上海宇華鉬業公司 Shanghai Yuhua Molybdenum Co., Ltd.	27 October 2005	PRC - Limited liability company	RMB5,000,000	33% (2006: 33%)	Trading of molybdenum products

Note: Pursuant to the shareholders' resolution dated 26 March 2008 of Luoyang Yulu Mining Co. Ltd., the Group's share of the associate's result was changed from 40% to 50% in 2007.

The summarised financial information in respect of the Group's associates is set out below:

	2007	2006
	RMB'000	*RMB'000*
Total assets	**175,892**	143,450
Total liabilities	**(61,087)**	(29,537)
Net assets	**114,805**	113,913
Group's share of net assets of associates	**45,412**	45,095
Turnover	**740,313**	629,632
Profit for the year	**32,438**	17,963
Group's share of results of associates for the year	**12,827**	7,048

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18. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2007	2006
	RMB'000	*RMB'000*
Unlisted securities		
— equity securities at cost *(Note a)*	**2,300**	2,300
— investment funds at fair value *(Note b)*	**492,987**	—
	495,287	2,300

Analysed for reporting purposes as:

Current assets	**492,987**	—
Non-current assets	**2,300**	2,300
	495,287	2,300

Notes:

(a) The above unlisted investments represent investments in unlisted equity securities issued by private entities established in the PRC. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

(b) The investment funds are managed by banks in the PRC for an initial term of one year and are measured at fair value. Fair value is estimated using a discounted cash flows model, which includes some assumptions that are not supportable by observable market prices or rates. In determining the fair value, an earnings factor of 2.95% - 6% are used.

19. DEFERRED TAX ASSETS

The followings are the deferred tax assets and liabilities recognised and movements thereon during the year:

	Impairment of property, plant and equipment	**Allowance for receivable**	**Unrealised profit**	**Held-for-trading investments**	**Undistributed earning of a subsidiary outside PRC**	**Total**
	RMB'000	*RMB'000*	*RMB'000* *(note)*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006	3,071	4,086	23,293	—	—	30,450
Acquisition of subsidiaries	3,521	—	—	—	—	3,521
Charge to consolidated income statement for the year	(2,134)	(259)	(14,710)	—	—	(17,103)
At 31 December 2006	4,458	3,827	8,583	—	—	16,868
(Charge) credit to consolidated income statement for the year	—	3,765	28,932	(5,348)	(7,332)	20,017
Attributable to a change in tax rate	(1,081)	(927)	—	—	—	(2,008)
At 31 December 2007	3,377	6,665	37,515	(5,348)	(7,332)	34,877

Note: Amounts represented unrealised profit resulting from transactions between the Company and its subsidiaries which are eliminated by inclusion in the carrying amount of inventories.

For the purpose of balance sheet presentation, deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purpose:

	2007	2006
	RMB'000	*RMB'000*
Deferred tax assets	**47,557**	16,868
Deferred tax liabilities	**(12,680)**	—
	34,877	16,868

Deferred tax assets is recognised if it is probable that all of the deferred tax assets will be realised through the recovery of taxes previously paid and/or future taxable income. The management has reviewed its deferred tax assets at each balance sheet date and considered that it was probable that the deferred tax assets of the Group will be realised through future taxable income based on management's assessment of the probability that taxable profits will be available over the year which the deferred tax assets can be realised or utilised.

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20. INVENTORIES

	2007	2006
	RMB'000	*RMB'000*
Raw materials	**105,835**	98,155
Work in progress	**39,355**	11,776
Finished goods	**209,368**	110,749
	354,558	220,680

21. TRADE AND OTHER RECEIVABLES

	2007	2006
	RMB'000	*RMB'000*
Trade receivables (net of allowances)	**959,632**	554,208
Bill receivables	**345,665**	79,251
	1,305,297	633,459
Other receivables and prepayments	**91,055**	47,515
	1,396,352	680,974

Trade and other receivables include the following balances of trade and bills receivables:

	2007	2006
	RMB'000	*RMB'000*
Trade and bills receivables	**1,324,491**	640,994
Less: Allowance for doubtful debts	**(19,194)**	(7,535)
	1,305,297	633,459

21. TRADE AND OTHER RECEIVABLES *(Continued)*

The Group normally allows credit period of no longer than 90 days to its trade customers, which a longer credit period will be allowed for major customers. The aged analysis of trade receivables and bill receivables is as follows:

	2007	2006
	RMB'000	*RMB'000*
0 - 90 days	**1,055,001**	582,016
91 - 180 days	**208,119**	36,791
181 - 365 days	**38,721**	676
1 - 2 years	**3,456**	13,976
	1,305,297	633,459

Before accepting any new customer, the Group assess the potential customer's credit quality and defines credit limits by customer. Limits and credit quality attributed to customers are reviewed once a year. Approximately 96% (2006: 93%) of the trade receivables that are neither past due nor impaired have the best credit quality assessed by the Group.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB53,785,000 (2006: RMB 43,343,000) which past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 249 days (2006: 211 days).

Ageing of trade receivables which are past due but not impaired:

	2007	2006
	RMB'000	*RMB'000*
91 - 180 days	**11,608**	28,691
181 - 365 days	**38,721**	676
1 - 2 years	**3,456**	13,976
	53,785	43,343

	2007	2006
	RMB'000	*RMB'000*
Movement in the allowance for doubtful debts for trade receivables		
Balance at beginning of the year	**7,535**	10,455
Amounts recovered during the year	**—**	(7,888)
Increase in allowance recognised in profit or loss	**11,659**	4,968
Balance at end of the year	**19,194**	7,535

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21. TRADE AND OTHER RECEIVABLES *(Continued)*

	2007	2006
	RMB'000	*RMB'000*
Movement in the allowance for doubtful debts for other receivables		
Balance at beginning of the year	**4,063**	1,927
Amount recovered during the year	**(346)**	—
Increase in allowance recognised in profit or loss	**3,748**	2,136
Balance at end of the year	**7,465**	4,063

Included in the Group's allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB 19,194,000 (2006: RMB 7,535,000) in which the directors consider the recoverability of these debts is remote.

The Group's and the Company's trade receivables that are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2007	2006
	RMB'000	*RMB'000*
United States Dollar ("USD")	**595,313**	363,810
Euro	**2,568**	—

22. AMOUNT DUE FROM AN ASSOCIATE

	2007	2006
	RMB'000	*RMB'000*
Trade receivables from Shanghai Yuhua Molybdenum Co., Ltd.	**61,243**	2,630

Note: The amount was unsecured, interest-free and aged within 90 days. Shanghai Yuhua Molybdenum Co., Ltd. is an associate of the Group at 31 December 2006 and 31 December 2007.

23. HELD-FOR-TRADING INVESTMENTS

Held-for-trading investments comprise:

	2007	2006
	RMB'000	*RMB'000*
Listed securities *(Note 1)*		
Equity securities listed in Hong Kong	**5,848**	—
Equity securities listed elsewhere	**53,932**	—
	59,780	—
Other securities *(Note 2)*		
Quoted debentures	**56,555**	60,348
Quoted unit trust	**—**	40,140
Investment funds	**—**	1,000
Other debentures	**5**	5
	56,560	101,493
Total	**116,340**	101,493

Note 1: The fair values are determined based on the quoted market bid prices of underlying securities available on the relevant exchanges.

Note 2: The fair values are determined based on the quoted market bid prices quoted by bank. Quoted debentures carry interest rate ranged from 2.83% to 3.11% and with maturity date from 25 August 2012 to 28 August 2015.

24. PLEDGED BANK DEPOSITS

The amount represents deposits pledged to banks to secure banking facilities granted to the Group. The deposits carry fixed interest rate as follows:

	2007	2006
Average interest rate per annum	**0.74%**	0.72%

Deposits have been pledged to secure short-term bank loans and are therefore classified as current assets. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

25. BANK BALANCES AND CASH

Bank balances carry interest at prevailing market rates ranging from 0.72% to 2.5% per annum (2006: ranging from 0.72% to 2% per annum).

The Group's bank balances and cash that are denominated in currencies other than functional currencies of the relevant group entities were as follows:

Currency	**2007**	2006
	RMB'000	*RMB'000*
Hong Kong Dollars ("HKD")	**1,740,282**	—
USD	**9,771**	12,493

26. TRADE AND OTHER PAYABLES

	2007	2006
	RMB'000	*RMB'000*
Trade payables *(Note a)*	**83,598**	93,612
Other payables and accruals *(Note b)*	**498,997**	706,809
	582,595	800,421

Notes:

(a) Trade payables

The aged analysis of trade payables is as follows:

	2007	2006
	RMB'000	*RMB'000*
0 - 90 days	**55,842**	58,959
91 - 180 days	**16,762**	14,522
181 - 365 days	**3,405**	8,269
1 - 2 years	**2,847**	11,862
Over 2 years	**4,742**	—
	83,598	93,612

Trade payables principally comprise amounts outstanding for trade purchases.

(b) Other payables and accruals

	2007	2006
	RMB'000	*RMB'000*
Payables in respect of mining right *(Note)*	**—**	360,337
Advances from customers	**14,323**	24,487
Accrued wages	**42,418**	18,054
Accrued retirement benefit cost	**—**	1,354
Other staff benefits payable	**1,843**	4,865
Payables in respect of purchase of property, plant and equipment and construction materials	**239,935**	170,759
Resources compensation fees payable	**20,201**	26,959
Other tax payables	**104,161**	58,330
Payables in respect of employee settlement cost *(note 30)*	**134**	4,374
Others	**75,982**	37,290
	498,997	706,809

Note: Amount represented balance payable in respect of mining right acquired by the Group in 2006 as disclosed in note 16. The amount has been fully settled during the year.

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27. DIVIDEND PAYABLES

	2007	2006
	RMB'000	*RMB'000*
Luoyang SASAC (洛陽市人民政府國有資產監督管理委員會)	—	141,844
CFC (鴻商產業控股集團有限公司)	—	51,312
Minority shareholders of subsidiaries	**10,000**	—
	10,000	193,156

28. BANK BORROWINGS

	2007	2006
	RMB'000	*RMB'000*
Bank loans - unsecured	**150,000**	1,045,250

The maturity profile of the above borrowings is as follows:

On demand or within one year	**125,000**	555,250
More than one year but not exceeding two years	**25,000**	190,000
More than two years but not more than three years	—	300,000
	150,000	1,045,250
Less: Amounts due within one year shown under current liabilities	**(125,000)**	(555,250)
	25,000	490,000

At the respective balance sheet dates, the Group had banking facilities secured by the following assets of the Group:

	2007	2006
	RMB'000	*RMB'000*
Bank deposits	**2,685**	6,909

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2007	2006
Effective interest rate:		
Fixed-rate borrowings	**5.670% to 6.797%**	3.000% to 6.800%

29. PROVISION

	2007	2006
	RMB'000	*RMB'000*
Restoration, rehabilitation and environmental expenses	**36,813**	35,060
Movement during the year:		
At beginning of the year	**35,060**	33,390
Charged to consolidated income statement	**1,753**	1,670
At end of the year	**36,813**	35,060

In accordance with relevant PRC rules and regulations, the Group is obliged to accrue the cost for land reclamation and mine closures for the Group's existing mines. The provision for restoration, rehabilitation and environmental costs has been determined by the directors based on their best estimates. The effective interest rate is 5% (2006: 5%).

30. LONG TERM PAYABLE

Long term payable comprised of:

	2007	2006
	RMB'000	*RMB'000*
Early retirement cost payable	**9,032**	12,777

The Company was transformed from a wholly state-owned company to a limited liability company with partial private ownership in September 2004 when CFC subscribed for 49% of equity interest in the Company (the "Restructuring"). As a result of the Restructuring, the employment contract between the employees and the state-owned company was terminated. New employment contracts were signed between the employees and the limited liability company with partial private ownership. As a result, employees reach the statutory retirement age within 5 years or have been working for more than 30 years could either choose an one-off compensation plan and continue to work for the Group or received an early retirement compensation and discontinue service with the Group thereafter. The early retirement compensation is calculated based on factors including the remaining number of years of service from the date of early retirement to the normal retirement date and the salary on the date of early retirement of an employee.

In the opinion of the directors, the fair value as at 31 December 2007, determined based on the present value of the estimated future cash outflows discounted using the prevailing market rate at the balance sheet date approximate to the corresponding carrying amount.

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31. SHARE CAPITAL

	Number of shares		
	Domestic shares *(Note g)*	**H shares** *(Note h)*	**Amount** *RMB'000*
At 1 January 2006	280,020,000	—	280,020
Conversion to a joint stock limited company *(Note a)*	419,980,000	—	419,980
Issue of shares *(Note b)*	36,842,105	—	36,842
Share split *(Note c)*	2,947,368,420	—	—
At 31 December 2006	3,684,210,525	—	736,842
Issue of H shares on global offering *(Note d)*	—	1,083,600,000	216,720
Issue of H shares under over-allotment option *(Note e)*	—	108,360,000	21,672
Conversion from domestic shares to H shares *(Note f)*	(119,196,000)	119,196,000	—
At 31 December 2007	3,565,014,525	1,311,156,000	975,234

The Company was established in the PRC on 22 December 1999 as a wholly state-owned company under the Company Law of the PRC. The registered and paid-in capital of the Company upon establishment was RMB 251,000,000.

On 31 August 2004, the registered capital of the Company was increased to RMB280,020,000 following the reorganisation as disclosed in Note 1.

Notes:

(a) Pursuant to a resolution passed on 25 August 2006, the Company was transformed into a joint stock limited company under the Company Law of the PRC by converting its paid in capital and reserves as at 31 May 2006 into 700,000,000 shares of RMB1.00 each.

(b) In September 2006, the Company issued 36,842,105 shares with nominal value of RMB1.00 each to Luoyang Huamu Investment Co., Ltd., a company owned and controlled by the members of the Company's senior management, for a consideration of approximately RMB53.7 million.

(c) Pursuant to a resolution passed on 3 December 2006, the Company undertook a share split whereby each of the then issued ordinary share was split into 5 ordinary shares with effect from 13 April 2007. Accordingly, the total number of shares increased from 736,842,105 shares to 3,684,210,525 shares and the nominal value of each share was changed from RMB1.0 each to RMB0.2 each.

(d) On 26 April 2007, the Company issued 1,083,600,000 H shares with a nominal value of RMB0.20 each, at a price of HK$6.8 per H share by way of a global offering to Hong Kong and overseas investors.

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31. SHARE CAPITAL *(Continued)*

(e) On 4 May 2007, as a result of the exercise of the over-allotment option by the joint global coordinators of the global offering in connection with the listing of the Company's shares on 26 April 2007, the Company issued 108,360,000 H shares with a nominal value of RMB0.20 each, at a price of HK$6.8 per H share.

(f) In accordance with the relevant approval from the Luoyang State-owned Assets Supervision and Administration Commission of the People's Government of Luoyang City, 119,196,000 Domestic Shares held by LMG were converted into an equal number of H Shares, and transferred to the National Council for Social Security Fund of the PRC for retention upon the completion of the global offering on 26 April 2007.

(g) Domestic shares are ordinary shares subscribed for and credited as fully paid up in RMB by PRC government and/or PRC incorporated entities only.

(h) H shares are ordinary shares subscribed for and credited as fully paid up in RMB by persons other than PRC government and/or PRC incorporated entities only.

Other than the specific requirements on the holders of the shares as set out in notes (g) and (h) above, all the shares rank pari passu in all respects with other shares in issue.

32. RESERVES

Capital reserve as at 1 January 2006 comprised (i) the deficit of the value of the net assets immediately before the establishment of the Company injected into the Company as a result of the merger of two stated-owned enterprises on 22 December 1999. A valuation of certain of the Group's assets was carried out during its establishment and a revaluation deficit of RMB33,936,000 was recorded in its accounting records prepared under PRC Accounting Standards (ii) capital contribution from the shareholder prior to 31 December 2005 and (iii) the non-distributable reserve as described in note of the consolidated statements of changes in equity.

Statutory surplus reserve represents the appropriation of 10% of profit after taxation calculated in accordance with the PRC accounting standards and regulations and the Articles of Association of the Company and its subsidiaries. The appropriation may cease to apply if the balance of the statutory surplus reserve has reached 50% of the Company's and its subsidiaries' registered capital. According to the Company's Articles of Association, statutory surplus reserve can be used to make up prior year losses, to expand production operation or to increase share capital. The Company or its subsidiaries may capitalise the statutory surplus reserve by way of bonus issues provided that the amount of the statutory surplus reserve remaining after such appropriation shall not be less than 25% of the registered capital of the Company or its subsidiaries.

Statutory public welfare fund represents the appropriation of profit after taxation according to the requirements of the Company and its subsidiaries' Articles of Association and the Companies Law in the PRC. According to the requirements, the Company and its subsidiaries transfers 10% of profit after taxation calculated in accordance with PRC accounting standards and regulations to the fund. The fund can only be utilised for capital expenditure on employees' collective welfare facilities and cannot be used in staff welfare expenses. Such employee welfare facilities are owned by the Group. The statutory public welfare fund is not distributable to shareholders other than in liquidation. Pursuant to a notice in respect of the financial treatments under new Company Law「關於《公司法》施行後有關企業財務處理問題的通知」issued by the Minister of Finance, there will be no accrual of statutory public welfare fund in 2006. The remaining balance of statutory public welfare fund is transferred to statutory surplus reserve at 1 January 2006.

33. ACQUISITION OF SUBSIDIARIES

During the year ended 31 December 2006, the Group acquired 51% interest in Sanqiang, Dadongpo and Jiuyang Mining (see note 39) by capital injection in these companies. The acquisition has been accounted for using the purchase method of accounting.

Details of the net assets acquired in the transaction, and the goodwill (discount) arising on acquisition are as follows:

	Sanqiang *RMB'000*	**Dadongpo** *RMB'000*	**Jiuyang Mining** *RMB'000*	**Total** *RMB'000*
Date of acquisition	20 January 2006	21 February 2006	6 March 2006	
Net assets acquired:				
Property, plant and equipment	52,304	52,004	24,138	128,446
Inventories	19,775	27,787	5,629	53,191
Trade and other receivables	32,723	—	—	32,723
Deferred tax assets	1,519	578	1,424	3,521
Bank balances and cash	34,583	42,196	11,396	88,175
Trade and other payable	(69,817)	(57,989)	(12,839)	(140,645)
Bank loan	—	(2,000)	—	(2,000)
Tax payable	(5,602)	—	(24)	(5,626)
	65,485	62,576	29,724	157,785
Minority interests	(32,088)	(30,662)	(14,565)	(77,315)
Discount arising on acquisition recognised in the consolidated income statement	(5,102)	—	—	(5,102)
Goodwill arising on acquisition	—	1,570	1,869	3,439
	28,295	33,484	17,028	78,807
Satisfied by:				
Cash	28,295	33,484	17,028	78,807
Net cash inflow arising on acquisition:				
Cash consideration paid	28,295	33,484	17,028	78,807
Cash and cash equivalents acquired	(34,583)	(42,196)	(11,396)	(88,175)
	(6,288)	(8,712)	5,632	(9,368)

33. ACQUISITION OF SUBSIDIARIES *(Continued)*

The directors consider that the carrying amounts of the net assets acquired in the above transactions approximate their fair values.

Sanqiang, Dadongpo and Jiuyang Mining contributed RMB402,733,000 turnover and RMB205,986,000 to the Group's profit before tax for the period between the date of acquisition and the balance sheet date as at 31 December 2006.

If the acquisition had been completed on 1 January 2006, total group turnover for the year ended 31 December 2006 would have been RMB3,859,952,000, and profit for the year ended 31 December 2006 would have been RMB1,717,213,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006, nor is it intended to be a projection of future results.

34. DISPOSAL OF A SUBSIDIARY

On 16 October 2006, the Group disposed its entire interest in 洛陽白馬紡織有限公司("Luoyang Baima Textile") to LMG. The net assets at the date of disposal were as follows:

	RMB'000
Net assets disposed of	
Property, plant and equipment	5
Trade and other receivables	80,883
Loan receivables	9,000
Bank balances and cash	113
Amount due to holding company	(80,001)
Total consideration	10,000
Satisfied by:	
Cash	10,000
Net cash inflow arising on disposal	
Cash consideration	10,000
Bank balance and cash disposed of	(113)
	9,887

Luoyang Baima Textile has not commenced business at date of disposal and therefore the effect on the consolidated income statement is insignificant. No gain or loss arised on the disposal.

35. RELATED PARTY TRANSACTIONS

The Group has the following significant transactions with related companies:

(i) Transaction with 洛陽白馬集團有限責任公司 Luoyang Baima Group Co. Ltd. ("Luoyang Baima Group") and its subsidiaries (note):

In 2006, the Group has granted certain loans to Luoyang Baima Group of approximately RMB94,900,000. These loans were fully settled in 2006.

During 2006, the Group had given certain guarantees to bank in respect of banking facilities utilised by Luoyang Baima Group. On 12 December 2006, the Group entered into a guarantee release agreement with Luoyang Baima Group, the respective bank and LMG. In accordance with the agreement, LMG has taken up the obligation of guarantee at zero consideration on behalf of the Group on 12 December 2006.

Note: One of the directors of the Company had interest in Luoyang Baima Group and is able to exercise significant influence.

(ii) Transaction with Shanghai Yuhua Molybdenum Co. Ltd. (note):

Nature of transactions	**2007**	2006
	RMB'000	*RMB'000*
Sales of goods	**656,793**	466,435

Note: Shanghai Yuhua Molybdenum Co., Ltd. is an associate of the Group.

(iii) Transactions with other state-controlled entities in the PRC

In the opinion of the directors of the Company, the Group operates in an economic environment currently predominated by enterprises directly or indirectly owned or controlled by the PRC government (hereinafter collectively referred to as "State-Owned Enterprises"). In addition, the Group itself is a State-Owned Enterprise. During the year, the Group had material transactions with some of these State-Owned Enterprises in its ordinary and usual course of business.

35. RELATED PARTY TRANSACTIONS *(Continued)*

(iii) Transactions with other state-controlled entities in the PRC *(Continued)*

The Group has identified the nature and quantified the amounts of its material transactions with State-Owned Enterprises during the year and material balances therewith at the respective balance sheet dates as follows:

(a) Material transactions

Nature of transactions	2007 *RMB'000*	2006 *RMB'000*
Sales of goods	**1,167,701**	532,564
Payment for:		
Purchase of raw materials	**167,463**	112,120
Purchase of electricity and fuels	**143,237**	143,674
Acquisition of:		
Property, plant and equipment	**146,100**	67,568
Interest income	**107,488**	5,123
Interest expenses	**20,510**	31,250

(b) Material balances

	2007 *RMB'000*	2006 *RMB'000*
Trade and other receivables	**162,727**	76,024
Trade and other payables	**11,820**	7,268
Bank balances	**3,524,681**	410,669
Bank borrowings	**150,000**	435,250

(c) Movement on bank borrowings

	2007 *RMB'000*	2006 *RMB'000*
At beginning of the year	**435,250**	274,190
Additions	**608,000**	685,050
Repayments	**(893,250)**	(523,990)
At end of the year	**150,000**	435,250

35. RELATED PARTY TRANSACTIONS *(Continued)*

(iv) Compensation of key management personnel

The remuneration of key management during the year was as follows:

	2007	2006
	RMB'000	*RMB'000*
Short-term benefits	**11,653**	2,857
Post-employment benefit	**44**	29
	11,697	2,886

The remuneration of key management is determined having regard to the performance of individuals and market trends.

(v) Others

(a) On 29 August 2006, the Company issued 36,842,105 ordinary shares with nominal value of RMB1.00 each to Luoyang Huamu, a company owned and controlled by the members of the Company's senior management, for a consideration of approximately RMB53.7 million. In September 2006, Luoyang Huamu transferred those shares at same consideration to LMG and CFC.

(b) On 16 October 2006, the Group disposed of its entire interest in a subsidiary to LMG at a consideration of RMB10,000,000.

(c) In December 2006, the Company entered into several guarantee release agreements with independent third parties, the respective banks and LMG. In accordance with those agreements, LMG has taken up the obligation of guarantees provided by the Company to independent third parties at zero consideration.

36. CAPITAL COMMITMENTS

At the balance sheet date, the Group had the following capital commitments:

	2007	2006
	RMB'000	*RMB'000*
Commitments for the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**233,712**	92,087

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37. RETIREMENT BENEFITS PLAN

The PRC employees of the Group are members of state-managed retirement benefit scheme operated by the local government. The Group is required to contribute a specified percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The contributions paid/payable to the scheme by the Group at rate specified in the rules of the scheme included in staff costs are disclosed in note 10 and 11 for employees and directors respectively.

38. FINANCIAL INSTRUMENTS

(a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings and equity attributable to equity holders of the Company, comprising issued capital, capital reserve and retained profits. The minimum registered capital of a joint stock limited liability company is RMB5,000,000.

The Group's board of directors reviews the capital structure on a continuous basis. As a part of this review, the board of directors considers the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. The Group's overall strategy remains unchanged from 2006.

(b) Categories of financial instruments

	2007 ***RMB'000***	2006 *RMB'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	**7,140,956**	1,517,960
Held-for-trading investments	**116,340**	101,493
Available-for-sales investments	**495,287**	2,300
Financial liabilities		
Amortised cost	**751,627**	2,051,604

(c) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3.

38. FINANCIAL INSTRUMENTS *(Continued)*

(d) Financial risk management objectives and policies

The Group's principal financial instruments comprise of trade receivables, held-for-trading investments, available for sales investments, amount due from an associate, trade payables, bank borrowings and bank balances and cash.

The Group's business is mining. The Group only sells commodities it has produced. In the long term, natural hedges operate in a number of ways to help protect and stabilise earnings and cash flow, obviating the need to use derivatives or other forms of synthetic hedging for this purpose. The Group does not acquire or issue derivative financial instruments for trading or speculative purposes; nor does it believe that it has exposure to such trading or speculative holdings through its investments in associates.

The main risks arising from the Group's financial instruments are market risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

(e) Interest rate risk management

An interest rate risk - the possibility that the fair value of a financial instrument (fair value risk) or future cash flows from a financial instrument (cash flow risk) will change due to movement in market interest rates - applies mainly to assets and liabilities with maturities of more than one year.

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing financial assets, mainly interest bearing bank balances at prevailing market interest rates. However, the management monitors interest rate exposures and will consider hedging significant interest rate risk should the need arise.

The sensitivity analysis below has been determined based on the exposure to interest rates for variable interest bearing bank balances at the respective balance sheet dates and the stipulated changes taking place at the beginning of the financial year and held constant throughout the reporting period in the case of bank balances that have floating rates.

If interest rates on bank balances had been 100 basis points higher/lower and all other variables were held constant, the potential effect on profit for the Relevant Periods is as follows:

	2007	2006
	RMB'000	*RMB'000*
Increase/decrease in profit for the year	**55,334**	2,109

The Group's fair value interest rate risk relates primarily to fixed-rate bank borrowings and quoted debenture. The management considers the fair value interest rate risk is insignificant due to the Group's bank borrowings due more than one year and the carrying amount of quoted debenture are minimal.

In the opinion of the directors, the Group does not have significant interest rate risk related to its bank balances, bank borrowings and quoted debentures.

38. FINANCIAL INSTRUMENTS *(Continued)*

(f) Foreign currency risk management

The Group undertakes certain sales transactions denominated in foreign currencies, hence exposure to exchange rate fluctuations arise. In addition, the Group is exposed to the effects of foreign exchange rate fluctuations because of its foreign currency denominated trade receivables and bank balances.

The carrying net amount of the Group's foreign currency denominated net monetary assets at the reporting date is as follows:

	2007	2006
	RMB'000	*RMB'000*
USD	**605,084**	376,303
HKD	**1,740,282**	—

The Group does not generally believe that active currency hedging would provide long term benefits to shareholders. Currency protection measures may be deemed appropriate in specific commercial circumstances and are subject to strict limits laid down by the board of directors.

Foreign currency sensitivity

The Group is mainly exposed to foreign currency risk between USD/RMB and HKD/RMB. The following table details the Group's sensitivity to a 10 per cent change in RMB against the respective foreign currencies. The 10 per cent is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analyses of the Group's exposure to foreign currency risk at the reporting date has been determined based on the change taking place at the balance sheet dates and held constant throughout the reporting period. A negative number indicates a decrease in profit where RMB strengthens against the respective currency which is mainly attributable to the exposure of outstanding USD receivables and HKD bank balances.

	USD Impact		**HKD Impact**	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Profit and loss	**(59,531)**	(36,381)	**(174,028)**	—

The Group's sensitivity to foreign currency exchange rate fluctuation has increased during the current year mainly due to the increase in overseas sales and the Company's successfully listed in the Main Board of the Stock Exchange which has resulted in higher USD receivables and higher HKD bank balances respectively.

In management's opinion, the sensitivity analysis is unpresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year. USD denominated sales is higher in 2007 due to the change in the import and export tax which increase export sales volume, which results in an increment in USD receivables at year end.

38. FINANCIAL INSTRUMENTS *(Continued)*

(g) Credit risk

The Group, in principal, trades only with recognised, creditworthy third parties. Trade receivables consist of a large number of customers, spread across diverse geographical areas. Products are sold only to companies whose credit information does not indicate payment irregularities. Credit limits have been set for most of the customers and they are monitored systematically. For overseas sales, document payments are in use, such as letters of credit. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to credit risk is not significant.

The credit risk on liquid fund is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

With respect to credit risk arising from the other financial assets of the Group which comprise other receivables and amount due from an associate, the Group's exposure to credit risk arising from default of counter parties is limited as the counter parties have good credit standing and the Group does not expect any significant loss for uncollected advances from these entities.

The carrying amount of financial assets records in the consolidated balance sheet, net of any allowances for losses, represents the Group's maximum exposure to credit risk.

(h) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves of cash and banking facilities and by continuously monitoring the utilization of bank borrowings and ensures compliance with loan convenants.

The Group's holdings of cash and short-term deposits, together with net cash flow from operations, are expected to be sufficient to cover the operating cost of the Group in the next financial year. The management considers that the Group expects to have adequate source of funding to finance the Group and manage the liquidity position.

Liquidity table

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Weighted average effective interest rate	Within one year	One to two years	Total undiscounted cash flows	Total
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31.12.2007					
Bank borrowings	6.7	(133,375)	(28,350)	(161,725)	(150,000)
Trade and other payables	—	(582,595)	—	(582,595)	(582,595)
Dividend payables	—	(10,000)	—	(10,000)	(10,000)
Long term payable	—	(9,032)	—	(9,032)	(9,032)
		(735,002)	(28,350)	(763,352)	(751,627)

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38. FINANCIAL INSTRUMENTS *(Continued)*

(h) Liquidity risk management *(Continued)*

	Weighted average effective interest rate	Within one year	One to two years	Two to five years	Total undiscounted cash flows	Total
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31.12.2006						
Payables in respect of mining rights	—	(360,337)	—	—	(360,337)	(360,337)
Bank borrowings	6.6	(591,897)	(215,080)	(359,400)	(1,166,377)	(1,045,250)
Trade and other payables	—	(440,084)	—	—	(440,084)	(440,084)
Dividend payables	—	(193,156)	—	—	(193,156)	(193,156)
Long term payable	—	(12,777)	—	—	(12,777)	(12,777)
		(1,598,251)	(215,080)	(359,400)	(2,172,731)	(2,051,604)

(i) Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities. The management manages this exposure by maintaining a portfolio of investments with different risks and return profiles. The Group's equity price risk is mainly concentrated on equity securities operating in natural resources and transportation sector quoted in The Stock Exchange of Hong Kong Limited. In addition, the Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If equity prices had been 5% higher/lower profit for the year ended 31 December 2007 would increase/decrease by RMB2,989,000 (2006: nil). This is mainly due to the changes in fair value of held-for-trading investments.

The Group's sensitivity to equity prices has not changed significantly from prior year.

(j) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices.
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximates their fair values.

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries as at 31 December 2007 and 2006 are set as follows:

Name of company	Date of establishment	Place of establishment and operation	Issued and fully paid/ registered capital	Proportion of equity held directly by the Company 2007	2006	Principal activities
洛陽欒川鉬業集團冶煉有限責任公司 Luomu Group Refining Co., Ltd. ("Luomu Group Refining")	5 June 2002	PRC - Limited liability company	RMB5,660,000	100%	100%	Manufacturing of molybdenum oxide, molybdenum steel and related products
洛陽欒川鉬業集團鎢鉬銷售貿易有限公司 Luomu Group Sales and Trading Co., Ltd. ("Luomu Group Sales and Trading")	27 March 2001	PRC - Limited liability company	RMB2,000,000	100%	100%	Trading of molybdenum products
洛陽大川鉬鎢科技有限責任公司 Luoyang Dachuan Molybdenum & Tungsten Technology Co., Ltd. ("Dachuan")	10 March 2003	PRC - Limited liability company	RMB50,000,000	75%	75%	Manufacturing of ammonium molybdate, and molybdenum powder.
洛陽高科鉬鎢材料有限公司 Luoyang High Tech Molybdenum & Tungsten Materials Co., Ltd. ("Luoyang High Tech")	14 January 2005	PRC - Limited liability company	RMB5,000,000	100%	100%	Manufacturing of molybdenum powder, tungsten powder, and related products
欒川縣三強鉬鎢有限公司 Luanchuan County Sanqiang Molybdenum & Tungsten Co., Ltd. ("Sanqiang ")	24 March 2003	PRC - Limited liability company	RMB55,480,000	51%	51%	Ore processing
欒川縣九揚礦業有限公司 Luanchuan County Jiuyang MiningCo., Ltd. ("Jiuyang Mining")	9 May 2003	PRC - Limited liability company	RMB33,390,000	51%	51%	Ore processing
欒川縣大東坡鉬鎢礦業有限公司 Luanchuan County Dadongpo Tungsten & Molybdenum Co., Ltd. ("Dadongpo")	2 June 2003	PRC - Limited liability company	RMB65,654,000	51%	51%	Ore processing

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

Details of the Company's principal subsidiaries as at 31 December 2007 are set as follows: *(Continued)*

Name of company	Date of establishment	Place of establishment and operation	Issued and fully paid/ registered capital	Proportion of equity held directly by the Company 2007	Proportion of equity held directly by the Company 2006	Principal activities
洛陽鉬都國際飯店有限公司 Luoyang Mudu International Hotel Co., Ltd.	11 October 2006	PRC - Limited liability company	RMB30,000,000	100%	100%	Hotel and catering
洛陽坤宇礦業有限公司 Luoyang Kunyu Mining Co., Ltd.	27 September 2006	PRC - Limited liability company	RMB10,000,000	70%	70%	Production of various non-ferrous metals.
洛陽鉬業集團金屬材料有限公司	27 December 2007	PRC - Limited liability company	RMB200,000,000	100%	—	Manufacturing and trading of molybdenum product
洛陽鉬業(香港)有限公司 China Molybdenum (Hong Kong) Company Limited	3 August 2007	Hong Kong - Limited liability company	HKD1	100%	—	Trading of molybdenum products
洛陽鉬業集團貴金屬投資有限公司	6 August 2007	PRC - Limited liability company	RMB1,000,000,000	100%	—	Sales of precious metals, investment on precious metals
洛陽永寧金鉛冶煉有限公司 Luoyang Yongning Gold & Refining Co., Ltd	21 September 2007	PRC - Limited liability company	RMB50,000,000	60%	—	Sale and manufacturing of molybdenum oxide
洛陽欒川鉬業集團鎢業有限公司	3 August 2007	PRC - Limited liability company	RMB1,000,000,000	100%	—	Sales, processing and recovery of molybdenum and tungsten

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

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40. POST BALANCE SHEET EVENT

The following significant events occurred subsequent to 31 December 2007:

On 16 January 2008, the Group entered into a legally binding framework agreement (the "Framework Agreement") with the People's Government of Luoning County and Luoning County Funiu Mining Development Center ("Funiu Mining Center"). Pursuant to the Framework Agreement, Funiu Mining Center agreed to acquire all the fixed assets, land use rights and mining rights of Henan Luoning Shanggong Gold Mine, Luoning County Hugou Gold Mine and Luoning County Ganshu Gold Mine (collectively, the "Gold Mines"). As the Gold Mines are currently undergoing liquidation procedures in the PRC, Funiu Mining Center will acquire the fixed assets through public auction in accordance with the PRC laws and regulations.

Upon acquisition of the fixed assets, land use rights and mining rights of the Gold Mines by Funiu Mining Center, Funiu Mining Center will contribute a portion of such assets in an aggregate sum of not more than RMB150 million (subject to valuation) into the registered capital of Luoyang Kunyu Mining Co., Ltd. ("Kunyu Mining"), a subsidiary of the Company. Pursuant to the Framework Agreement, the Group will contribute an aggregate amount of not more than RMB350 million in the registered capital of Kunyu Mining which will be paid in cash.

Following the completion of the capital contribution to be made by the Group and Funiu Mining Center, Kunyu Mining will use its own internal funds to acquire the remaining fixed assets, land use rights and mining rights of the Gold Mines from Funiu Mining Center. If the proposed acquisition materializes, Kunyu Mining will become the legal and beneficial owner of the fixed assets, land use rights and the mining rights of the Gold Mines. The Group and Funiu Mining Center will continue to hold 70% and 30% equity interest in Kunyu Mining, respectively.

The proposed acquisition contemplated under the Framework Agreement is subject to the parties entering into a formal agreement. Upon Funiu Mining Centre, through the auction process, acquired the fixed assets in the Gold Mines, the Company and Funiu Mining Center will enter into a formal agreement.