洛陽欒川鉬業集團股份有限公司
China Molybdenum Co., Ltd.*

Stock Code 3993

2008 Annual Report

* For identification purposes only

CONTENTS

This annual report includes forward-looking statements. All statements, other than statements of historical facts, that address activities, events or developments that the Company expects or anticipates will or may occur in the future (including but not limited to projections, targets, estimates and business plans) are forward-looking statements. The Company's actual results or developments may differ materially from those indicated by these forward-looking statements as a result of various factors and uncertainties. The Company makes the forward-looking statements referred to herein as at 20 March 2009 and undertakes no obligation to update these statements.

COMPANY PROFILE

China Molybdenum Co., Ltd. ("CMOC" or "the Company") is a joint stock company established in the People's Republic of China (the "PRC") on 25 August 2006. The Company was successfully listed (the "Listing") on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 April 2007.

The Company and its subsidiaries (collectively, the "Group") is one of the leading molybdenum producers in the PRC. Our Sandaozhang Mine contains one of the largest defined reserves of molybdenum and the second largest defined reserves of tungsten in the world. The Sandaozhuang Mine possesses various advantages such as abundant reserves and high-grade reserves which is suitable for open-pit mining. Our primary business operations involve molybdenum mining, flotation, roasting, smelting and downstream processing. We occupy a position of unparalleled strategic importance and are well situated at a market-steering foothold. In addition, we are well positioned to capitalize our tungsten reserves through the development of our tungsten production facilities. We have an experienced and dedicated senior management team in the molybdenum and tungsten industries.

FINANCIAL HIGHLIGHTS

	For the year ended		
	2008	2007	Increase/ (Decrease)
	RMB'000	*RMB'000*	
Turnover	**5,563,275**	5,897,806	(5.7%)
Gross profit	**2,719,700**	3,619,886	(24.9%)
Profit before taxation	**2,505,000**	3,560,255	(29.6%)
Profit for the year	**1,848,813**	2,506,922	(26.3%)
Attributable to:			
Equity holders of the Company	**1,640,902**	2,240,834	(26.8%)
Minority interests	**207,911**	266,088	(21.9%)
Earnings per share — Basic	**0.34**	0.50	
Dividend per share			
Final dividend proposed	**0.158**	0.128	
Special dividend proposed	**—**	0.03	

	As at 31 December		
	2008	2007	Increase/ (Decrease)
	RMB'000	*RMB'000*	
Equity attributable to equity holders of the Company	**11,237,128**	10,369,267	8.4%
Minority interests	**407,957**	337,602	20.8%
Total equity	**11,645,085**	10,706,869	8.8%
Net borrowings	**228,000**	150,000	52.0%
Total assets	**12,736,260**	11,867,327	7.3%
Gearing ratios			
Debt/equity gearing ratio *(Note 1)*	**1.96%**	1.40%	40.0%
Debt/asset gearing ratio *(Note 2)*	**1.79%**	1.26%	42.1%

Notes:

1. Debt/equity gearing ratio is the ratio of net borrowings to total equity.

2. Debt/asset gearing ratio is the ratio of net borrowings to total assets.

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to announce the annual results of China Molybdenum Co., Ltd. ("CMOC" or the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2008. On behalf of the board of directors (the "Board") and all employees of the Company, I hereby express my sincere gratitude for all your support.

RESULTS AND DIVIDENDS

In 2008, the Group recorded a turnover of RMB5,563.3 million, representing a decrease of 5.7% from 2007. Profit attributable to equity holders of the Company was RMB1,640.9 million, representing a decrease of 26.8% from 2007. Earnings per share of the Company was RMB0.34. On 20 March 2009, the Board recommended the payment of a final dividend of RMB0.158 per share (including tax) for the year ended 31 December 2008.

MARKET REVIEW

2008 was an extraordinary year surrounded by global economic uncertainties and turmoil in the financial markets. China also suffered from unprecedented natural calamities and confronted with complicated and volatile economic situation. Since the third quarter of 2008, international and domestic economic situation has changed dramatically. With economic crisis sweeping over various industries around the globe, molybdenum market was inevitably affected. International molybdenum price remained strong between January and September 2008, mainly supported by supply shortage. From September 2008, overseas producers began to either maintain or reduce their production output, while China's export of molybdenum plummeted. Molybdenum price in the international market has also dropped dramatically since the end of September 2008. In particular, the bottled molybdenum oxide price in European market tumbled from US$31.6-32.75/lb Mo on 26 September 2008 to US$9-10.5/lb Mo on 26 November 2008, representing a decrease of 72%, being the lowest price in four and a half years since March 2004. It is in stark contrast with the price of US$32.2-34/lb Mo which remained relatively stable between January and September 2008. At the same time, western ferromolybdenum (65-70% Mo) price dropped sharply from US$75.75-77.25/kg to US$24.25-26.5/kg, representing a decrease of 68%, being the lowest level since the end of March 2004. Chinese ferromolybdenum (60% Mo) Rotterdam warehouse spot price dropped from US$77-78/kg to US$28-32/kg, representing a decrease of 64%. Meanwhile, price of canned molybdenum oxide in the US market plunged from US$33.5-34/lb Mo to US$11.75-13/lb Mo, representing a decrease of 65%. The price of molybdenum no longer maintained at a high level as it did during the past three years and took a nosedive amid the current economic crisis. Stimulated by Beijing Olympic Games and the reconstruction after Wenchuan earthquake, there was a robust growth in demand for molybdenum in the domestic market. From January to September 2008, the average price of molybdenum concentrates (45% Mo) and ferromolybdenum (60% Mo) in the domestic market was RMB4,034/metric tonne unit and RMB276,000/metric tonne unit, respectively. Since the end of September 2008, global financial turmoil has brought material adverse impact on steel market. Consequently, nearly 50% mid-small steel factories in China suspended or partly suspended production while various major sizable steel plants announced plans for production cuts or maintenance to various extent. Amid the gloomy sentiment in the steel industry and reduction in production by steel makers, demand for molybdenum products decreased significantly. However, since September 2008, various domestic molybdenum manufacturers have not yet attained an in-depth understanding of the price adjustments in the molybdenum market, and continued their production even when sales were held back. Molybdenum products output increased dramatically, resulting an oversupply of 10,000 tonnes of molybdenum for the whole year. Consequently, molybdenum price tumbled in the domestic market. The average price of molybdenum concentrates (45% Mo) in the domestic market dropped sharply to RMB2,056/metric tonne unit, representing a decrease of 49.1% from the first three quarters, and reached a three-year-low of RMB1,450/metric tonne unit on 18 November 2008. Average price of ferromolybdenum (60% Mo) plummeted to RMB152,000/tonne.

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

During the year 2008, with the benefits of efficient management, detailed organization and continued commitment of our staffs, the Group fully capitalized on its resources and integrated production chain and production scale. Riding on the rapid growth of the molybdenum market from January to September 2008, and overcoming adverse factors such as plummeting molybdenum price, hiking raw material price and higher tariffs on molybdenum products after the end of September 2008, the Group was able to achieve a steady increase in the production volume of molybdenum products. In 2008, the production of molybdenum concentrates (including 45% Mo), molybdenum oxides (including 51% Mo) and ferromolybdenum (including 60% Mo) amounted to 34,400 tonnes, 24,987 tonnes and 14,750 tonnes, representing a year-on-year increase of 12%, 29% and 14.3% over 2007, respectively. Tungsten concentrates (including 65% WO_3) produced by the Group (excluding production made by Luoyang Yulu Mining Co., Ltd. (洛陽豫鷺礦業有限責任公司) amounted to 1,128 tonnes.

Statistics from China Non-ferrous Metals Industry Association showed that the production of molybdenum concentrates in China (45% grade) in 2008 was 180,589 tonnes. The Group's production of molybdenum concentrates accounted for approximately 19% of the total amount produced in China in 2008. According to an international research institution, the world's molybdenum production was approximately 470 million pounds for the year 2008, of which approximately 34.13 million pounds were produced by the Group, representing approximately 7.2% of the total production of the world for the year 2008.

Satisfactory progress has been made to the Group's major projects. In 2008, the Group completed a tungsten recycling project of 9,000 tonnes per day and a tungsten recycling project of 6,000 tonnes per day. Currently, the Group is constructing a smelting plant with a capacity of 40,000 tonnes per year (Phase I project), 1,500-tonne-per-year molybdenum downstream processing production line project at Luoyang High Tech Molybdenum & Tungsten Materials Co., Ltd. (洛陽高科鉬鎢材料有限公司), open-pit mine standards project, Luoning gold project and Yongning 80,000-tonne-per-year comprehensive smelting plant projects. Luomu Group Chifeng Yuxin Mining Co., Ltd (洛鉬集團赤峰市宇鑫礦業公司), a wholly-owned subsidiary of the Group, was established in 2008, paving the way for the Group's molybdenum resources consolidation and acquisition in regions such as Mongolia, northeastern and northern China and outer Mongolia.

Additional efforts were put in the development of technology and innovation which led to much stronger technological advancement. Two technical research were carried out by the Group, namely "Research on acid making process with off-gases from molybdenum concentrate roasting in rotary kiln (回轉窯焙燒鉬精礦尾氣製酸工藝研究)" and "Design for heat spinning roster kiln and research on molybdenum concentrates roasting process (旋轉閃蒸直燃供熱式回轉窯設計與鉬精礦焙燒工藝研究)". Our research results successfully passed the appraisal organized by Science and Technology Department of Henan province. As assessed by experts, the two research are at the frontier in China molybdenum smelting industry and the technology has attained international advanced standard. The Group continues to protect its intellectual property rights through registering its inventions and models with the relevant authorities. During the year, we applied for 8 invention patents and 18 utility model patents, and obtained RMB6,500,000 as special fund for major science and technology projects from Henan provincial and Luoyang municipal governments. Mine site modelling and goaf areas modelling have been completed while the dynamic management system for mine data has also been put into operation.

The Group has proactively promoted standardized operations, and improved corporate management standards. In 2008, the Company took initiatives to amend and improve its management systems, and put additional efforts in financial and personnel system management. With standardized management taking its effects, the Company enhanced its ability in coping with the changing environment and the global economic crisis. In the fourth quarter of 2008, the Company swiftly took a series of measures to reduce costs in light of the plummeting molybdenum price.

CHAIRMAN'S STATEMENT

The Company increased its investment and cooperation activities and made new progress in resource consolidation and acquisition. On 24 June 2008, the Company and Henan Provincial Metals Geological and Mineral Resources Bureau entered into a framework agreement to collaboratively survey, develop and collect information on mineral resources. In addition, the Company arranged several teams to conduct surveys on molybdenum resources in Inner Mongolia, Heilongjiang, Guangdong Province and Nanyang region of Henan province. After deliberation, the Company decided to focus the follow-up survey on several targets with abundant resource potentials. In May 2008, the Company and Zhenping county of Henan province entered into a framework agreement in relation to the co-development of molybdenum mine in Laozhuang, Zhenping County. Currently, the resource consolidation plan for this area has been reported to the People's Government of Henan Province. Department of Land and Resource of Henan Province has entrusted relevant departments to conduct inspection and assessment in respect of the relevant resources. On 9 October 2008, the Company and Chifeng municipal government of Inner Mongolia entered into a letter of intent for the co-development of molybdenum resources in Chifeng City. The Company has established a steering team for Chifeng resource acquisition to conduct depth survey on the resources in the area. In the meantime, we are preparing the consolidation plan for molybdenum resources in Luanchuan area in accordance with the requirements from Luoyang Municipal Party Committee and Municipal Government. In 2008, we have stepped up our efforts in identifying suitable overseas opportunities to extend our presence in other markets. Taking advantage of our solid financial conditions, we will seize opportunities during the current economic downturn to identify potential overseas merger and acquisition targets to expand our business and improve profitability, so as to maximize our shareholders' value.

Not only did the Group effectively bolster its product sales volume and stabilize its customer base, it also aspired towards better sales and marketing strategies to fulfil its goal to lower purchasing costs and achieve greater economic efficiency.

Apart from accelerating the Group's business development, we also took further steps to cultivate corporate culture by highlighting practical and innovative management skills which led to more efficient corporate operational procedures.

PROSPECT

Economies in the western countries are expected to be mired in recession in 2009 due to the global economic crisis. Influenced by the world economic trends, the growth rate of the Chinese economy may be much lower than that of last year. While the slackening world economy is showing signs of a turnaround, major steel plants and machinery equipment manufacturers around the world will continue to cut their production volume and capacity. The molybdenum market is expected to witness more depressed demand and grim prospects. In respect of supplies, afflicted by the global economic crisis and the sharp fall in the molybdenum price, the molybdenum production of major overseas molybdenum manufacturers is expected to drop by 10% to 30% from the level in 2008. In China, industry experts estimated that the domestic molybdenum supply will increase, with an oversupply of molybdenum. We expect that both the international and domestic molybdenum prices will stay at a low level in 2009.

We will continue to examine the current economic and market dynamics, tenaciously adhere to the development strategies of the Company. In addition, we will put more efforts into production and operation and accelerate our resource consolidation and acquisition processes. In 2009, the Company's target for production and operation is to produce approximately 30,205 tonnes of molybdenum concentrates (45%), approximately 23,000 tonnes of molybdenum oxides (51%), approximately 13,200 tonnes of ferromolybdenum (60%), approximately 5,082 tonnes of tungsten concentrates (65%) (among which 2,967 tonnes would be produced by our wholly-owned subsidiaries) and 814 kg of gold.

Our development target is to complete the construction of existing projects and make new progress in domestic and overseas acquisitions. We will focus on the followings: (1) improve cost control and maintain profitability of the Company's existing business segments; (2) speed up resource consolidation and acquisition and grasp the opportunity to press ahead with resource acquisition and to secure our position as the largest molybdenum producer and provider in the domestic market as well as our leading presence in the scheelite industry; (3) actively adjust marketing strategy and endeavor to expand market shares; (4) attract and cultivate talents, optimize the Group's corporate structure and management system and strengthen technological research and reformation to lay a solid foundation for future development of the Group; and (5) seize opportunities in the current economic environment to identify potential targets for acquisition and merger domestically and internationally and strive to expand our business reach and profitability to maximize our shareholders' value.

- Based on the existing production scale in Sandaozhuang Mine, the Company seeks to improve enterprise management and costs control, maintain profitability of the Company's existing business segments. Meanwhile, it will strive for the development of tungsten and precious metals industries, foster new profit driver and fully facilitate the rapid development of the Company by steadily accelerating key projects such as the construction of smelting plant of 40,000 tonnes per annum, improvement project of deep processing molybdenum and tungsten of 1,500 tonnes per annum (1,500噸／年鉬鎢深加工項目完善工程), Luoning gold mining project (洛寧黃金探礦工程) and Yongning smelting plant of 80,000 tonnes per annum (永寧8萬噸／年冶煉廠工程).

- We will speed up resource consolidation and acquisition to grasp the opportunity to press ahead with resource acquisition and to secure our position as the largest molybdenum producer and provider in the domestic market as well as our leading presence in the scheelite industry. Henan provincial government has accredited the Company as enterprise with advantages in resource consolidation while Luoyang municipal government has entrusted the Company to formulate consolidation plan for molybdenum resources in Luoyang City. Leveraging on such favourable conditions, the Company will take initiatives in resource consolidation in Henan province and Luoyang City and spare no efforts to secure high quality resources, to transform the Company into a leading precious metal and mining group in China. Seeking to extend our presence in the international market, the Company will continue to explore opportunities of resource consolidation and acquisition to create new opportunities for future development.

- Actively adjust marketing strategy and endeavor to expand market shares. To cope with bleak economic environment and the molybdenum market in 2009, the Company will streamline its operations as soon as possible to establish a sophisticated management mode. Meanwhile, by taking proactive and flexible marketing strategy, the Company is ready to deal with sales pressure in a position. The Company is going to further strengthen its relationship with internationally renowned steel manufacturers and overseas long-term customers. It will optimize its sales team, establish incentive schemes, implement retention programs for salesmen and focus on the cultivation of key salesmen. In addition, the Company will put more efforts in expanding its customers base in industries other than iron and steel, especially customers in equipment manufacturing industry, to reduce reliance on the iron and steel industry. Timely collection of comments and advices from customers to improve our customers' satisfaction. The Company will make its best endeavours to expand its market shares.

- The Company will continue to attract and cultivate talents, optimize the Group's corporate structure and management systems, promote the construction of internal information systems, and strengthen technological research and development. Furthermore, it will improve human resource management, implement human resource reform plans as well as further enhancing the management standard and operating efficiency to lay a solid foundation for the future development of the Group.

With the combined efforts of the other members of the Board, senior management and staff, as well as support from various parties in the community, I believe that our Company will ride out the current economic downturn, continue to make great accomplishments in resource consolidation and acquisition and achieve greater development. Accordingly, we will continue to deliver quality products and services to our customers and generate reasonable returns for our shareholders.

Finally, I would like to take this opportunity to express my sincere gratitude to our customers and shareholders for their support as well as the efforts contributed by our directors and staff over the year.

Duan Yuxian
Chairman

Luoyang, the PRC
20 March 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMMARY

For the year ended 31 December 2008, profit before taxation decreased by RMB1,055.3 million or 29.6% from RMB3,560.3 million for the year ended 31 December 2007 to RMB2,505.0 million. For the year ended 31 December 2008, profit attributable to the equity holders of the Company was RMB1,640.9 million, representing a decrease of RMB599.9 million or 26.8% from RMB2,240.8 million for the year ended 31 December 2007.

The comparative analysis for the year ended 31 December 2008, and the year ended 31 December 2007 is as follows:

OPERATING RESULTS

For the year ended 31 December 2008, the Group recorded a turnover of RMB5,563.3 million, representing a decrease of RMB334.5 million or 5.7% from RMB5,897.8 million for the year ended 31 December 2007. For the year ended 31 December 2008, the Group achieved a gross profit of RMB2,719.7 million, representing a decrease of RMB900.2 million or 24.9% from RMB3,619.9 million during the same period last year.

By products and geographical locations

The table below sets out the turnover, sales volume and average selling price in 2008 and 2007:

	For the year ended 31 December							
	2008				2007			
Product name	Sales volume *(tonne)*	Average selling price *(RMB/tonne)*	Turnover *(RMB million)*	Percentage in turnover *(%)*	Sales volume *(tonne)*	Average selling price *(RMB/tonne)*	Turnover *(RMB million)*	Percentage in turnover *(%)*
Domestic market								
— Molybdenum concentrate (45% Mo)	2,186.1	148,732.1	325.1	5.8	5,632.1	165,313.8	886.4	15.0
— Molybdenum oxide (51% Mo)	1,559.4	98,975.2	154.3	2.8	415.0	192,607.7	79.9	1.4
— Ferromolybdenum (60% Mo)	13,951.8	205,867.9	2,872.2	51.6	10,343.2	236,293.7	2,444.0	41.5
— Tungsten concentrate (65% WO_3)	786.3	59,058.0	46.4	0.8	—	—	—	—
— Processed Molybdenum & Tungsten products	—	—	296.3	5.3	—	—	237.6	4.0
— Sulfuric Acid (92.5% concentration)	23,772.6	723.3	17.2	0.3	6,955.2	420.0	2.9	0.0
— Other	—	—	357.8	6.4	—	—	283.5	4.8
Sub-total	—	—	4,069.3	73.1	—	—	3,934.3	66.7
International market								
— Molybdenum oxide (51% Mo)	4,159.4	253,551.6	1,054.6	19.0	4,067.9	235,399.5	957.6	16.2
— Ferromolybdenum (60% Mo)	311.6	327,255.4	102.0	1.8	2,790.7	297,090.9	829.1	14.1
— Molybdenum products	—	—	337.4	6.1	—	—	176.8	3.0
Sub-total	—	—	1,494.0	26.9	—	—	1,963.5	33.3
Total	**—**	**—**	**5,563.3**	**100**	**—**	**—**	**5,897.8**	**100**

Despite a modest increase in the total sales volume of our molybdenum products such as molybdenum oxide and ferromolybdenum over last year, we recorded a reduction in our turnover mainly due to the rapid decrease in the selling price of molybdenum products. The selling price of molybdenum products was adversely affected as a result of the intensification of the global financial crisis in the fourth quarter of 2008.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sales to our domestic customers for the year ended 31 December 2008 was RMB4,069.3 million, representing an increase of RMB150.0 million as compared with RMB3,934.3 million for the year ended 31 December 2007. Sales to our overseas customers for the year ended 31 December 2008 was RMB1,494.0 million, representing a decrease of RMB469.5 million as compared with RMB1,963.5 million for the year ended 31 December 2007. The overall increase in the domestic market share over last year was a result of the Company's increasing focus on the domestic market, given the significant impact of the financial crisis on the overseas molybdenum consumption market as compared with the domestic market in the second half of 2008. The percentage of our domestic and overseas customers for the year ended 31 December 2008 was 73.1% and 26.9%, respectively.

Operating cost, gross profit and gross profit margin by products

The table below sets out the operating cost, gross profit and gross profit margin of our products in 2008 and 2007:

	For the year ended 31 December					
	2008			2007		
Product Name	Operating Cost *(RMB million)*	Gross Profit *(RMB million)*	Gross Margin *(%)*	Operating Cost *(RMB million)*	Gross Profit *(RMB million)*	Gross Margin *(%)*
Domestic market						
— Self-produced molybdenum additive materials#	1,258.7	1,916.2	62.2	990.4	2,242.4	66.2
— Outsourced molybdenum additive materials##	169.8	7.0	4.0	157.0	20.6	11.6
— Tungsten concentrate (65% WO_3)	31.3	15.1	32.6	—	—	—
— Downstream processing of molybdenum and tungsten	271.9	24.4	8.2	178.5	59.1	24.9
— Sulfuric acid (92.5% concentration)	11.4	5.8	33.7	2.7	0.3	8.9
— Other	351.6	6.1	1.7	245.1	38.2	15.6
Sub-total	2,094.7	1,974.6	48.5	1,573.7	2,360.6	60.0
International market						
— Self-produced molybdenum additive materials#	374.2	782.4	67.6	558.6	1,228.1	68.7
— Downstream processing of molybdenum and tungsten	304.5	32.9	9.8	145.6	31.2	17.7
— Other	70.2	-70.2	—	—	—	—
Sub-total	748.9	745.1	49.9	704.2	1,259.3	64.1
Total	**2,843.6**	**2,719.7**	**48.9**	**2,277.9**	**3,619.9**	**61.4**

Notes:

\# The product or its major raw materials were produced by self-owned mine of the Group.

\## The product or its major raw materials were purchased from external sources.

For the year ended 31 December 2008, cost of sales of the Group was RMB2,843.6 million, representing an increase of 24.8% over RMB2,277.9 million for the same period last year. The main reasons behind the increase in the cost of sales are as follows: (1) the overall expansion in the sales volume of our molybdenum products (mainly molybdenum oxide and ferromolybdenum), which led to the increase in the total cost of sales; (2) the increase in purchase of molybdenum raw materials from third party for downstream processing.

For the year ended 31 December 2008, the Group's unit production cost of molybdenum concentrate before tax was RMB37,606.0 per tonne, increased by RMB2,208.9 per tonne as compared with the same period last year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended 31 December 2008, the average gross margin of the Group was 48.9%, representing a decrease of 12.5% as compared with 61.4% over the same period last year, mainly attributable to: (1) rapid retreat in the international and domestic molybdenum market prices during the fourth quarter of 2008; (2) the effect on the Group's overall gross profit as 55.8% of the Group's overseas sales for the year were carried out by its wholly-owned subsidiary, China Molybdenum (Hong Kong) Company Limited whose operating revenue and costs are inclusive of tariffs and value-added tax levied in the PRC; (3) decrease in the total gross profit. To satisfy the needs of our customers during the period, our downstream processing units purchased 50% or more of the molybdenum raw materials from external sources and the gross profits of these products were below the average gross margin of the Group's products; (4) increase in the tariffs of our export products e.g. the tariffs of ferromolybdenum increased from 10% to 20% since 1 January 2008; and (5) the tariffs and value added taxes paid by the Company in respect of the sales of the self-produced molybdenum additive materials by China Molybdenum (Hong Kong) Company Limited for the year ended 31 December 2008 have been fully recognized as expenditure of the Group in the profits and loss accounts for the year ended 31 December 2008, however, a portion of the income derived from such sales has not been recognized as income of the Group in the profits and loss accounts for the year ended 31 December 2008.

OTHER INCOME

For the year ended 31 December 2008, other income of the Group amounted to RMB137.5 million, representing a decrease of RMB308.8 million or 69.2% from RMB446.3 million for the same period last year. Such decrease was mainly due to the absence of bank interest income generated from over-subscription of issue of new shares in 2007.

SELLING AND DISTRIBUTION COST

For the year ended 31 December 2008, the selling and distribution costs of the Group amounted to RMB25.0 million, representing an increase of RMB3.7 million or 17.2% from RMB21.3 million in the same period last year. Such increase was mainly due to: (1) increase in freight costs and expenses arising from opening up and expansion of domestic markets, given the increase in sales volume of our products in the domestic market during the year; (2) expenditure incurred by the operation of Luoyang Mudu-Lee Royal International Hotel Co., Ltd. (洛陽鉬都國際飯店有限公司) of the Group.

ADMINISTRATIVE EXPENSES

For the year ended 31 December 2008, the administrative expenses of the Group was RMB253.5 million, which increased by RMB44.9 million or 21.5% from RMB208.6 million in the same period last year. Such increase was mainly attributable to (1) increase in consultancy fees for the Company's proactive measures in seeking overseas market acquisitions opportunities in the year; (2) opening of Luoyang Mudu-Lee Royal International Hotel Co., Ltd. (洛陽鉬都利豪國際飯店有限公司), a subsidiary of the Group established in January 2008 and establishment of China Molybdenum (Hong Kong) Company Limited (洛陽鉬業(香港)有限公司), a subsidiary of the Group established in August 2007 as well as Luomu Group Metal Material Company Limited (洛陽鉬業集團金屬材料有限公司), a subsidiary established in December 2007; (3) increase in the payment of social security fund for staffs upon promulgation of new standards by social security institutions as well as increased depreciation of our new headquarters in the PRC.

OTHER EXPENSES

For the year ended 31 December 2008, other expenses of the Group amounted to RMB85.5 million, representing a decrease of RMB183.4 million or 68.2% from RMB268.9 million in the same period last year. Such decrease was mainly due to loss from foreign exchange, as the Group timely converted most of the assets in foreign currency (including proceeds raised from the listing) into Renminbi in the earlier part of 2008, thereby minimising the effect of currency fluctuation.

FINANCE COSTS

For the year ended 31 December 2008, the finance costs of the Group amounted to RMB2.9 million, representing a decrease of RMB16.9 million or 85.2% from RMB19.9 million in the same period last year. Such decrease was mainly due to a significant reduction in interest expense, as some of the proceeds raised from the initial public offering were used for a partial settlement of debt last year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SHARE OF RESULTS OF ASSOCIATES

For the year ended 31 December 2008, the results of associated companies attributable to the Group amounted to RMB14.8 million, representing an increase of RMB2.0 million or 15.3% over RMB12.8 million for the same period last year. This was mainly due to an increase in the Group's shareholdings in its associated company Yulu Mining Co., Ltd. from 40% to 50% in 2008.

INCOME TAX EXPENSE

For the year ended 31 December 2008, the income tax expense of the Group amounted to RMB656.2 million, representing a decrease of RMB397.1 million or 37.7% from RMB1,053.3 million in the same period last year. Such decrease was mainly due to (1) decrease in the Group's profits; and (2) lower enterprise income tax rate for the major profit-making enterprises of the Group, which dropped from 33% in 2007 to 25% since 1 January 2008.

MINORITY INTEREST

For the year ended 31 December 2008, the minority interests of the Group amounted to RMB207.9 million, representing a decrease of RMB58.2 million or 21.9% from RMB266.1 million in the same period last year. Such decrease was mainly due to the reduction in profit from the Group's joint ventures which are principally engaged in the production of molybdenum products in light of the fall in international and domestic molybdenum market prices in the fourth quarter of 2008.

EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

For the year ended 31 December 2008, the net profit attributable to shareholders of the Company amounted to RMB1,640.9 million, representing a decrease of RMB599.9 million or 26.8% from RMB2,240.8 million for the year ended 31 December 2007. Such decrease was mainly due to the decrease in profit.

FINANCIAL POSITION

For the year ended 31 December 2008, the total assets of the Group amounted to approximately RMB12,736.3 million, comprising non-current assets of approximately RMB5,207.2 million and current assets of approximately RMB7,529.1 million. Equity attributable to equity holders of the Company for the year ended 31 December 2008 increased by RMB867.9 million to RMB11,237.1 million from RMB10,369.3 million for the year ended 31 December 2007.

CURRENT ASSETS

For the year ended 31 December 2008, the inventory of the Company increased by RMB295.8 million to RMB650.4 million from RMB354.6 million for the year ended 31 December 2007. Such increase was mainly attributable to a modest increase in inventories, which was mainly due to the drop in demand for our products by our overseas customers under the financial crisis as well as the massive reductions in the production activities of some of our major clients such as domestic iron and steel enterprises in the fourth quarter of 2008.

FINANCIAL RESOURCES AND CAPITAL STRUCTURE

For the year ended 31 December 2008, property, plant and equipment increased by RMB910.6 million to RMB3,913.2 million from RMB3,002.6 million for the year ended 31 December 2007. The increase was mainly attributable to the construction of the following projects by the Company during the year:

(1) RMB106.0 million of annual capital investment in scheelite recovery projects of 3,000 tonnes per day and 6,000 tonnes per day;

(2) RMB187.6 million of annual capital investment in Yongning Gold's 80,000-tonne-per-year gold and lead smelting project;

(3) RMB13.2 million of annual capital investment in the auxiliary project for Sandaozhuang's 30,000-tonne open pit mine;

(4) RMB324.6 million of annual capital investment in the molybdenum roasting project with a capacity of 40,000 tonnes per year;

(5) RMB33.8 million of annual capital investment in the construction of the main building of No. 2 Ore Processing Branch; and

(6) RMB18.8 million of annual capital investment in the geological survey of Luoyang Kunyu Mining Co., Ltd. (洛陽鉬業坤宇有限公司).

DEBT TO TOTAL ASSETS RATIO

The debt to total assets ratio of the Group dropped from 9.8% as of 31 December 2007 to 8.6% as of 31 December 2008. Debt to total assets ratio is equivalent to total liabilities divided by total assets.

CASH FLOW

For the year ended 31 December 2008, the Group had cash and cash equivalents of RMB2,547.6 million, representing a decrease of RMB3,133.1 million from RMB5,680.7 million for the year ended 31 December 2007. In particular, net cash inflow generated from operating activities for the year ended 31 December 2008 was RMB1,412.0 million. Net cash outflow generated from investment activities was RMB3,755.7 million. Over 80% of the above investments were made for guaranteed short-term investments due within a year so as to maintain liquidity whilst increasing the rate of return of the Group's capital. Net cash outflow generated from financing activities was RMB789.3 million.

As a result of the proceeds raised from the Company's listing in 2007, the Company has further increased its production capacity and strengthened its liquidity position to meet its expansion needs. This enables the Company to instill a stronger resilience against adversity arising from the financial crisis. The Company continues to maintain normal business operations and a healthy financial position.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATE

The Group conducts operations mainly in the PRC. As the production capacity of the Group increased, we also increased our export sales during the year. We mainly settled transactions of export sales in US dollars. Due to periodicity in calculating the amount of export income, the foreign currency risks of the Group were primarily generated from the sales of products in foreign currencies.

Currently, the Group has no formal hedging policies in place. The Group has not entered into any foreign currency exchange contracts or derivatives to hedge against the Group's currency risks.

EXPOSURE TO THE PRICE FLUCTUATION OF MOLYBDENUM PRODUCTS

As the trading price of the Group's molybdenum products is calculated based on international and domestic prices, the Group has been exposed to the price fluctuations of molybdenum products. In the long run, the international and domestic prices of molybdenum products mainly depend on market demand and supply. These factors are beyond our control. Further, the prices of molybdenum products are also susceptible to the global and PRC economic cycle, taxation policies as well as variations in the global currency market. The Group has not entered into any trading contracts and has not made any pricing arrangement to hedge against the risk arising from fluctuations in the price of nonferrous products.

EXPOSURE TO INTEREST RATE

The exposure to interest rate of the Group is mainly related to our short-term and long-term bank borrowings and deposits. The interest rate of outstanding liabilities of the Group is calculated based on the base rate amended by The People's Bank of China and the Hong Kong inter-bank market from time to time. The Group has not entered into any type of interest agreement or derivatives to hedge against fluctuations in interest rate or liabilities.

EMPLOYEES

As of 31 December 2008, the Group had approximately 6,952 full time employees, classified as follows by functions and departments:

Department	Employees	Proportion
Management & administration	871	12.5%
Quality control, research and development	465	6.7%
Production	4,725	68.0%
Repair and maintenance, safety inspection and environmental protection	891	12.8%
Total	6,952	100.0%

The remuneration portfolio of the Group's employees involves salary, bonus and subsidies. The Group has participated in the social insurance contribution plans introduced by the PRC local governments. In accordance with the relevant national and local labor and social welfare laws and regulations, the Group is required to pay on behalf of its employees a monthly social insurance premium covering pension insurance, medical insurance, unemployment insurance and housing reserve fund. Pursuant to the prevailing applicable PRC local regulations, the percentage of certain insurance polices are as follows: the pension insurance, medical insurance, unemployment insurance and housing reserve funds of our PRC employees represent 20%, 6%, 2% and 5% to 12% of his or her total basic salary, respectively.

USE OF PROCEEDS

As at 31 December 2008, the Company applied an aggregate of approximately RMB2,940 million of the proceeds raised from our initial public offering in April 2007, mainly as follows:

- approximately RMB781 million in repaying various short-term bank borrowings;
- approximately RMB826 million in repaying current liabilities and general working capital;
- approximately RMB361 million to prepay the remaining consideration in respect of the mining rights of the Sandaozhuang Mine;
- approximately RMB227 million to construct auxiliary facilities of ores;
- approximately RMB14 million for technological renovation of No. 3 Ore Processing Branch (選礦三公司);
- approximately RMB204 million for the expansion of Mining Branches, Luanchuan County Sanqiang Molybdenum & Tungsten Co., Ltd. (欒川縣三強鉬鎢有限公司) and construction of scheelite recovery plant;
- approximately RMB219 million for the construction of Yongning Gold & Lead Refining Co., Ltd. (永寧金鉛冶煉有限公司) and acquisition project of precious metals;
- approximately RMB276 million to construct a smelting plant of molybdenum with a capacity of 40,000 tonnes/year; and
- approximately RMB32 million for technological improvement at Luoyang High Tech Molybdenum & Tungsten Materials Co., Ltd. (洛陽高科鉬鎢材料有限公司).

MATERIAL EVENTS

A. MATERIAL EVENTS

1. Acquisition of three gold mines in Luoning

On 16 January 2008, the Company entered into a legally binding framework agreement with the People's Government of Luoning County and Luoning County Funiu Mining Development Center (details set out in the announcement dated 16 January 2008). Upon the conclusion of the framework agreement, Luoyang Kunyu Mining Co., Ltd. had taken over three gold mines and started Luoning gold exploring project and other work. As at 31 December 2008, the Company had completed 36,000 meters of drilling and 99 medium-deep holes. The project has made satisfactory progress in the study of the mines, with promising prospects. Meanwhile, the Company had started the construction of Qiliping gold/silver processing plant with a daily capacity of 250 tonnes, and construction of 80,000 tonnes per year gold lead silver smelting plant project (Phase I). Production of the three gold mines went smoothly under the management of Luoyang Kunyu Mining Co., Ltd. through an entrustment arrangement. For the year ended 31 December 2008, gold of 1,348 kg and silver concentrate of 7,000 kg had been produced.

2. Chairman Mr. Duan Yuxian being elected as the deputy of the eleventh National People's Congress

On 23 January 2008, Mr. Duan Yuxian, the Chairman of the Company, was elected as the deputy of the eleventh National People's Congress in the first meeting of the eleventh session of People's Conference of Henan Province.

3. Testing laboratory of the Group attained provincial accreditation and being recognized as a national laboratory

On 28 January 2008, a testing laboratory of the Group attained recognition from China National Accreditation Service for Conformity Assessment (CNAS) and was awarded with the Certificate of National Laboratory Accreditation. The certificate number is NO. CNASL3309 and will remain valid until 2011. The testing laboratory of the Group is responsible for quality testing of molybdenum concentrate, molybdenum oxide, ferromolybdenum and other products. Upon attaining the provincial accreditation and being recognized as a national laboratory, the examination results and reports issued by the testing laboratory of the Group became more authoritative and scientific and it was permitted to act as a designated testing institute for Henan Inspection and Quarantine Bureau. This allowed the laboratory to conduct testings on products for export on behalf of the Henan Inspection and Quarantine Bureau and provide high quality services for the Company and its clients.

4. Increase in registered capital in Luoyang Dachuan Molybdenum & Tungsten Technology Co., Ltd. (洛陽大川鉬鎢科技有限責任公司)

On 30 March 2008, the Company agreed to contribute a sum of RMB120 million to increase the registered capital of one of its wholly-owned subsidiaries, Luoyang Dachuan Molybdenum & Tungsten Technology Co., Ltd. (洛陽大川鉬鎢科技有限責任公司) from RMB37.50 million to RMB157.50 million to satisfy its needs for the development of molybdenum downstream processing business.

5. Further implementation of open-pit mine standards and auxiliary projects

In 2008, 30% construction of No. 4 crushing station had been completed, and phase II of the vegetation process had been finished.

6. Proceeding with molybdenum roasting and smelting plant of 40,000 tonnes

In August 2008, the construction of the Company's 11,000 tonnes per year production line of No. 1 Ferromolybdenum Workshop of molybdenum roasting and smelting factory with 40,000 tonnes/year capacity had been completed. The workshop is in the production trial run process with testing being carried out on individual equipment; Equipments of No. 2 ferromolybdenum workshop is under installation, and 70% of the equipment for the roasting workshop has been installed.

7. Pressing ahead with molybdenum downstream processing project of 1,500 tonnes per year

In August 2008, the Company's molybdenum powder workshop, a molybdenum downstream processing production line with a capacity of 1,500 tonnes per annum, was constructed and put into operation. Currently, renovation of the molybdenum plate workshop is in the process.

8. Commencement of operation of 6,000 tonnes/day scheelite recovery projects

The scheelite recovery plant has a processing capacity of 6,000 tonnes per day. The plant is designed to recover scheelite in tailings of processed molybdenum from No. 1 Ore Processing Branch and Luanchuan County Sanqiang Molybdenum & Tungsten Co., Ltd. After 4 months of trial run, the project started formal production in June 2008. Besides scheelite recycling, the plant is also engaged in molybdenum concentrate and pyrite concentrates recycling. As at 31 December 2008, 763 tonnes (65%) of scheelite concentrates have been recovered.

9. Commencement of operation of scheelite recycling project of 9,000 tonnes per day

The scheelite recovery plant with daily processing capacity of 9,000 tonnes is used for recycling scheelite in tailings produced by the processed molybdenum of No. 3 Ore Processing Branch of the Group and Luanchuan County Dadongpo Tungsten & Molybdenum Co., Ltd. The project started formal production in August 2008. As at 31 December 2008, 365 tonnes (65%) of scheelite concentrates have been recovered.

10. Cooperation in survey and development of mineral resources

On 24 June 2008, the Company entered into a cooperation agreement to survey and develop mineral resources with Henan Provincial Metals Geological and Mineral Resources Bureau in Zhengzhou, Henan Province. The bureau is experienced in conducting mineral surveys and development and attained remarkable results in mine exploration. Pursuant to the agreement, both parties will leverage on their respective strengths on geological survey, financial and technological resources to jointly contribute and carry out large scale mineral surveying and development.

11. The processing plant of 3,000 tonnes per day of Henan Province Luanchuan County Zhonghe Metallurgy Furnace Company Limited (河南省欒川縣眾和冶金爐料有限公司) under entrust arrangement

On 25 June 2008, the Company entered into a cooperation framework agreement with Henan Province Luanchuan County Zhonghe Metallurgy Furnace Company Limited ("Zhonghe"). Pursuant to the agreement, the Company will manage Zhonghe's processing plant of 3,000 tonnes per day which is approximately 8.5 km away from the Group's Sandaozhuang Mine. Zhonghe's processing plant will be responsible for processing low grade ores mined and produced from the Company's Sandaozhuang mine. This provides the Group with an opportunity to further expand its production capacity and enhance the economic benefits by fully capitalising on resources.

12. Change of Principal Place of Business

Following the completion of the construction of its headquarters in Luanchuan, the PRC in July 2008, the Company announced that its principal place of business in the PRC would be changed to North of Yihe, Huamei Shan Road, Chengdong New District, Luanchuan County, Luoyang City, Henan Province, the PRC on 22 July 2008.

13. Opening of Luoyang Mudu-Lee Royal International Hotel

On 10 January 2008, the Group's wholly-owned five star Luoyang Mudu-Lee Royal International Hotel opened after 2 years of construction. It is operated by Luoyang Mudu International Hotel Co., Ltd., a wholly-owned subsidiary of the Group. The hotel has the largest operating area, quality in-class services and the most advanced facilities in Luoyang City.

14. Establishment of Beijing Branch

On 29 July 2008, the Company established a branch office in Beijing.

15. Increase in capital of Luomu Group Metal Material Company Limited (洛陽鉬業集團金屬材料有限公司)

On 24 August 2008, the Company agreed to contribute RMB450 million to increase the registered capital of Luomu Group Metal Material Company Limited to meet its expansion requirements.

16. Establishment of China Molybdenum Sales Co., Ltd. (洛陽欒川鉬業集團股份有限公司銷售公司)

In view of the global economic crisis and the new landscape of international and domestic molybdenum markets, the Company established China Molybdenum Sales Co., Ltd. on 1 December 2008 and terminated the operation of the supply and sales division of China Molybdenum Co., Ltd. to adjust its sales and marketing strategies and cater for the development of the Company.

17. Establishment of Luomu Group Chifeng Yuxin Mining Co., Ltd. (洛鉬集團赤峰市宇鑫礦業公司)

On 23 December 2008, the Company agreed to establish Luomu Group Chifeng Yuxin Mining Co., Ltd with a registered capital of RMB5 million.

B. DOMESTIC INDUSTRY POLICIES

1. Export Quota

On 27 December 2007 and 4 July 2008, the Ministry of Commerce of the PRC promulgated two notifications on export quota (first batch and second batch) of ordinary trading industrial commodities respectively, which set out the quotas that the Company was entitled to. Under the first and second batch notifications, the Company was entitled to export 3,105 tonnes and 1,856 tonnes of primary molybdenum products (molybdenum oxides and ferromolybdenum), 122 tonnes and 34 tonnes of molybdenum chemical products and 45 tonnes and 30 tonnes of molybdenum products. The quotas for molybdenum products of Luoyang High Tech Molybdenum & Tungsten Materials Co., Ltd., a wholly-owned subsidiary of the Company, were 48 tonnes and 39 tonnes.

2. Implementation of New Tariffs

On 29 December 2007, the General Administration of Customs of the State issued the No.79 announcement in 2007 in relation to the implementation of "Tariffs Implementation Plan 2008" to inform that the policy will take effect from 1 January 2008. The plan includes a tentative tariff rate of 20% on ferromolybdenum. The export tariff policy on roasted molybdenum ores (molybdenum oxides), its concentrates as well as chemical and finished products of molybdenum remains the same. On 15 December 2008, the Tariff Regulations Committee of the State Council issued the "Tariffs Implementation Plan 2009" (《2009年關稅實施方案》) to General Administration of Customs, to inform that the policy will take effect from 1 January 2009 onwards. The plan includes an adjustment to the tariff rate for ammonium molybdates and molybdenum powder from 15% to 10%, and other molybdenum products export tariff policies remains unchanged.

3. Entry Barriers

On 4 February 2008, the Announcement (No. 13 2008) issued by NDRC promulgated amendments to "Admission Conditions of the Iron Alloy Industry" (《鐵合金行業准入條件》) and "Admission Conditions of the Industry for Electrolytic Manganese Enterprises" (《電解金屬錳企業行業准入條件》). The policies will check overlaps of low quality construction as well as reckless expansion in the iron alloy and electrolytic manganese industry. As such, it will encourage the upgrade of industrial structure, standardize industrial development and maintain order in market competitions. A group of enterprises with outdated work craft and equipment, high consumption and low utilization of water recycling that fall short of environmental standards will be eliminated. The Company has already been classified by NDRC as one of the enterprises that meets the "Admission Conditions of the Iron Alloy Industry" on 2 November 2006. The newly amended "Admission Conditions of the Iron Alloy Industry" set out more stringent requirements in respect of the production of iron alloys including ferromolybdenum, which will have a long-term and positive impact on the future operation of the Company.

4. Resource Consolidation of Molybdenum in Henan Province

On 18 January 2008, the People's Government of Henan Province issued the "Opinions on the Implementation of the Consolidation of Molybdenum Resources in Henan Province" (《河南省鉬礦資源整合實施意見》), which requires the elimination of enterprises which engaged in the exploration of molybdenum resources yet failed to meet the safety requirements, utilization level and environmental standards. The opinion also promotes consolidation of molybdenum resources among large-scale and technologically advanced enterprises with strong processing capability. In observance of the status of natural reserves of molybdenum resources as well as geological conditions, and in adherence to the principle of only one mining rights for one mining area, the opinion recommends reasonable preparation of consolidation plans, encourages and supports more predominant enterprises to acquire smaller companies and companies with poor performance. It is also stated that the exploration rights and mining rights of molybdenum mines in closer regions should be consolidated. Luoyang City has been confirmed as the major area of rectification, including various regions of Luanchuan County where development of minerals will be the major task. As a predominant enterprise, the Company should be well-positioned in the consolidation of molybdenum resources in Henan Province. On 25 December 2008, the Office of the Mineral Resources Consolidation Leading Group of Henan Province (河南省礦產資源整合領導小組辦公室) issued the "Opinions on Review of the Consolidation of Molybdenum Resources in Four Cities including Luoyang, Sanmenxia, Nanyang and Xinyang" (《關於洛陽三門峽南陽信陽四市鉬礦資源整合實施方案的審核意見》), pursuant to which the Company has been recognized as an advanced enterprise in the development of molybdenum resources in Henan Province and will receive support in the consolidation process from each of the abovementioned cities.

5. Adjustments to Prices of Refined Oil Products and Tariffs

On 19 June 2008, the National Development and Reform Commission announced that in an effort to rationalize prices, ensure domestic supply of refined oil products and promote preservation of crude oil resources, it has determined to elevate the prices of refined oil products as appropriate. Since 20 June 2008, the prices of petroleum and diesel fuel have been adjusted upward by RMB1,000 per tonne while aviation fuel has been increased by RMB1,500 per tonne. Starting from 1 July 2008, the national average retail tariffs of electricity has been increased by RMB2.5 cents per KWh. Being engaged in an industry with no specific consumption of power and fuel, the adjustment to state prices of refined oil products and electricity posed minimal influence to the Group.

6. Export Licenses

On 1 December 2008, pursuant to the Application Standards and Procedures of Export Licenses for Indium and Molybdenum (《銦、鉬出口許可證申請標準和申報程序》), the Ministry of Commerce published a list of enterprises eligible for application for indium and molybdenum export licenses in 2009. Molybdenum manufacturers, without export licenses were prohibited from engaging in the export of molybdenum. It is confirmed that the Company and Luoyang High Tech, a subsidiary of the Company, are eligible to apply for export license for molybdenum.

7. Adjustment to the VAT rate on mining and processing products of metal mines and non-metal mines by the State

According the notice jointly issued by State Taxation Administration and Ministry of Finance on 19 December 2008, as decided by the State Council, the VAT rate for extracts of metallic product and non-metallic product was increased to 17% from 13% with effect from 1 January 2009.

CORPORATE GOVERNANCE REPORT

The Board of the Company is pleased to present this Corporate Governance Report in the Group's annual report for the year from 1 January 2008 and ended 31 December 2008.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

The Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company has applied the principles as set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "CG Code").

In the opinion of the directors, the Company has complied with the code provisions set out in the CG Code throughout the period from 1 January 2008 to 31 December 2008.

The Company reviews its corporate governance practices regularly to ensure compliance with the CG Code.

THE BOARD

During the year ended 31 December 2008, the Company held four Board meetings in total for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

Responsibilities

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. The senior management is delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Company. In addition, the Board has also established Board committees and has delegated to these Board committees various responsibilities set out in their terms of reference respectively.

Every director carries out his duty in good faith and in compliance with the standards of applicable laws and regulations, and acts in the interests of the Company and its shareholders at all times.

Board Composition

The Board currently comprises 11 members, consisting of 5 executive directors, 2 non-executive directors and 4 independent non-executive directors.

The list of all directors is set out under "Corporate Information" on pages 35 to 36 and the independent non-executive directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The Board of the Company comprises the following directors:

Executive Directors

Duan Yuxian, Chairman (who is also the chairman within the meaning of the CG Code)
Li Chaochun, Vice Chairman
Wu Wenjun, General Manager (who is also the chief executive officer within the meaning of the CG Code)
Li Faben
Wang Qinxi

Non-executive Directors

Xu Jun, member of the remuneration committee
Zhang Yufeng, member of the audit committee

Independent Non-executive Directors

Gao Dezhu, chairman of the remuneration committee and member of the audit committee
Zeng Shaojin, member of the remuneration committee
Gu Desheng, member of the audit committee and remuneration committee
Ng Ming Wah, Charles, chairman of the audit committee

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

During the year ended 31 December 2008, the Board, at all times, met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received a written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The independent non-executive directors bring a wide range of business and financial expertise, experiences and independent judgment to the Board. Through active participation in Board meetings, supervising issues involving potential conflict of interests and serving on Board committees, all independent non-executive directors make various contributions that affect the direction of the Company.

Chairman and General Manager

The roles and duties of the Chairman and the General Manager are carried out by different individuals and with roles that have been clearly defined in writing.

The Chairman of the Board is Mr. Duan Yuxian, who provides leadership for the Board and is also responsible for chairing the meetings, leading the operations of the Board and ensuring that all major and appropriate issues are discussed by the Board in a timely and constructive manner.

The General Manager, Mr. Wu Wenjun, is responsible for running the Company's business operations and implementing the Group's strategic plans and business goals.

Appointment and Re-election of Directors

Each of the non-executive directors of the Company is appointed for a term of three years and is subject to retirement by rotation once every three years. In accordance with the Company's Articles of Association ("Articles of Association"), all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a casual vacancy or as an addition to the Board shall submit himself for re-election by shareholders at the first general meeting after appointment.

CORPORATE GOVERNANCE REPORT

The procedures and process of appointment, re-election and removal of directors are laid down in the Articles of Association. The Board as a whole is responsible for reviewing the Board composition, monitoring the appointment, nomination and succession planning of directors and assessing the independence of independent non-executive directors.

Induction and Continuing Development for Directors

Each newly appointed director receives a comprehensive, formal and tailored induction on the first occasion of his appointment so as to ensure that he has an appropriate understanding of the business and operations of the Company and that he is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The directors regularly updated with legal and regulatory developments as well as business and market changes to facilitate the discharge of their responsibilities. Continual briefings and professional development for directors will be arranged whenever necessary.

Board Meetings

Board Practices and Conduct of Meetings

Annual meeting schedules and draft agendas for each meeting are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers are sent to all directors at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company so as to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The senior management attend all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Articles of Association contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions where such directors or any of their associates have a material interest.

Directors' Attendance Records

The attendance records of each director at the meetings of the Board, remuneration committee and audit committee during the year ended 31 December 2008 are set out below:

	Attendance/Number of Meetings		
Name of Directors	**Board**	**Remuneration Committee**	**Audit Committee**
Mr. Duan Yuxian	4/4	N/A	N/A
Mr. Li Chaochun	4/4	N/A	N/A
Mr. Wu Wenjun	4/4	N/A	N/A
Mr. Li Faben	4/4	N/A	N/A
Mr. Wang Qinxi	4/4	N/A	N/A
Mr. Xu Jun	4/4	3/3	N/A
Mr. Zhang Yufeng	4/4	N/A	4/4
Mr. Gao Dezhu	4/4	3/3	4/4
Mr. Zeng Shaojin	3/4	2/3	N/A
Mr. Gu Desheng	4/4	3/3	4/4
Mr. Ng Ming Wah, Charles	4/4	N/A	4/4

CORPORATE GOVERNANCE REPORT

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Specific enquiry has been made on all directors and they have confirmed that the Model Code has been complied with throughout the year ended 31 December 2008. The Company has also established written guidelines equally stringent to the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees has been noted by the Company.

DELEGATION BY THE BOARD

The Board reserves for its decisions all major matters of the Company, including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the company secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are complied with. In appropriate circumstances, directors may seek independent professional advice relating to such queries at the Company's expense upon making such request to the Board.

The day-to-day management, administration and operations of the Company are delegated to the General Manager and the senior management. The delegated functions and work tasks are periodically reviewed. Prior to any significant transactions entered into by the abovementioned officers, approval has to be obtained from the Board.

The Board has established 3 committees, namely, the remuneration committee, audit committee and strategic committee for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies regarding remuneration of directors and senior management of the Company. Details of the remuneration of each of the directors of the Company for the year ended 31 December 2008 are set out in the note 12 to the consolidated financial statements.

REMUNERATION COMMITTEE

The Company has established a remuneration committee and set out its specific terms of reference. The remuneration committee comprises 4 members, namely Mr. Gao Dezhu (chairman), Mr. Zeng Shaojin, Mr. Gu Desheng and Mr. Xu Jun. The majority of them are independent non-executive directors.

The roles and functions of the remuneration committee are set out in its terms of reference. Its primary functions include: making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration; and facilitating the determination of remuneration by reference to the performance of the individual and the Company as well as market practice and conditions.

The remuneration committee has reviewed the remuneration policy and structure of the Company and the remuneration packages of the executive directors and the senior management for the year ended 31 December 2008.

The remuneration committee held three meetings during the year ended 31 December 2008 and the attendance records are set out under "Directors' Attendance Records" on page 20.

AUDIT COMMITTEE

Written terms of reference of the audit committee based primarily on "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants have been adopted by the Board.

The audit committee provides an important link between the Board and the Company's auditor in matters falling within the Group's scope of the audit.

The audit committee will review the effectiveness of the external audit and internal controls and evaluate risks to provide comments and advice to the Board. The audit committee comprises three independent non-executive directors, namely Mr. Ng Ming Wah, Charles, Mr. Gao Dezhu and Mr. Gu Desheng, and one non-executive director, namely Mr. Zhang Yufeng, with Mr. Ng Ming Wah, Charles as the chairman of the committee. The audit committee has reviewed the audited consolidated results of the Group for the year ended 31 December 2008 with the auditors.

The main duties of the audit committee include the following:

- To review the consolidated financial statements and reports and consider any significant or unusual items raised by the qualified accountant or external auditors before submission to the Board;

- To acquaint with the work performed by the auditor, their fees and terms of engagement to review the relationship between the Company and the external auditor, and to make recommendations to the Board on the appointment, re-appointment and removal of external auditors;

- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures;

- To review the drafts of annual report, including reports submitted by the Chief Executives and the management.

- To supervise directors to ensure that they perform annual review in respect of adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, the training programmes and the budget;

- To review the audit activities with and internal auditors at least once every six months, and the internal auditors shall specify the important issues and results which the Committee shall know or pay attention to. To prepare for such review, the internal auditor will provide internal audit reports or report summaries of the Company and its subsidiaries to members of the Committee through the Secretary of the Committee when necessary. Report on the activities of Audit Committee in each financial year will also be submitted to the Board; and

- To communicate with executive directors, other executives or employees, external auditors and internal auditors without any restrictions. External auditors and internal auditors are entitled to consult the Committee without notifying the management. The Committee is also entitled to consult the external auditors and internal auditors without notifying the management or consult the management without notifying the external auditor and internal auditors.

The audit committee provides supervision on the internal controls system of the Company, report to the Board on any material issues and makes recommendations to the Board.

During the year ended 31 December 2008, the audit committee reviewed, the interim results for the six months ended 30 June 2008 and, the annual results for the year ended 31 December 2008. The audit committee also reviewed the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management and processes and the re-appointment of the external auditors.

The audit committee held four meetings during the year ended 31 December 2008 and the attendance records are set out under "Directors' Attendance Records" on page 20.

STRATEGIC COMMITTEE

The strategic committee is responsible for formulating the overall development plans and investment decision-making procedures of the Group. The strategic committee comprises five executive directors, namely Mr. Duan Yuxian, Mr. Li Chaochun, Mr. Wu Wenjun, Mr. Li Faben and Mr. Wang Qinxi and three independent non-executive directors, namely Mr. Gao Dezhu, Mr. Gu Desheng and Mr. Zeng Shaojin, with Mr. Duan Yuxian serving as the chairman of the committee.

SUPERVISORY COMMITTEE

The supervisory committee of the Company comprises three members, namely Mr. Shu Hedong (chairman), Mr. Yin Dongfang and Mr. Deng Jiaoyun. The supervisory committee is responsible for exercising supervision over the Board and its members and senior management; and preventing them from abusing their power and authorities and jeopardizing the legal interests of the shareholders, the Company and its employees. During the year ended 31 December 2008, the committee held two meetings to review the financial positions of the Company and launched various activities endeavors by adhering to the principle of good faith.

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2008.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The senior management provides explanations and information to the Board for approval so as to enable the Board to make an informed assessment of the financial information and position of the Company.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROLS

During the year ended 31 December 2008, the Board has conducted a review of the effectiveness of the internal control system of the Company, including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

The Board is responsible for maintaining an adequate internal control system to safeguard investors and Company assets and for reviewing the effectiveness of such system on an annual basis.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The internal auditor and senior management shall review and evaluate the control process and monitor any risk factors on a regular basis and report to the audit committee on any findings and measures to address the variances and identified risks.

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out in the "Independent Auditor's Report" on page 37.

During the year ended 31 December 2008, the remuneration paid to the Company's auditor, Messrs. Deloitte Touche Tohmatsu, is set out below:

Category of services	**Fee paid/payable** *HK$'000*
Annual audit service	2,700
Interim review services	550

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS

The general meetings of the Company provide a forum for communication between the Board and the shareholders. The chairman of the Board as well as chairmen of the audit committee, remuneration committee and strategic committee or their representatives shall attend the forthcoming annual general meeting to answer questions of the shareholders.

The 2009 Annual General Meeting ("AGM") will be held on Tuesday, 2 June 2009. The notice of AGM has been sent to shareholders at least 20 clear business days before the AGM.

SHAREHOLDER RIGHTS

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue.

All resolutions put forward at a shareholder meeting will be taken by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Company and of the Stock Exchange after the shareholders' meeting.

REPORT OF THE DIRECTORS

Dear Shareholders,

The Directors are pleased to present their 2008 report and the audited consolidated financial statements of the Company for the year ended 31 December 2008.

ESTABLISHMENT OF THE COMPANY

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

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

PRINCIPAL ACTIVITIES

The principal activities of the Company are mining, smelting and downstream processing of molybdenum and tungsten products. Details of the principal activities of the substantial subsidiaries are set out in note 42 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of RMB0.158 per share (including tax) for the year ended 31 December 2008. Final dividend for the year ended 31 December 2008 is subject to the approval of shareholders at the forthcoming annual general meeting.

It is expected that the final dividend for the year ended 31 December 2008 will be paid on or about Friday, 24 July 2009 to the shareholders whose names appear on the register of members of the Company on Tuesday, 2 June 2009.

Under the relevant tax rules and regulations of the PRC (collectively the "PRC Tax Law"), the Company is required to withhold corporate income tax at the rate of 10% when distributing the final dividend to non-resident enterprise (such term shall have the meaning as defined under the PRC Tax Law) whose name appears on the H Shares register of members of the Company on 2 June 2009.

In accordance with the PRC Tax Law, the Company has an obligation to withhold for payment the corporate income tax from the payment of the final dividend to non-resident enterprises whose names appear on the H Shares register of members of the Company on 2 June 2009. Resident enterprise (such term shall have the meaning as defined under the PRC Tax Law) whose name appears on the H Shares register of members of the Company who do not wish to have the corporate income tax withheld for payment should lodge with Computershare Hong Kong Investor Services Limited the relevant documents issued by the relevant PRC tax authority certifying that it is a resident enterprise, on or before 4:30 p.m. on Friday, 8 May 2009. The address of Computershare Hong Kong Investor Services Limited is Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. The Company will withhold for payment the corporate income tax strictly in accordance with the PRC Tax Law and the requirements of the relevant government authorities. The Company shall not be liable for any dispute relating to the withholding of corporate income tax which arises from any failure to lodge the relevant documents within the prescribed timeframe as mentioned above.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

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

REPORT OF THE DIRECTORS

FINANCIAL INFORMATION SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last four financial years, as extracted from the Company's audited consolidated financial statements for the year ended 31 December 2008, is set out on page 96. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of changes to the property, plant and equipment of the Company and the Group during the year are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of changes the Company's share capital during the year are set out in note 36 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION AND SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2008, neither the Company nor any of its subsidiaries purchased, redeemed or sold any listed securities of the Company.

DISTRIBUTABLE RESERVE

The amount of the Group's reserves available for distribution as at 31 December 2008, calculated in accordance with PRC rules and regulation was RMB1,729 million.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totaling RMB5.4 million (2007: RMB20.8 million).

MAJOR CUSTOMERS AND SUPPLIERS

As at 31 December 2008, the proportion of purchase and sales from our major suppliers and major customers to our total purchase and sales are as follows:

Purchase

The total purchase from our largest supplier is approximately 14.9% of our total purchase value.

The total purchase from our five largest suppliers is approximately 32.3% of our total purchase value.

Sales

The total sales to our largest customer is approximately 15.2% of our total sales value.

The total sales to our five largest customers is approximately 46.0% of our total sales value.

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

REPORT OF THE DIRECTORS

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

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

Supervisors

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

Senior Management

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

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

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors and supervisors of the Company and the senior management of the Group are set out on pages 31 to 34 of the annual report.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S REMUNERATION

The directors' and supervisors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to directors' and supervisors' duties, responsibilities and performance and the results of the Group. In compliance with the CG Code, the Company has a remuneration committee to formulate remuneration policies. Details of the directors' and supervisors' remuneration are disclosed in note 12 to the consolidated financial statements.

REPORT OF THE DIRECTORS

DIRECTORS' AND SUPERVISORS' MANAGEMENT CONTRACTS

Each of our directors and supervisors has entered into a service contract with our Company for a term of three years with effect from the day that the dealing in our H shares first commenced on the Stock Exchange. No director proposed for the re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

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

MANAGEMENT CONTRACTS

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

DIRECTORS' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN SHARES

As of 31 December 2008, none of directors, supervisors and their respective associates had an interests or short positions in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which requires the Company and the Stock Exchange to be notified pursuant to Part XV of the SFO or which, pursuant to section 352 of the SFO, requires such interest or short position to be entered into the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

To the best knowledge of directors or supervisors, as at 31 December 2008, the persons or companies (other than a director or supervisor of the Company) who had interests or short positions in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company were as follows:

Name	Number of shares held	Class of Share	Approximate percentage of shareholding in relevant class of shares
Luoyang Mining Group Co., Ltd.	1,796,593,475	Domestic share	50.40%
Cathay Fortune Corporation	1,736,706,322	Domestic share	48.72%
National Council for Social Security Fund of the PRC	119,196,000	H share	9.09%
Citigroup Inc.	69,913,167	H share	5.32%
UBS AG	86,240,580	H share	6.57%
JP Morgan Chase & Co.	96,857,364	H share	7.39%

Save as disclosed above, as at 31 December 2008, the directors were not aware of any other person (other than a director or supervisor of the Company) who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

CONNECTED TRANSACTIONS

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

NON-COMPETITION AGREEMENTS

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

Our independent non-executive directors were informed by our executive directors that LMG and CFC were not aware that there exists any such opportunity (business opportunity that competes, or may lead to competition, directly or indirectly with our business) during the period from the date of listing to 31 December 2008.

SUFFICIENCY OF PUBLIC FLOAT

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

CLOSURE OF REGISTER OF MEMBERS OF H SHARES

In order to determine the list of H Share shareholders who are entitled to attend the annual general meeting of the Company and to receive the final dividend for the year ended 31 December 2008, the H Shares register of members will be closed from Saturday, 2 May 2009 to Tuesday, 2 June 2009, both days inclusive, during which period no transfer of shares will be effected. In order to attend and vote at the annual general meeting and to qualify for the final dividend, holders of H Shares of the Company whose transfers have not been registered shall deposit the transfer documents together with the relevant share certificates at the H Share registrar of the Company, Computershare Hong Kong Investor Services Limited at or before 4:30 p.m. on Thursday, 30 April 2009. The address of Computershare Hong Kong Investor Services Limited is Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

AUDITOR

The consolidated financial statements of the Company for the financial year ended 31 December 2008 were audited by Deloitte Touche Tohmatsu. The auditor has to retire at the end of the year. However, they are eligible to be reappointed as auditor of the Company at the next annual general meeting.

By Order of the Board
Duan Yuxian
Chairman

Luoyang, the PRC
20 March 2009

REPORT OF THE SUPERVISORY COMMITTEE

Dear Shareholders,

During the reporting period, all three members of the supervisory committee of the Company ("Supervisory Committee") strictly complied with the PRC Company Law, the laws and regulations of Hong Kong and the Articles of Association of the Company. We adhered to the principle of honesty, and for the benefit of all shareholders we faithfully carried out the supervisory duties and rights. The Supervisory Committee has performed its work diligently, pragmatically and seriously, and protected the rights of the shareholders and the Company. The Supervisory Committee performed supervisory duties with respect to various aspects such as the operating condition, financial status, development plan and senior management staffs of 2008.

During the reporting period, the Supervisory Committee held two meetings.

During the year, the Supervisory Committee prudently reviewed the operational and development plans of the Company. The Supervisory Committee also raised reasonable recommendations and opinions to the Board. It also stringently and effectively supervised the important decisions made at the managerial level, and ensured that the decisions were made in compliance with the national laws and regulations and the Articles of Association. It also ensured that the decisions made were to the benefit of the shareholders.

The Supervisory Committee exercised supervision and inspection of the implementation of resolutions by the Board, directors and the management through observation and attendance at general meetings and meetings of the Board. The Supervisory Committee is of the opinion that the Board has diligently performed their duties by making earnest effort to execute all resolutions of the general meetings, and has not conducted any act which jeopardized the interests of the Company and shareholders. All resolutions of the Board are in compliance with laws and regulations such as the Company Law and the Articles of Association. No violation of any laws, regulations and Articles of Association or any act which jeopardized the interests of the Company and shareholders had been found in the performance of the Company's directors and other senior management.

The Supervisory Committee exercised supervision on a regular basis over the legal compliance and rationality of the Company's operation and management. It has also exercised supervision over work performance of the Company's directors and senior management. The Supervisory Committee is of the opinion that the Company's operation is sound and rational, and is in compliance with all laws, regulations and rules. The members of the Board and senior management of the Company in 2008 have legally and diligently exercised rights granted by shareholders and performed their duties, strictly adhered to the principle of honesty and launched various tasks in accordance with the Articles of Association. The operation was in good order and the internal control system was closer to perfection.

The Supervisory Committee exercised supervision over the Company's operating activities. The Supervisory Committee is of the opinion that the Company has established a sound internal control system, and has made great progress in the formulation and implementation of its internal work procedures, thus effectively controlling its exposure to various operating risks. The Company's operation is in compliance with the PRC laws and regulations, the Articles of Association and its internal work procedures.

The Supervisory Committee has carefully verified and agreed to the contents of the report of the Board that is to be presented to the annual general meeting, and is of the opinion that the statements have reflected the actual status of the Company. The Supervisory Committee approved the Company's financial audit report presented by the international and domestic auditors of the Company.

In 2009, the Supervisory Committee will continue to be faithful to its duties and foster a standardized operation in the Company in strict compliance with the Company Law, the Articles of Association and the relevant laws and regulations and policies.

Shu Hedong
Chairman of the Supervisory Committee

Luoyang, the PRC
20 March 2009

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Duan Yuxian, 55, has been our chairman since August 2006. Mr. Duan graduated from the Academy of the Henan Province Chinese Communist Party (CCP member) Committee in 1995. From May 1986 to January 1999, Mr. Duan served at LCMCC where he held various positions including head of the finance section, deputy manager and manager. From January 1999 to August 2006, he served as vice chairman, general manager, and chairman of Luoyang Luanchuan Molybdenum Group Co., Ltd. From January 2006 to December 2006, Mr. Duan was also the chairman of Luoyang Baima Group. Mr. Duan is currently a director and the chairman of LMG, and is elected as the deputy of the eleventh National People's Congress.

Li Chaochun, 32, has been our director and vice chairman since January 2007. Mr. Li graduated from Shanghai Jiaotong University with a bachelor's degree in law in July 1999. From July 1999 to December 1999, he was a staff accountant of the tax division of Arthur Andersen (Shanghai) Business Consulting Co., Ltd. He was with Arthur Andersen Hua Qiang CPA from January 2000 to March 2002, where his last position was senior advisor of the tax division. From April 2002 to February 2003, he was an assistant manager of planning and strategy implementation of the general representative office of The Hong Kong and Shanghai Banking Corporation Limited in Shanghai. From July 2003 to January 2007, Mr. Li was an executive director of the industrial investment department of CFC.

Wu Wenjun, 42, has been our director and general manager since January 2007. Mr. Wu graduated from the Luoyang Institute of Technology in July 1987 with a bachelor's degree in machinery processing and equipment and from Tsinghua University School of Economics and Management in June 1993 with a master's degree in technological economics. Between July 1993 and February 1994, Mr. Wu worked as an engineer with CITIC Heavy Machinery Inc. Computing Center and between February 1994 and December 2000, he worked as department manager and deputy general manager of CITIC Heavy Machinery Inc. Foreign Trade Company ("CITIC Foreign Trade"). From December 2000 to March 2003, he served as the general manager of CITIC Foreign Trade. From March 2003 to December 2006, he was appointed as the deputy mayor of the Luanchuan County.

Li Faben, 45, has been our director and executive deputy general manager since August 2006. Mr. Li graduated from the Central South Mining & Metallurgical College with a bachelor's degree in engineering in 1983 (major in mining engineering) and the Xi'an Construction Technology University with a master's degree in engineering in 2004 (specialized in mining engineering). Mr. Li is a senior engineer and has over 20 years of experience in the PRC mining industry. Mr. Li was appointed as a national class mining inspector by MLR from 2002. From August 1988 to January 1999, Mr. Li held various positions at LLMC, in which he served as the deputy head and head of the technical division of LLMC, head of various mines of LLMC, head of the open-pit mining construction department of LLMC, and deputy manager of LLMC. Mr. Li served as deputy general manager of LLMG between January 1999 and November 2002. From November 2002 to the present, Mr. Li was the deputy general manager and vice Chairman of LLMG and as well a director of LMG.

Wang Qinxi, 44, has been our director and deputy general manager since August 2006. Mr. Wang graduated from Beijing Steel College with a bachelor's degree in engineering majoring in ore flotation in 1987. Mr. Wang has over 19 years of experience in ore flotation. From August 1987 to January 1999, Mr. Wang was a technician and workshop head of No.1 ore processing branch of Luanchuan Molybdenum Mine of Henan Province, head of the ore processing plant of LLMC Mucheng Company, deputy manager of LLMC Mucheng Enterprise Company, deputy head and head of Majuan Ore Processing Plant of LLMC and deputy manager of LLMC. From January 1999 to August 2006, Mr. Wang served as vice chairman and deputy general manager of LLMG. From January 2006 to December 2006, Mr. Wang also served as vice chairman of Luoyang Baima Group.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Non-executive Directors

Xu Jun, 38, has been our non-executive director since August 2006. Mr. Xu graduated from Peking University in 1992 with a bachelor's degree in economics. From June 1998 to July 2003, Mr. Xu was the deputy general manager of Leader Investment Co., Ltd. Since October 2003, Mr. Xu has been the chairman and an executive director of CFC.

Zhang Yufeng, 34, has been our non-executive director since August 2006. Mr. Zhang graduated from Shanghai Jiaotong University in 1996 with a bachelor's degree in engineering. Mr. Zhang obtained qualification as a certified public accountant in China. From January 1997 to August 1998, Mr. Zhang was engaged in project development for Shanghai Caohejing Hi-Tech Park West Zone Development Co., Ltd. and from August 1998 to July 2001, he served in the investment and consultancy department of DTZ Debenham Tie Leung Limited. From July 2001 to September 2002, Mr. Zhang worked for Shanghai Bao Rui Technology Investment Company. Mr. Zhang was engaged in investment services for China Fortune Securities Co., Ltd. from December 2002 to July 2003. From August 2003 to the present, Mr. Zhang has been the general manager of the No. 2 Investment Department of CFC.

Independent Non-Executive Directors

Gao Dezhu, 69, has been our independent non-executive director since October 2006. Mr. Gao is a senior economist and is currently the executive vice chairman of the China Non-ferrous Metals Industry Association. Mr. Gao graduated from the Chinese Language Department of the Fushun College of Education in September 1962. Mr. Gao had been appointed as a part-time professor in various universities in the PRC including the Graduate School of the People's Bank of China, China Renmin University, Liaoning University and Central South University of Technology. Mr. Gao has more than 36 years of experience in the banking industry and he was the general manager of the credit department, and vice president of the headquarters of the Bank of China. From 1998 to present, Mr. Gao has been serving as deputy chief of the State Non- ferrous Metals Industry Administration. In the past, Mr. Gao also served as chairman of ONFEM Holdings Limited in Hong Kong and chairman of Oriental Metals (Holdings) Company Limited in Hong Kong. Mr. Gao currently serves as independent non-executive director of Hunan Zhuye Torche Metals Co., Ltd., a PRC company listed on the Shanghai Stock Exchange (stock code: 600961), BGRIMM Magnetic Materials & Technology Co., Ltd., a PRC company listed on the Shanghai Stock Exchange (stock code: 600980), Anhui Tongdu Copper Co., Ltd., a PRC company listed on the Shenzhen Stock Exchange (stock code: 000630) and Western Mining Co., Ltd., a PRC company.

Zeng Shaojin, 65, has been our independent non-executive director since October 2006. Mr. Zeng graduated from the department of geophysical exploration of Chengdu College of Geology in 1967. Mr. Zeng is a professor-level senior engineer and was recognized by the State Council for his special contributions to the nation in 1998. From 1968 to 1982, Mr. Zeng was a technician and team head of two geological survey teams in Henan Province, and was deputy team head and general engineer of the Henan Province Geophysical Exploration Team. From July 1983 to June 1990, Mr. Zeng was the chief of the Department of Geological Survey of Ministry of Geology and Mineral Resources and from June 1996 to June 1999, Mr. Zeng served as the president of the Chinese Academy of Geological Survey Technologies. Mr. Zeng also served as chief of the Department of Mineral Exploitation of the MLR from July 1999 to January 2005. Mr. Zeng is currently the executive deputy president of the China Association for Geology and Mineral Economics and the executive deputy president of China Mining Association.

Gu Desheng, 71, has been our independent non-executive director since October 2006. Mr. Gu is a professor and an academic advisor to Ph.D. students at Central South University of Technology. Mr. Gu graduated from Central South Mining & Metallurgical College in July 1960 and joined the faculty thereafter as a professor, academic advisor to Ph.D. students, department head, head of the research institute and member of the degree-awarding committee. He is specialized in theories of continuous mining of metal ore and oscillation ore drawing technology. In 1995, Mr. Gu became a fellow of the Chinese Academy of Engineering. Mr. Gu has received various awards including the first prize at the National Technology Advancement Award, second prize at the National Technological Advancement Awards, and the State Major Technology Contribution and Breakthrough Award. He has authored and published more than 180 professional articles. Mr. Gu was the member of the 9th and 10th National Committee of the Chinese People's Political Consultative Conference and a member of the evaluation committee of the National Natural Science Foundation. Mr. Gu also serves as an independent non-executive director of Hunan Non-ferrous Metals Corporation Limited, a PRC company whose H shares are listed on the Stock Exchange (stock code: 2626).

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ng Ming Wah, Charles, 59, has been appointed as an independent non-executive director since December 2006. Mr. Ng graduated from Loughborough University in England in 1972 with a Bachelor of Science degree in Electronic and Electrical Engineering and from London Graduate School of Business Studies in England in 1974 with a Master of Science degree in Business Studies. He is a director of Somerley Limited, the principal business of which is the provision of corporate financial advisory services. Mr. Ng has more than thirty years of experience in corporate finance and investment bank. He is also a non-executive director of Goldlion Holdings Limited (stock code: 533) and an independent non-executive director of each of China Everbright Limited (stock code: 165), Stone Group Holdings Limited (stock code: 409) and Dalian Ports (PDA) Company Limited (stock code: 2880). In addition, Mr. Ng holds a number of community service positions, including as a member of the Council of Lingnan University of Hong Kong and a member of the Board of Governors of Hong Kong Arts Centre.

SUPERVISORS

Shu Hedong, 45, has been our supervisor since August 2006. Mr. Shu graduated from Nanjing University in 1985 with a bachelor's degree in radio-geology and from the Third Institute of the Ministry of Nuclear Industry in 1988 with a master's degree in radio-geology. From January 1989 to March 1993, Mr. Shu worked for the former Ministry of Energy and from April 1993 to January 1995, he served as the business development manager of Unisono Limited. Subsequently from February 1995 to November 1998, Mr. Shu served as the business development manager of Power-Gen International. From December 1998 to March 2001, Mr. Shu served as the director of corporate strategy and new business development of Unisono Limited and from April 2001 to March 2004, he served as the deputy general manager of Beijing Leader & Harvest Technology Co., Ltd. Since April 2004, Mr. Shu has been an assistant to the president of CFC. Mr. Shu is currently an executive director of CFC.

Yin Dongfang, 47, has been our supervisor since January 2007. Mr. Yin graduated from Zhengzhou University with a diploma in law in June 1988 and obtained his lawyer's qualifications certificate in May 1989. Between 1994 and 1998, Mr. Yin practiced as a lawyer in Luoyang City No. 2 Law Firm and between August 2002 and December 2004, he set up his own legal practice with two other partners. Between August 2002 and December 2004, Mr. Yin was appointed as the executive deputy chairman of Luoyang City Bar Association. From May 2005 to the present, he was appointed as the manager of the investment and management department of the Luoyang City Branch of Henan Province Association of Municipal and Township Collectively-Owned Industries.

Deng Jiaoyun, 56, has been our supervisor since August 2006. From 1969 to 1984, Mr. Deng worked at the Wood Construction Society, No. 2 Light Industry Bureau, and Planning Committee of Luanchuan County. From 1984 to 1988, Mr. Deng was the deputy chief of Luanchuan County Bureau of Statistics and from 1988 to 1989, he was appointed the deputy head of the policy research office of Luanchuan County CCP Committee. In addition, from April 1989 to March 1993, Mr. Deng served as the head of the finance department, labor and personnel department, and organization department of LLMC. From 1999 to August 2006, Mr. Deng also served as the head of organization department, and director of LLMG. He is also the chairman of the labor union of our Company.

JOINT COMPANY SECRETARIES

Lo Yee Har Susan, 50, is the joint company secretary of the Company for the purpose of Listing Rule 8.17. Ms Lo is a director of Corporate Services Division of Tricor Services Limited and a fellow member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. Ms Lo has over 20 years of experience in the company secretarial area and is currently the company secretary of several Stock Exchange listed companies including Shanghai Forte Land Co., Ltd., Dongfeng Motor Group Company Limited, China National Building Material Company Limited, SPG Land (Holdings) Limited and Guangzhou Pharmaceutical Company Limited.

Ho Siu Pik, 45, is the joint company secretary of the Company for the purpose of Listing Rule 8.17. Ms Ho is a director of Corporate Services Division of Tricor Services Limited and an associate member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. Ms Ho has over 20 years of experience in the company secretarial area.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Our senior management comprises our executive directors, our qualified accountant, joint company secretaries and the following persons:

Yang Jianbo, 43, has been our deputy manager since August 2006. Mr. Yang graduated from Northeast Industrial College in 1988 with a bachelor's degree in ore processing. From 1988 to 1992, Mr. Yang served as a technician of Lengshui ore processing and deputy head of the control center of LLMC. From 1992 to 1999, Mr. Yang served as deputy manager of LLMC, deputy head of the Lengshui ore processing plant and deputy head of the Majuan ore processing plant. From 1999 to 2002, Mr. Yang served as deputy head of the science and technology department of LLMG and manager of the No. 2 ore processing branch company of LLMG. From November 2002 to August 2006, Mr. Yang served as a deputy general manager and director of LLMG.

Wang Bin, 42, has been our deputy general manager since August 2006. Mr. Wang graduated from Central South University of Technology in 1989 with a bachelor's degree in geology. From 1989 to 1996, Mr. Wang was a technician and a deputy head of Luanchuan County Mineral Company. From 1996 to 1998, Mr. Wang served as an office secretary of Luanchuan County People's Government. From 1998 to 1999, Mr. Wang was a deputy manager of LCMCC. From 1999 to 2002, Mr. Wang served LLMG in the positions of board secretary, deputy head of the business planning department, and manager of the mine branch company. From November 2002 to August 2006, Mr. Wang served as a deputy general manager and director of LLMG.

Gu Meifeng, 44, senior accountant, has been our chief financial officer since August 2006. Ms Gu graduated from Henan University in 1995. Ms Gu obtained qualifications as a certified public accountant, registered asset appraiser and senior accountant in China. From 1986 to 1994, Ms Gu worked on cost accounting with China YTO Group Corporation Equipment Reparation & Manufacturing Plant. From 1994 to June 2006, Ms Gu was a deputy general manager of Luoyang Zhonghua Certified Public Accountants Co., Ltd.

He Feng, 45, has been our board secretary, board secretary-general and director of the general manager office since September 2006. Mr. He graduated from Luoyang Normal University in 1987 with a diploma in Chinese. From 1987 to 1989, Mr. He worked in Henan Province Luoyang Luanchuan Molybdenum Mine Workers' Children School and became the Secretary of the Communist Youth League General Branch of the school in 1989. From 1991 to 1995, Mr. He served as an editor and journalist in newspaper office of LLMC. From 1995 to 1999, Mr. He was a secretary in the manager office of LLMC. From 1999 to 2006, Mr. He served LLMG as section chief of general manager office secretary section, deputy director of general manager office and board secretary-general.

Fang Ying, 35, is the qualified accountant of our Company and joined us in January 2007. Mr. Fang is a fellow member of the Association of Chartered Certified Accountants and a member of the Chartered Institution of Management Accountants. Mr. Fang graduated from Shanghai Jiaotong University in 1995. From July 1995 to May 1996, Mr. Fang worked for Shanghai Finance Tax Consulting Co., Ltd. in providing tax consulting service and from June 1996 to July 1997, he was engaged in accounting services for Chang Xing Real Estate Co., Ltd. Subsequently, from August 1997 to January 2001, Mr. Fang was engaged in accounting services for Luo De Certified Public Accountants (Limited Liability) Cooperative Group, Shanghai Representative Office. From July 2001 to June 2004, Mr. Fang was a finance manager of Hayward Industrial Products (Shanghai) Co., Ltd. and from October 2004 to June 2006, he was the finance controller of XD Shanghai Trading Co., Ltd. Mr. Fang is a member of our senior management and is employed by us on a full time basis.

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Duan Yuxian *(Chairman)*
Li Chaochun *(Vice Chairman)*
Wu Wenjun
Li Faben
Wang Qinxi

Non-executive Directors

Xu Jun
Zhang Yufeng

Independent Non-executive Directors

Gao Dezhu
Zeng Shaojin
Gu Desheng
Ng Ming Wah, Charles

SUPERVISORS

Shu Hedong *(Chairman of Supervisory Committee)*
Yin Dongfang
Deng Jiaoyun

BOARD SECRETARY

He Feng

COMPLIANCE ADVISOR

Guotai Junan Capital Limited

REGISTERED OFFICE IN THE PRC

West Junshan Road
Luanchuan County
Luoyang City
Henan Province
the PRC

PRINCIPAL PLACE OF BUSINESS IN THE PRC

North of Yihe, Huamei Shan Road,
Chengdong New District, Luanchuan County,
Luoyang City, Henan Province, the PRC

PLACE OF BUSINESS IN HONG KONG

Level 28, Three Pacific Place, 1 Queen's Road East,
Hong Kong

LEGAL REPRESENTATIVE

Duan Yuxian

AUTHORIZED REPRESENTATIVES

Li Chaochun
Lo Yee Har Susan *(FCS, FCIS)*

ALTERNATE AUTHORIZED REPRESENTATIVE

Ho Siu Pik *(ACS, ACIS)*

JOINT COMPANY SECRETARIES

Lo Yee Har Susan *(FCS, FCIS)*
Ho Siu Pik *(ACS, ACIS)*

CORPORATE INFORMATION

ENQUIRY DEPARTMENT OF THE COMPANY

Board Secretariat (董事會秘書處)

INFORMATION ENQUIRY TELEPHONE OF THE COMPANY

(+86) 379 6681 9810

HONG KONG H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Rooms 1806-1807, 18th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

PLACE OF LISTING

The Stock Exchange of Hong Kong Limited

NAME OF THE STOCK

China Molybdenum Co., Ltd. (CMOC)

STOCK CODE

3993 (Listed on 26 April 2007)

PRINCIPAL BANKS

China Merchants Bank, Zhengzhou Branch
China Everbright Bank, Zhengzhou Branch, Wenhua Road Sub-Branch
China CITIC Bank, Zhengzhou Branch, Zhongke Information Building Sub-Branch
Agricultural Bank of China, Luanchuan County Sub-Branch
China Construction Bank Corporation, Luanchuan County Sub-branch
Bank of China Limited, Luoyang Sub-branch
Industrial and Commercial Bank of China Limited, Luanchuan County Sub-branch
Industrial Bank Co., Ltd., Zhengzhou Branch, Zi Jin Shan Sub-branch

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISORS

Hong Kong:

Sidley Austin
39/F, Two International Finance Centre, 8 Finance Street,
Central, Hong Kong

PRC:

Llinks Law Offices
21/F, South Tower, Shanghai Stock Exchange Building,
528 South Pudong Road, Shanghai 200120, the PRC

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE SHAREHOLDERS OF
洛陽欒川鉬業集團股份有限公司
CHINA MOLYBDENUM CO., LTD.
(A joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of 洛陽欒川鉬業集團股份有限公司 China Molybdenum Co., Ltd. (hereinafter referred to as the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 38 to 95, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year ended 31 December 2008 and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
20 March 2009

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	NOTES	2008 RMB'000	2007 RMB'000
Revenue	5	**5,563,275**	5,897,806
Cost of sales		**(2,843,575)**	(2,277,920)
Gross profit		**2,719,700**	3,619,886
Other income and gains	7	**137,507**	446,265
Selling and distribution expenses		**(25,019)**	(21,344)
Administrative expenses		**(253,494)**	(208,622)
Other expenses and losses	8	**(85,547)**	(268,886)
Finance costs	9	**(2,939)**	(19,871)
Share of results of associates		**14,792**	12,827
Profit before taxation		**2,505,000**	3,560,255
Taxation	10	**(656,187)**	(1,053,333)
Profit for the year	11	**1,848,813**	2,506,922
Attributable to:			
Equity holders of the Company		**1,640,902**	2,240,834
Minority interests		**207,911**	266,088
		1,848,813	2,506,922
Earnings per share — Basic	14	**RMB0.34**	RMB0.50

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2008

	NOTES	**2008** **RMB'000**	2007 RMB'000
Non-current assets			
Property, plant and equipment	15	**3,913,156**	3,002,560
Land use rights — non-current portion	16	**421,008**	305,618
Mining rights	17	**337,815**	365,193
Trademarks	18	**835**	—
Interests in associates	19	**46,204**	45,412
Investments in debt securities	20	**200,000**	—
Available-for-sale investments	21	**2,300**	2,300
Deferred tax assets	22	**130,721**	34,877
Deposits paid for acquisition of mines	23	**155,153**	15,700
		5,207,192	3,771,660
Current assets			
Inventories	24	**650,367**	354,558
Trade and other receivables	25	**653,587**	1,380,652
Amount due from an associate	26	**105,856**	61,243
Land use rights — current portion	16	**9,295**	6,526
Investments in debt securities	20	**2,899,000**	—
Available-for-sale investments	21	**—**	492,987
Held-for-trading investments	27	**663,339**	116,340
Restricted bank deposits	28	**—**	2,685
Bank balances and cash	29	**2,547,624**	5,680,676
		7,529,068	8,095,667
Current liabilities			
Trade and other payables	30	**(681,061)**	(582,595)
Dividend payables	31	**(51,767)**	(10,000)
Tax payable		**(67,964)**	(372,018)
Bank borrowings — due within one year	32	**(228,000)**	(125,000)
		(1,028,792)	(1,089,613)
Net current assets		**6,500,276**	7,006,054
Total assets less current liabilities		**11,707,468**	10,777,714

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2008

	NOTES	2008 RMB'000	2007 RMB'000
Non-current liabilities			
Bank borrowings — due after one year	32	**—**	(25,000)
Provision	33	**(38,653)**	(36,813)
Long term payable	34	**(5,286)**	(9,032)
Deferred income	35	**(18,444)**	—
		(62,383)	(70,845)
		11,645,085	10,706,869
Capital and reserves			
Share capital	36	**975,234**	975,234
Reserves		**10,261,894**	9,394,033
Attributable to equity holders of the Company		**11,237,128**	10,369,267
Minority interests		**407,957**	337,602
Total equity		**11,645,085**	10,706,869

The consolidated financial statements on pages 38 to 95 were approved and authorised for issue by the Board of Directors on 20 March 2009 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 2008

	Attributable to equity holders of the Company									
	Share capital *RMB'000*	Share premium *RMB'000*	Capital reserve *RMB'000* *(Note 37)*	Statutory surplus reserve *RMB'000* *(Note 37)*	Investment revaluation reserve *RMB'000*	Translation reserve *RMB'000*	Retained profits *RMB'000*	Attributable to equity holders of the Company *RMB'000*	Minority interests *RMB'000*	Total *RMB'000*
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 a)*	—	—	167,673	—	—	—	(167,673)	—	—	—

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008

	Attributable to equity holders of the Company									
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000 (Note 37)	Statutory surplus reserve RMB'000 (Note 37)	Investment revaluation reserve RMB'000	Translation reserve RMB'000	Retained profits RMB'000	Attributable to equity holders of the Company RMB'000	Minority interests RMB'000	Total RMB'000
At 31 December 2007 and at 1 January 2008	975,234	7,346,260	361,933	339,082	836	(464)	1,346,386	10,369,267	337,602	10,706,869
Exchange difference arising on translation of foreign operation recognised directly in equity	—	—	—	—	—	(1,770)	—	(1,770)	—	(1,770)
Gain on fair value changes of available-for-sale investments	—	—	—	—	7,262	—	—	7,262	—	7,262
Net income (expense) recognised directly in reserve	—	—	—	—	7,262	(1,770)	—	5,492	—	5,492
Transfer to profit and loss on sale of available-for-sale investments	—	—	—	—	(8,098)	—	—	(8,098)	—	(8,098)
Profit for the year	—	—	—	—	—	—	1,640,902	1,640,902	207,911	1,848,813
Total recognised income for the year	—	—	—	—	(836)	(1,770)	1,640,902	1,638,296	207,911	1,846,207
Capital injection from a minority shareholder	—	—	—	—	—	—	—	—	35,000	35,000
Dividends	—	—	—	—	—	—	(770,435)	(770,435)	(172,556)	(942,991)
Transfer from reserves	—	—	—	203,871	—	—	(203,871)	—	—	—
Transfer *(Note a)*	—	—	358,750	—	—	—	(358,750)	—	—	—
Transfer upon utilisation *(Note b)*	—	—	(295,930)	—	—	—	295,930	—	—	—
At 31 December 2008	975,234	7,346,260	424,753	542,953	—	(2,234)	1,950,162	11,237,128	407,957	11,645,085

Notes:

(a) 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 annually, and such amount was entitle as additional deduction from operating income for PRC Enterprise Income Tax purposes up to year ended 31 December 2007. 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 the capital reserve account is not available for distribution to shareholders. The Group need to submit the list of property, plant and equipment purchased and the expense incurred on safety improvement for approval for the utilization of such amount. Upon approval by the PRC government, the corresponding amount will then transfer from the capital reserve account to retained profits.

(b) During the year ended 31 December 2008, amount totalling RMB295,930,000 (2007: nil) has been spent on the relevant assets and expenditure as approved by the PRC government, the corresponding amount was then transferred to retained profits.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	2008 RMB'000	2007 RMB'000
Operating activities		
Profit before taxation	**2,505,000**	3,560,255
Adjustments for:		
Interest income	**(114,281)**	(358,622)
Interest expenses	**2,939**	19,871
Depreciation for property, plant and equipment	**223,180**	148,938
Amortisation of land use rights	**8,794**	8,357
Amortisation of mining rights	**27,378**	27,220
Amortisation of trademarks	**55**	—
Loss on disposal of property, plant and equipment	**8,702**	13,987
Share of results of associates	**(14,792)**	(12,827)
Allowance for doubtful debts	**7,264**	15,061
Released of government grants	**(836)**	—
Allowance for inventories	**13,037**	—
Gain arising on disposal of available-for-sale investments	**(8,098)**	(368)
Operating cash flows before movements in working capital	**2,658,342**	3,421,872
Increase in inventories	**(308,846)**	(133,878)
Decrease (increase) in trade and other receivables	**718,308**	(730,955)
Increase in held-for-trading investments	**(546,999)**	(14,847)
Increase in amount due from an associate	**(44,613)**	(58,613)
(Decrease) increase in trade and other payables	**(4,411)**	73,387
Decrease in long term payable	**(3,746)**	(3,745)
Cash generated from operations	**2,468,035**	2,553,221
PRC Enterprise Income Tax paid	**(1,056,085)**	(999,383)
Net cash from operating activities	**1,411,950**	1,553,838

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	2008 RMB'000	2007 RMB'000
Investing activities		
Interest received	**114,281**	358,622
Dividend received from an associate	**14,000**	12,510
Purchases of property, plant and equipment	**(1,045,206)**	(1,063,954)
Deposits paid for acquisition of mines	**(139,453)**	—
Proceeds from disposal of available-for-sale investments	**500,249**	28,217
Purchases of land use rights	**(126,953)**	(104,193)
Payment for purchase of mining rights	**—**	(360,337)
Purchases of available-for-sale investments	**—**	(520,000)
Purchase of trademarks	**(890)**	—
Purchase of investments in debt securities	**(3,099,000)**	—
Proceeds from disposal of property, plant and equipment	**5,328**	2,160
Government subsidy received	**19,280**	—
Decrease in restricted bank deposits	**2,685**	4,224
Net cash used in investing activities	**(3,755,679)**	(1,642,751)
Financing activities		
Interest paid	**(1,099)**	(40,171)
Dividends paid to shareholders	**(770,435)**	(1,492,361)
Dividends paid to minority shareholders of subsidiaries	**(130,789)**	(237,854)
New bank borrowings raised	**203,000**	688,000
Repayment of bank borrowings	**(125,000)**	(1,583,250)
Issue of shares	**—**	8,001,048
Share issue expense	**—**	(433,270)
Capital contribution from minority shareholders	**35,000**	40,000
Net cash (used in) generated from financing activities	**(789,323)**	4,942,142
Net (decrease) increase in cash and cash equivalents	**(3,133,052)**	4,853,229
Cash and cash equivalents at 1 January	**5,680,676**	827,447
Cash and cash equivalents at the end of the year	**2,547,624**	5,680,676
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**2,547,624**	5,680,676

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. After the corporate restructuring, 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. The Company then undertook further share issue and share split and as a result the Company had, on 13 April 2007, 3,684,210,525 shares with nominal value of 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, molybdenum concentrate, tungsten concentrate, gold and sulfuric acid. 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 (THE "IFRSs")

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 2008. 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.

IAS 39 & IFRS 7 (Amendments)	Reclassification of financial assets
IFRIC — INT 11	IFRS 2: Group and treasury share transactions
IFRIC — INT 12	Service concession arrangements
IFRIC — INT 14	IAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (THE "IFRSs") *(Continued)*

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

IFRSs (Amendments)	Improvements to IFRSs [1]
IAS 1 (Revised)	Presentation of financial statements [2]
IAS 23 (Revised)	Borrowing costs [2]
IAS 27 (Revised)	Consolidated and separate financial statements [3]
IAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation [2]
IAS 39 (Amendments)	Eligible hedged item [3]
IFRS1 & IAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate [2]
IFRS 2 (Amendments)	Vesting conditions and cancellations [2]
IFRS 3 (Revised)	Business combinations [3]
IFRS 7 (Amendments)	Improving disclosures about financial instruments [2]
IFRS 8	Operating segments [2]
IFRIC — Int 9 & IAS 39 (Amendments)	Embedded Derivatives [7]
IFRIC 13	Customer loyalty programmes [4]
IFRIC 15	Agreements for the construction of real estate [2]
IFRIC 16	Hedges of a net investment in a foreign operation [5]
IFRIC 17	Distributions of non-cash assets to owners [3]
IFRIC 18	Transfers of assets from customers [6]

[1] Effective for annual periods beginning on or after 1 January 2009 except for the amendments to IFRS 5 which is effective for annual periods beginning on or after 1 July 2009.

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

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

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

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

[6] Effective for transfer on or after 1 July 2009.

[7] Effective for annual periods ending on or after 30 June 2009.

The directors of the Company anticipate that the application of these standards, amendments and interpretations will have no material impact on the results and the financial position of the Group except for the adoption of IFRS 3 (Revised) Business combinations and IAS 27 (Revised) Consolidation and Separate Financial Statements. IFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. IAS 27 (Revised) will affect the accounting treatment on changes in the Group's ownership interest in a subsidiary.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 that are measured in terms of historical cost in a foreign currency are not retranslated.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 costs directly attributable to the acquisition, construction or production of qualifying assets 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

Trademarks

Trademarks are stated at cost less accumulated amortisation and any recognised impairment loss. The cost incurred in the acquisition of trademarks is capitalised and amortised on a straight-line basis over 5 years.

Gains or losses arising from derecognition of a trademark are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Government grants

Government grants are recognised as income over the period, necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets.

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.

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 following 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

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.

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 and other receivables, investments in debt securities, amount due from an associate, restricted 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

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL or loans and receivables.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss.

Certain equity instruments 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

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.

Equity instruments

Equity instruments issued by the Company 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. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collaterised borrowing for proceeds received.

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)*

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.

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.

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.

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

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 PRC government will continue to renew the mining rights certificate upon its expiration in year 2021. It may also change significantly as a result of technical innovations and competitor actions in response to industry cycles. Management will increase the depreciation charges where useful lives are 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. REVENUE

Revenue 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 revenue is as follows:

	2008	2007
	RMB'000	*RMB'000*
Sale of goods		
— molybdenum concentrate	**325,138**	886,432
— molybdenum oxide	**1,208,948**	1,037,524
— ferromolybdenum	**2,974,204**	3,273,141
— molybdenum plate	**335,190**	200,011
— tungsten concentrate	**46,440**	—
— gold	**146,405**	149,968
— others	**526,950**	350,730
	5,563,275	5,897,806

6. SEGMENT INFORMATION

Business segments

Segment information is presented by way of the Group's primary segment reporting basis, by business segment.

During the year ended 31 December 2008, the Group further its expansion on the processed molybdenum and tungsten segment. Accordingly, the directors considered that the presentation of business segment as primary segment is more relevant to the Group's operation.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) Molybdenum related products

(b) Processed molybdenum and tungsten products

(c) Others*

* Represent gold, sulfuric acid and other by products

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment.

Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

6. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

The following tables present the Group's business segments for the years ended 31 December 2008 and 2007.

Year ended 31 December 2008	Molybdenum related products RMB'000	Processed molybdenum and tungsten products RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Sales to external customers	4,508,290	633,739	421,246	—	5,563,275
Intersegment sales	3,670,137	281,702	674,655	(4,626,494)	—
Total	8,178,427	915,441	1,095,901	(4,626,494)	5,563,275
Segment results	2,549,680	57,350	26,975		2,634,005
Unallocated income					137,507
Unallocated expense					(281,304)
Share of results of associates		14,792			14,792
Profit before taxation					2,505,000
Taxation					(656,187)
Profit for the year					1,848,813
Assets and liabilities					
Segment assets	3,858,475	507,448	1,142,798		5,508,721
Interests in associates		46,204			46,204
Unallocated assets					7,181,335
Total assets					12,736,260
Segment liabilities	(103,084)	(14,445)	(364)		(117,893)
Unallocated liabilities					(973,282)
Total liabilities					(1,091,175)

6. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Year ended 31 December 2008	Molybdenum related products *RMB'000*	Processed molybdenum and tungsten products *RMB'000*	Others *RMB'000*	Eliminations *RMB'000*	Consolidated *RMB'000*
Other segment information:					
Depreciation and amortisation	121,945	28,028	71,820		221,793
Unallocated amounts					37,614
					259,407
Capital expenditure	557,054	124,063	342,265		1,023,382
Unallocated amounts					125,314
					1,148,696
Land use right	66,702	14,855	45,396		126,953
Allowance of inventories	13,037		—		13,037
Impairment on trade receivables	120	60	1,106		1,286
Loss on disposal of property, plant and equipment	8,702	—	—		8,702

6. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Year ended 31 December 2007 (Restated)	Molybdenum related products *RMB'000*	Processed molybdenum and tungsten products *RMB'000*	Others *RMB'000*	Eliminations *RMB'000*	Consolidated *RMB'000*
Sales to external customers	5,197,097	414,442	286,267	—	5,897,806
Intersegment sales	2,392,336	149,409	292,605	(2,834,350)	—
Total	7,589,433	563,851	578,872	(2,834,350)	5,897,806
Segment results	3,282,612	90,330	38,509		3,411,451
Unallocated income					446,265
Unallocated expenses					(310,288)
Share of results of associates		12,827			12,827
Profit before taxation					3,560,255
Taxation					(1,053,333)
Profit for the year					2,506,922
Assets and liabilities					
Segment assets	4,303,170	430,947	323,434		5,057,551
Interests in associates		45,412			45,412
Unallocated assets					6,764,364
Total assets					11,867,327
Segment liabilities	(14,381)	(40,939)	(28,278)		(83,598)
Unallocated liabilities					(1,076,860)
Total liabilities					(1,160,458)

6. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Year ended 31 December 2007 (Restated)	Molybdenum related products *RMB'000*	Processed molybdenum and tungsten products *RMB'000*	Others *RMB'000*	Eliminations *RMB'000*	Consolidated *RMB'000*
Other segment information:					
Depreciation and amortisation	134,475	13,954	12,543		160,972
Unallocated amounts					23,543
					184,515
Capital expenditure	791,438	104,518	131,777		1,027,733
Unallocated amounts					135,450
					1,163,183
Land use right	80,237	10,596	13,360		104,193
Impairment on trade receivables	9,673	—	1,986		11,659
Loss on disposal of property, plant and equipment	11,962	—	—		11,962
Unallocated amounts					2,025
					13,987

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 destination to where the products are delivered:

	2008 *RMB'000*	2007 *RMB'000*
Revenue		
PRC	**4,069,285**	3,934,266
Korea	**523,626**	470,378
United Kingdom	**422,452**	28,957
United States	**24,811**	480,319
Germany	**182,823**	616,616
Others	**340,278**	367,270
	5,563,275	5,897,806

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.

7. OTHER INCOME AND GAINS

	2008 RMB'000	2007 RMB'000
Interest income on		
— bank deposits	**63,356**	120,004
— arising from global offering of the Company's shares	**—**	213,052
— Investments in debt securities	**45,751**	—
— debentures	**5,174**	1,726
— available-for-sale investments	**—**	23,840
Total interest income	**114,281**	358,622
Net gain on fair value change of financial assets classified as held-for-trading	**10,893**	82,471
Gain arising on disposal of available-for-sale investments	**8,098**	368
Net gain on sales of scrap materials	**810**	388
Others	**3,425**	4,416
	137,507	446,265

8. OTHER EXPENSES AND LOSSES

	2008 RMB'000	2007 RMB'000
Loss on disposal of property, plant and equipment	**8,702**	13,987
Net foreign exchange losses	**65,916**	230,307
Penalty expenses	**63**	857
Donations	**5,389**	20,833
Others	**5,477**	2,902
	85,547	268,886

9. FINANCE COSTS

	2008 RMB'000	2007 RMB'000
Interests on bank borrowings wholly repayable within five years	**10,077**	40,171
Interests on bills discounted with recourse	**1,078**	—
Other interest expenses — unwinding discounts on provision	**1,840**	1,753
Less: Amount included in the cost of qualifying assets	**(10,056)**	(22,053)
	2,939	19,871

Borrowing costs included in the cost of qualifying assets on the general borrowing pool and are calculated by applying a capitalisation rate of 6.7% per annum for the year ended 31 December 2008 (2007: 6.0%), to expenditure on such assets for the year.

10. TAXATION

	2008	2007
	RMB'000	*RMB'000*
The charge comprises PRC Enterprise Income Tax:		
Current taxation		
— current year	**725,283**	1,057,417
— underprovision in prior year	**26,748**	13,925
	752,031	1,071,342
Deferred taxation		
— current year	**(95,844)**	(20,017)
— attributable to a change in tax rate	**—**	2,008
	656,187	1,053,333

The Group was subject to PRC Enterprise Income Tax levied at a rate of 25% (2007: 33%) of taxable income determined in accordance with the relevant laws and regulations in the PRC.

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

	2008	2007
	RMB'000	*RMB'000*
Profit before taxation	**2,505,000**	3,560,255
Tax at the domestic income tax rate of 25% (2007: 33%)	**626,250**	1,174,884
Tax effect of income not taxable for tax purposes	**(4,421)**	—
Tax effect of expenses not deductible for tax purposes	**2,472**	20,577
Tax effect of Appropriation for Mining Company deductible for tax purposes under PRC Enterprise Income Tax	**—**	(55,332)
Tax effect of global offering of the Company's shares related expense which are not deductible for tax purposes	**—**	5,952
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	**26,748**	13,925
Tax effect of tax losses not recognised	**10,072**	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	**(3,698)**	(4,233)
Utilisation of tax losses previously not recognised	**(1,236)**	—
Others	**—**	(719)
Tax charge for the year	**656,187**	1,053,333

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

10. TAXATION *(Continued)*

Notes:

(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 utilised 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 reduced from 33% to 25%.

11. PROFIT FOR THE YEAR

	2008	2007
	RMB'000	*RMB'000*
Profit for the year has been arrived at after charging:		
Directors' remuneration *(Note 12)*	**6,343**	7,067
Other staff's salary, bonus and allowance	**413,213**	267,910
Other staff's contribution to retirement benefit cost	**32,053**	17,973
Total staff costs	**451,609**	292,950
Auditor's remuneration	**2,700**	2,700
Cost of inventories recognised as an expense	**2,830,538**	2,277,920
Depreciation of property, plant and equipment	**223,180**	148,938
Amortisation of land use rights	**8,794**	8,357
Amortisation of mining rights (include in cost of sales)	**27,378**	27,220
Amortisation of trademarks (included in cost of sales)	**55**	—
Allowance for doubtful debts	**7,264**	15,061
Allowance for inventories	**13,037**	—
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)	**5,984**	7,323
Resources compensation fee *(Note)*	**79,760**	73,018

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.

12. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS

	2008 **RMB'000**	2007 RMB'000
Directors' fees	**620**	700
Other emoluments for executive directors		
— basic salaries and allowances	**1,900**	1,900
— performance related bonus	**3,800**	4,446
— retirement benefits contributions	**23**	21
	6,343	7,067

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

	Directors' fees *RMB'000*	**Basic salaries and allowances** *RMB'000*	**Retirement benefit contribution** *RMB'000*	**Performance related bonus** *RMB'000*	**Total** *RMB'000*
For the year ended 31 December 2008					
Name of director					
Executive director					
段玉賢 Duan, Yuxian	—	400	7	800	1,207
李朝春 Li, Chaochun	—	380	—	760	1,140
吳文君 Wu, Wenjun	—	380	5	760	1,145
李發本 Li, Faben	—	380	6	760	1,146
王欽喜 Wang, Qinxi	—	360	5	720	1,085
	—	1,900	23	3,800	5,723
Non-executive director					
許　軍 Xu, Jun	60	—	—	—	60
張玉峰 Zhang, Yufeng	60	—	—	—	60
	120	—	—	—	120
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	620	1,900	23	3,800	6,343

12. 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

12. 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 2008			
Supervisors			
舒鶴棟 Shu, Hedong	60	—	60
鄧交雲 Deng, Jiaoyun	350	6	356
尹東方 Yin, Dongfang	60	—	60
	470	6	476
For the year ended 31 December 2007			
Supervisor			
舒鶴棟 Shu, Hedong	60	—	60
鄧交雲 Deng, Jiaoyun	1,169	5	1,174
尹東方 Yin, Dongfang	60	—	60
	1,289	5	1,294

Highest paid individuals

The five highest paid individuals represented five directors (2007: five) for the year ended 31 December 2008.

The emoluments of the five highest paid individuals in the Group in both years were all between HKD1,000,000 to HKD1,600,000.

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 2008 and 2007.

13. DIVIDENDS

Dividends recognised as distribution during the year:

	2008 **RMB'000**	2007 RMB'000
Special dividend to Luoyang Mining Group Co., Ltd. ("LMG") and Cathay Fortune Corporation ("CFC")	**—**	1,299,205
2007 Final dividend — RMB0.128 per share (2007: Nil)	**624,150**	—
2007 special dividend — RMB0.03 per share (2007: Nil)	**146,285**	—
	770,435	1,299,205

Pursuant to the resolutions of the shareholders passed at the general meeting on 19 October 2006, it was 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.

On 17 June 2008, dividend of RMB0.128 per share and RMB0.03 per share totalling RMB770,435,000 were paid to shareholders as the final dividend and special dividend for 2007, respectively.

The final dividend of RMB0.158 per share (2007: RMB0.128 per share, special dividend of RMB0.03 per share) has been proposed by the directors. However, the directors of the Company did not warrant that the amount of the dividend will remain the same in 2009. The proposal is subject to approval by the shareholders in general meeting.

14. EARNINGS PER SHARE — BASIC

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

	2008	2007
Profit for the year attributable to equity holders of the Company and earnings for the purpose of basic earnings per share *(RMB'000)*	**1,640,902**	2,240,834
Weighted average number of shares for the purpose of basic earnings per share	**4,876,170,000**	4,498,246,470

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

15. 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 2007	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
Additions	247,719	76,414	25,995	13,009	784,669	1,147,806
Disposals	(3,870)	(12,559)	(2,765)	(1,970)	—	(21,164)
Transfers	464,318	140,071	816	660	(605,865)	—
At 31 December 2008	2,469,399	1,002,715	114,826	81,841	835,738	4,504,519
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2007	(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)
Provided for the year	(107,613)	(94,945)	(9,464)	(11,158)	—	(223,180)
Eliminated on disposals	636	5,045	591	862	—	7,134
At 31 December 2008	(287,723)	(242,420)	(27,856)	(33,364)	—	(591,363)
CARRYING VALUES						
At 31 December 2008	2,181,676	760,295	86,970	48,477	835,738	3,913,156
At 31 December 2007	1,580,486	646,269	71,797	47,074	656,934	3,002,560

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

16. LAND USE RIGHTS

	2008	2007
	RMB'000	*RMB'000*
CARRYING AMOUNT		
At beginning of the year	**312,144**	216,308
Additions	**126,953**	104,193
Charged to consolidated income statement	**(8,794)**	(8,357)
At end of the year	**430,303**	312,144

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

	2008	2007
	RMB'000	*RMB'000*
Land use rights	**430,303**	312,144
Less: Portion to be charged to consolidated income statement in the coming twelve months and shown as current assets	**(9,295)**	(6,526)
Amount due after one year	**421,008**	305,618

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.

17. MINING RIGHTS

	RMB'000
COST	
At 1 January 2007, at 31 December 2007 and 2008	401,486
ACCUMULATED AMORTISATION	
At 1 January 2007	(9,073)
Amortisation	(27,220)
At 31 December 2007	(36,293)
Amortisation	(27,378)
At 31 December 2008	(63,671)
CARRYING VALUES	
At 31 December 2008	337,815
At 31 December 2007	365,193

17. MINING RIGHTS *(Continued)*

In accordance with relevant PRC rules and regulations, the Group was required to acquire the mining rights with consideration if it undergone 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. In the opinion of the directors that the PRC government will renew the mining rights certificate at minimal cost upon its expiration.

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

18. TRADEMARKS

	RMB'000
COST	
At 1 January 2007 and at 31 December 2007	—
Addition	890
At 31 December 2008	890
ACCUMULATED AMORTISATION	
At 1 January 2007 and at 31 December 2007	—
Amortisation	(55)
At 31 December 2008	(55)
CARRYING AMOUNTS	
At 31 December 2008	835
At 31 December 2007	—

The above trademarks have definite useful lives. Such trademarks are amortised on a straight-line basis over 5 years.

19. INTERESTS IN ASSOCIATES

	2008 *RMB'000*	2007 *RMB'000*
Capital contribution	**21,650**	21,650
Share of post-acquisition profits, net of dividends received	**24,554**	23,762
	46,204	45,412

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)* (2007: 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% (2007: 33%)	Trading of molybdenum products

Note: Pursuant to the shareholders' agreement, the Group is entitled to 50% of the associate's profit for the year ended 31 December 2008.

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

	2008 *RMB'000*	2007 *RMB'000*
Total assets	**203,041**	175,892
Total liabilities	**(88,221)**	(61,087)
Net assets	**114,820**	114,805
Group's share of net assets of associates	**46,204**	45,412
Revenue	**879,155**	740,313
Profit for the year	**29,985**	32,438
Group's share of results of associates for the year	**14,792**	12,827

20. INVESTMENTS IN DEBT SECURITIES

	2008 **RMB'000**	2007 *RMB'000*
Investment in debt securities represented:		
Investment plans arranged by banks	**3,099,000**	—
Analysed for reporting purposes as:		
Current assets	**2,899,000**	—
Non-current assets	**200,000**	—
	3,099,000	—

As at 31 December 2008, the amount represented unlisted investment plans arranged by banks for investment in various debt securities. The underlying debt securities invested by banks are analysed as follows:

	2008 **RMB'000**	2007 *RMB'000*
Unlisted corporate entities' debts	**691,000**	—
Debentures and bills issued by central government and banks	**2,408,000**	—
	3,099,000	—

The Group is entitled to a 100% principal protection clause for the investment plans which underlying investments are corporate entities debts. The interest income from the investment plans are determined based on the interest income generated from the underlying debt securities after deduction of bank changes and bank commission.

The investment plans were stated at amortised cost less any impairment loss. They will mature from January 2009 to June 2010 with effective interest rate ranged from 0.4% to 6.9% per annum. Subsequent to the balance sheet date totally RMB2,298,000,000 were matured and settled.

21. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2008	2007
	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
	2,300	495,287

Analysed for reporting purposes as:

	2008	2007
Current assets	**—**	492,987
Non-current assets	**2,300**	2,300
	2,300	495,287

Notes:

(a) The above unlisted investments represent equity investments in 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 were managed by banks in the PRC for an initial term of one year and were measured at fair value. Fair values of unlisted investment funds were determined based on the valuation provided by banks. The valuation was generally based upon the quoted market price of the underlying listed investments. During the year ended 31 December 2008, all the investment funds have been disposed and redeemed by the Group.

22. 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 RMB'000	Allowance for inventories RMB'000	Allowance for receivables RMB'000	Tax losses RMB'000	Deferred income RMB'000	Accrued expenses RMB'000	Unrealised profit RMB'000 (Note)	Held-for-trading investments RMB'000	Undistributed earning of a subsidiary outside PRC RMB'000	Total RMB'000
At 1 January 2007	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
Credit to consolidated income statement for the year	—	3,259	1,816	3,740	4,707	16,244	53,246	8,508	4,324	95,844
At 31 December 2008	3,377	3,259	8,481	3,740	4,707	16,244	90,761	3,160	(3,008)	130,721

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

At the balance sheet date, the Group has unused tax losses of RMB55,248,000 (2007: RMB3,745,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB14,960,000 (2007: nil) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB40,288,000 (2007: RMB3,745,000) due to the unpredictability of future profit streams of subsidiaries. Included in unrecognised tax losses are losses of RMB40,288,000 (2007: RMB3,745,000) the will expire on 2013 (2007: 2012).

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:

	2008 *RMB'000*	2007 *RMB'000*
Deferred tax assets	**133,729**	47,557
Deferred tax liabilities	**(3,008)**	(12,680)
	130,721	34,877

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.

23. DEPOSITS PAID FOR ACQUISITION OF MINES

	2008 *RMB'000*	2007 *RMB'000*
Advance to a minority shareholder of a subsidiary	**89,800**	15,700
Other deposits paid	**65,353**	—
	155,153	15,700

On 16 January 2008, the Group entered into a legally binding framework agreement with the People's Government of Luoning County and Luoning County Funiu Mining Development Centre ("Funiu Mining") — a minority shareholder of a subsidiary in respect of the proposed acquisition of all the property, plant and equipment, land use rights and mining rights of certain gold mines in Henan ("Proposed Acquisition"). Details of which have been disclosed in the Company's 2007 Annual Report. As at the date of this report, the Proposed Acquisition is not yet completed.

In the opinion of the directors, the carrying amount approximates its fair value at the balance sheet date.

24. INVENTORIES

	2008 *RMB'000*	2007 *RMB'000*
Raw materials	**164,367**	105,835
Work in progress	**23,903**	39,355
Finished goods	**462,097**	209,368
	650,367	354,558

25. TRADE AND OTHER RECEIVABLES

	2008 *RMB'000*	2007 *RMB'000*
Trade receivables (net of allowances)	**180,499**	959,632
Bills receivable	**371,774**	345,665
	552,273	1,305,297
Advances to suppliers	**57,387**	39,406
Other receivables and prepayments	**43,927**	35,949
	653,587	1,380,652

25. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	2008	2007
	RMB'000	*RMB'000*
Trade and bills receivables	**571,081**	1,324,491
Less: Allowance for doubtful debts	**(18,808)**	(19,194)
	552,273	1,305,297

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

	2008	2007
	RMB'000	*RMB'000*
0-90 days	**248,708**	1,055,001
91-180 days	**291,322**	208,119
181-365 days	**8,364**	38,721
1-2 years	**3,879**	3,456
	552,273	1,305,297

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. As at 31 December 2008, approximately 94% (2007: 96%) of the trade receivables that are neither past due nor impaired have the best credit quality assessed by the Group.

As at 31 December 2008, included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB30,565,000 (2007: RMB53,785,000) 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 119 days (2007: 249 days).

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

	2008	2007
	RMB'000	*RMB'000*
91-180 days	**25,293**	11,608
181-365 days	**3,114**	38,721
Over 1 year	**2,158**	3,456
	30,565	53,785

25. TRADE AND OTHER RECEIVABLES *(Continued)*

	2008 **RMB'000**	2007 *RMB'000*
Movement in the allowance for doubtful debts of trade receivables		
Balance at beginning of the year	**19,194**	7,535
Amounts recovered during the year	**(1,672)**	—
Increase in allowance recognised in profit or loss	**1,286**	11,659
Balance at end of the year	**18,808**	19,194

	2008 **RMB'000**	2007 *RMB'000*
Movement in the allowance for doubtful debts of other receivables		
Balance at beginning of the year	**7,465**	4,063
Amount recovered during the year	**(610)**	(346)
Increase in allowance recognised in profit or loss	**8,260**	3,748
Balance at end of the year	**15,115**	7,465

Included in the Group's allowance for doubtful debts are individually impaired trade receivables and other receivables with an aggregate balance of RMB18,808,000 (2007: RMB19,194,000) and RMB15,115,000 (2007: RMB7,465,000) respectively. The individually impaired receivables related to customers that were in financial difficulties and the directors consider the recoverability of these debts is remote.

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

	2008 **RMB'000**	2007 *RMB'000*
United States Dollar ("USD")	**4,164**	595,313
Euro	**—**	2,568

26. AMOUNT DUE FROM AN ASSOCIATE

	2008	2007
	RMB'000	*RMB'000*
Trade receivables from Shanghai Yuhua Molybdenum Co., Ltd.	**105,856**	61,243

Note: The amount is unsecured, interest-free and aged within 90 days. Shanghai Yuhua Molybdenum Co., Ltd. is an associate of the Group at 31 December 2008 and 31 December 2007.

27. HELD-FOR-TRADING INVESTMENTS

Held-for-trading investments comprise:

	2008	2007
	RMB'000	*RMB'000*
Listed securities *(Note 1)*		
Equity securities listed in Hong Kong	**1,657**	5,848
Equity securities listed elsewhere	**16,273**	53,932
	17,930	59,780
Other securities		
Quoted debentures *(Note 2)*	**645,388**	56,555
Other debentures	**21**	5
	645,409	56,560
Total	**663,339**	116,340

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 quoted prices by financial institutions which are publicly available. Quoted debentures carry expected annual interest rate ranged from 1.35% to 3.11% and with maturity date ranged from 25 August 2012 to 28 August 2015.

28. RESTRICTED BANK DEPOSITS

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

	2008	2007
Average interest rate per annum	**—**	0.74%

Deposits had been pledged to secure short-term bank loans and were therefore classified as current assets. The restricted bank deposits were released upon the settlement of relevant bank borrowings.

29. BANK BALANCES AND CASH

Bank balances carry interest at prevailing market rates ranging from 0.72% to 2.5% per annum (2007: ranging from 0.72% to 2.5% 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	**2008** ***RMB'000***	2007 *RMB'000*
Hong Kong Dollars ("HKD")	**15,195**	1,740,282
USD	**9,701**	9,771

30. TRADE AND OTHER PAYABLES

	2008 ***RMB'000***	2007 *RMB'000*
Trade payables *(Note a)*	**117,893**	83,598
Bills payable *(Note a)*	**7,622**	—
	125,515	83,598
Other payables and accruals *(Note b)*	**555,546**	498,997
	681,061	582,595

30. TRADE AND OTHER PAYABLES *(Continued)*

Notes:

(a) Trade and bills payables

The aged analysis of trade and bills payables is as follows:

	2008 RMB'000	2007 RMB'000
0-90 days	**109,095**	55,842
91-180 days	**3,730**	16,762
181-365 days	**6,223**	3,405
1-2 years	**2,323**	2,847
Over 2 years	**4,144**	4,742
	125,515	83,598

Trade payables principally comprise amounts outstanding for trade purchases.

(b) Other payables and accruals

	2008 RMB'000	2007 RMB'000
Advances from customers	**12,626**	14,323
Accrued wages	**92,468**	42,418
Other staff benefits payable	**8,547**	1,843
Payables in respect of purchase of property, plant and equipment and construction materials	**342,535**	239,935
Resources compensation fees payable	**17,795**	20,201
Other tax payables	**19,508**	104,161
Payables in respect of employee settlement cost	—	134
Others	**62,067**	75,982
	555,546	498,997

31. DIVIDEND PAYABLES

	2008 RMB'000	2007 RMB'000
Dividend payables to the minority shareholders of subsidiaries	**51,767**	10,000

32. BANK BORROWINGS

	2008	2007
	RMB'000	*RMB'000*
Fixed-rate bank loans — unsecured	**228,000**	150,000

The maturity profile of the above borrowings is as follows:

	2008	2007
On demand or within one year	**228,000**	125,000
More than one year but not exceeding two years	**—**	25,000
	228,000	150,000
Less: Amounts due within one year shown under current liabilities	**(228,000)**	(125,000)
	—	25,000

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

	2008	2007
	RMB'000	*RMB'000*
Bank deposits	**—**	2,685

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

	2008	2007
Fixed-rate borrowings	**6.57% to 7.47%**	5.670% to 6.797%

33. PROVISION

	2008 RMB'000	2007 RMB'000
Provision for restoration, rehabilitation and environmental costs	**38,653**	36,813
Movement during the year:		
At beginning of the year	**36,813**	35,060
Charged to consolidated income statement	**1,840**	1,753
At end of the year	**38,653**	36,813

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% (2007: 5%) per annum.

34. LONG TERM PAYABLE

Long term payable comprised of:

	2008 RMB'000	2007 RMB'000
Early retirement cost payable	**5,286**	9,032

The Company was transformed from a wholly state-owned company to a limited liability company with partial private ownership in September 2004 when Cathay Fortune Corporation 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.

35. DEFERRED INCOME

	2008	2007
	RMB'000	*RMB'000*
Government grants received	**19,280**	—
Released to consolidated income statement during the year	**(836)**	—
Balance at end of the year	**18,444**	—

The Group has received government grants amounting to RMB19,280,000 from 欒川縣財政國庫支付中心 in respect of the Group's acquisition of land use rights. The government grants are recognised as deferred income that are released to income over the periods necessary to match them with the related costs.

36. SHARE CAPITAL

	Number of shares		
	Domestic shares	**H shares**	**Amount**
	(Note d)	*(Note e)*	*RMB'000*
At 1 January 2007	3,684,210,525	—	736,842
Issue of H shares on global offering *(Note a)*	—	1,083,600,000	216,720
Issue of H shares under over-allotment option *(Note b)*	—	108,360,000	21,672
Conversion from domestic shares to H shares *(Note c)*	(119,196,000)	119,196,000	—
At 31 December 2007 and 31 December 2008	3,565,014,525	1,311,156,000	975,234

Notes:

(a) 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.

(b) 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.

(c) 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 Luoyang Mining Group Co., Ltd. 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.

36. SHARE CAPITAL *(Continued)*

Notes: *(Continued)*

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

(e) 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 (d) and (e) above, all the shares rank pari passu in all respects with other shares in issue.

37. RESERVES

Capital reserve represents 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.

38. RELATED PARTY TRANSACTIONS

The Group has the following significant transactions with related companies:

(i) Transaction with Shanghai Yuhua Molybdenum Co. Ltd. *(Note)*:

Nature of transactions	**2008** **RMB'000**	2007 RMB'000
Sales of goods	**610,611**	656,793

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

38. RELATED PARTY TRANSACTIONS *(Continued)*

(ii) 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.

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	**2008** **RMB'000**	2007 RMB'000
Sales of goods	**1,373,002**	1,167,701
Payment for:		
Purchase of raw materials	**147,595**	167,463
Purchase of electricity and fuels	**222,113**	143,237
Acquisition of:		
Property, plant and equipment	**—**	146,100
Interest income	**45,848**	107,488
Interest expenses	**10,056**	20,510

(b) Material balances

	2008 **RMB'000**	2007 RMB'000
Trade and other receivables	**331,306**	162,727
Trade and other payables	**1,870**	11,820
Bank balances	**1,488,396**	3,524,681
Bank borrowings	**150,000**	150,000

38. RELATED PARTY TRANSACTIONS *(Continued)*

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

(c) Movement on bank borrowings

	2008 RMB'000	2007 RMB'000
At beginning of the year	**150,000**	435,250
Additions	**125,000**	608,000
Repayments	**(125,000)**	(893,250)
At end of the year	**150,000**	150,000

(iii) Compensation of key management personnel

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

	2008 RMB'000	2007 RMB'000
Short-term benefits	**13,629**	11,653
Post-employment benefit	**59**	44
	13,689	11,697

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

39. CAPITAL COMMITMENTS

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

	2008 RMB'000	2007 RMB'000
Commitments for the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**269,067**	233,712

40. 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 notes 11 and 12 for employees and directors, respectively.

41. 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 in order to reduce the cost of capital.

The capital structure of the Group consists of debt, which includes the borrowings and equity attributable to equity holders of the Company, comprising issued share 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 prior years.

(b) Categories of financial instruments

	2008	2007
	RMB'000	*RMB'000*
Financial assets		
Loans and receivables		
(including cash and cash equivalents)		
— Investments in debts securities	**3,099,000**	—
— Other loans and receivable	**3,245,357**	7,082,005
	6,344,357	7,082,005
Held-for-trading investments	**663,339**	116,340
Available-for-sale investments	**2,300**	495,287
Financial liabilities		
Amortised cost	**966,113**	751,627

(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.

41. 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-sale investments, investments in debt securities, 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 to 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 10 basis points higher/lower and all other variables were held constant, the potential effect on profit for the Relevant Periods is as follows:

	2008	2007
	RMB'000	*RMB'000*
Increase/decrease in profit for the year	**488**	555

The Group's fair value interest rate risk relates primarily to fixed-rate bank borrowings, investments in debt securities and quoted debenture. The management considers the fair value interest rate risk is insignificant to the Group as most of them are short-term. For 2007, the management also considers the long-term portion is immaterial.

41. 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 amount of the Group's foreign currency denominated monetary assets at the reporting date is as follows:

	2008	2007
	RMB'000	*RMB'000*
USD	**13,865**	605,084
HKD	**15,195**	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 in USD and HKD against 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 currencies which is mainly attributable to the exposure of outstanding USD receivables and HKD bank balances. For RMB weakens against the respective currencies, there would be an equal and opposite impact on the profit and the balances below would be positive.

	USD Impact		**HKD Impact**	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Profit and loss	**(1,040)**	(40,540)	**(1,140)**	(116,599)

The Group's sensitivity to foreign currency exchange rate fluctuation has decreased during the year ended 31 December 2008 mainly due to the decrease in overseas sales in second half of 2008 and the remittance of the Group's HKD bank balance to Renminbi during 2008 which has resulted in lower USD receivables and lower 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.

41. FINANCIAL INSTRUMENTS *(Continued)*

(g) 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 and debenture price risks at the reporting date.

The management adjusted the sensitivity rate from 5% to 20% for assessing equity price risk after considering the impact of the volatile financial market condition after the third quarter of 2008.

If equity prices had been 20% higher/lower profit for the year ended 31 December 2008 would increase/decrease by RMB3,586,000 (2007: RMB2,989,000 at 5%).

If debenture prices had been 5% higher/lower profit for the year ended would increase/decrease by RMB32,270,000 (2007: RMB2,828,000). This is mainly due to the changes in fair value of held-for-trading investments and quoted debentures.

(h) 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 counterparties is limited as most of the counterparties are large state-owned enterprises with good credit standing and the Group does not expect any significant loss for uncollected advances to these entities.

41. FINANCIAL INSTRUMENTS *(Continued)*

(h) Credit risk *(Continued)*

The credit risk on investments in debt securities and debentures is limited because the majority of the counterparties are reputable banks or state-owned banks and the PRC Government.

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.

(i) Liquidity risk management

Liquidity risk reflects the risk that the Group will have insufficient resources to meet its financial liabilities as they fall due. The Group's safety to managing liquidity risk is to ensure that the Group has sufficient funds to meet all its potential liabilities as they fall due, including shareholder distributions. This is true not only of normal market conditions but also of negative projections against expected outcomes, so as to avoid any risk of incurring contractual penalties or damaging the Group's reputation.

Liquidity forecast are produced on a monthly basis, to ensure the utilisation of current facilities is optimised; on a quarterly basis to ensure that covenant compliance targets and medium-term liquidity is maintained; and on a long-term projection basis, for the purpose of identifying long-term strategic funding requirements. The board of directors also continually assess the balance of capital and debt funding of the Group.

The board of directors do not change the approval to manage liquidity risk but will increase the frequencies of such assessment if the need arise. 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 utilisation of bank borrowings and ensures compliance with loan covenants.

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 have adequate source of funding to finance the Group and manage the liquidity position.

41. FINANCIAL INSTRUMENTS *(Continued)*

(i) Liquidity risk management *(Continued)*

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 *RMB'000*	One to two years *RMB'000*	Total undiscounted cash flows *RMB'000*	Total *RMB'000*
31.12.2008					
Bank borrowings	**7.4**	**(244,872)**	**—**	**(244,872)**	**(228,000)**
Trade and other payables	**—**	**(681,061)**	**—**	**(681,061)**	**(681,061)**
Dividend payables	**—**	**(51,767)**	**—**	**(51,767)**	**(51,767)**
Long term payable	**—**	**—**	**(5,286)**	**(5,286)**	**(5,286)**
		(977,700)	**(5,286)**	**(982,896)**	**(966,114)**
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)
		(725,970)	(37,382)	(763,352)	(751,627)

(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.

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries as at 31 December 2008 and 2007 are set as follows:

Name of company	Date of establishment/ incorporation	Place of establishment, incorporation and operation	Issued and fully paid/ registered capital	Proportion of equity held directly by the Company 2008	2007	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	RMB157,500,000	**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	RMB530,000,000	**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 Mining Co., 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

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

Details of the Company's principal subsidiaries as at 31 December 2008 and 2007 are set as follows: *(Continued)*

Name of company	Date of establishment/ incorporation	Place of establishment, incorporation and operation	Issued and fully paid/ registered capital	Proportion of equity held directly by the Company 2008	2007	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	RMB210,000,000	**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	RMB650,000,000	**100%**	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%**	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	RMB2,500,000,000	**100%**	100%	Sales of precious metals, investment on precious metals
Luoyang Yongning Gold & Lead Refining Co. Ltd. 洛陽永寧金鉛冶煉有限公司	21 September 2007	PRC-Limited liability company	RMB255,000,000	**60%**	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%**	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 or at any time during the year.

43. COMPARATIVE FIGURES

Segment information has been restated in order to better reflect the Group's segmental information and conform with current year's presentation.

FINANCIAL SUMMARY

INCOME STATEMENT

	For the year ended 31 December				
	2008	2007	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**5,563,275**	5,897,806	3,826,221	2,300,527	1,170,384
Cost of sales	**(2,843,575)**	(2,277,920)	(1,218,789)	(530,863)	(423,814)
Gross profit	**2,719,700**	3,619,886	2,607,432	1,769,664	746,570
Other income and gains	**137,507**	446,265	25,502	13,558	13,612
Selling and distribution expenses	**(25,019)**	(21,344)	(20,408)	(10,314)	(6,046)
Administrative expenses	**(253,494)**	(208,622)	(95,646)	(78,935)	(85,897)
Restructuring expenses	**—**	—	—	(15,000)	(132,190)
Other expenses and losses	**(85,547)**	(268,886)	(21,367)	(35,873)	(75,704)
Finance costs	**(2,939)**	(19,871)	(48,275)	(14,312)	(15,410)
Share of results of associates	**14,792**	12,827	7,048	11,048	2,263
Profit before taxation	**2,505,000**	3,560,255	2,454,286	1,639,836	447,198
Taxation	**(656,187)**	(1,053,333)	(739,821)	(482,509)	(165,880)
Profit for the year	**1,848,813**	2,506,922	1,714,465	1,157,327	281,318
Attributable to:					
Equity holders of the Company	**1,640,902**	2,240,834	1,515,263	1,157,327	276,289
Minority interests	**207,911**	266,088	199,202	—	5,029
	1,848,813	2,506,922	1,714,465	1,157,327	281,318
Earnings per share — basic *(Note)*	**RMB0.34**	RMB0.50	RMB0.43	RMB0.33	RMB0.08

Note: The calculation of basic earnings per share for the year ended 31 December 2004 to 2007 is based on the profit attributable to equity holders for each year and the weighted average number of shares has been determined taking into consideration the 700,000,000 shares issued upon the Company's transformation into a joint stock limited company on 25 August 2006 and has been adjusted for the share split which becomes effective on 13 April 2007.

BALANCE SHEET

	As at 31 December				
	2008	2007	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**12,736,260**	11,867,327	4,525,579	2,394,535	1,201,001
Total liabilities	**(1,091,175)**	(1,160,458)	(2,386,723)	(1,343,776)	(787,612)
Minority interests	**(407,957)**	(337,602)	(279,368)	(140)	(140)
Equity attributable to equity holders of the Company	**11,237,128**	10,369,267	1,859,488	1,050,619	413,249

The results of the Group for the three years ended 31 December 2006 and the assets and liabilities of the Group as at 31 December 2004, 2005 and 2006 are extracted from the Company's prospectus dated 13 April 2007.