

OVERVIEW

We are a leading producer of molybdenum in the PRC with world-class integrated mining and processing facilities, according to the Minarco Report. Our primary business operations involve molybdenum mining, flotation, roasting and smelting, and downstream processing. Our Directors believe that, upon Listing, we will be the largest listed primary molybdenum producer in the world as measured by publicly reported resources. In addition, we are a growing producer of tungsten products.

Our Sandaozhuang Mine has one of the world's largest molybdenum reserves and contains substantial high-grade molybdenum reserves, according to the Minarco Report. Molybdenum is the primary mineral deposit at our Sandaozhuang Mine, and tungsten occurs as an associated deposit. According to the Minarco Report, the tungsten reserves at our Sandaozhuang Mine are the second largest in the world and, as part of our strategy, we intend to further capitalize on our tungsten reserves by producing tungsten concentrate and related products in the future.

We are in a period of significant production growth. Following recent capacity increases in our mining, flotation and roasting and smelting operations, our Directors believe that we are the largest producer of molybdenum in the PRC as measured by annual molybdenum ore mining and flotation plant capacity, with infrastructure capable of receiving approximately 30,000 tpd of ore. With access to abundant reserves, a strategic position in the Luoyang district, and large scale, low-cost operations focused on our Sandaozhuang Mine, we are well placed to become a leading producer of specialty metals (including molybdenum and tungsten) and precious metals.

Molybdenum products have a wide range of applications, including applications in the steel, oil, industrial machinery, automobile and defense industries. Our products can be divided into five categories (listed here in sequential order in the production process): molybdenum ore, molybdenum concentrate, molybdenum oxide, ferromolybdenum and other products. Our principal products are molybdenum concentrate, molybdenum oxide and ferromolybdenum which, in aggregate, represented 87.5% of our total turnover for the year ended December 31, 2006. Our other products are mainly molybdenum-related products including ammonium molybdate (鉬酸鉍), molybdenum powder, molybdenum trioxide (三氧化鉬), and molybdenum metal products such as molybdenum threads, strips, rods and boards. Ferromolybdenum and other products represent a growing share of our business.

Tungsten products have a wide range of uses, the largest of which is as tungsten carbide in cemented carbides. Cemented carbides (also called hardmetals) are wear-resistant materials used by the metalworking, mining, and construction industries. We are a growing producer of tungsten products. In addition to Yulu, our 40% owned joint venture with Xiamen Tungsten, we plan to set up our own tungsten concentrate production capabilities and expand our tungsten metal processing capabilities.

Most of our operations are located in Henan, a province in the north-central part of China. The molybdenum resources in Henan constitute approximately 40% of the nation's total molybdenum resources. The tungsten reserves in Henan constitute approximately 12% of the nation's total tungsten reserves. We had a workforce of approximately 5,200 employees as at December 31, 2006. A majority of our executive Directors have over 15 years of experience in the molybdenum industry.

BUSINESS

During the years ended December 31, 2004, 2005 and 2006, our turnover was RMB1,170.4 million, RMB2,300.5 million and RMB3,826.2 million, respectively, and we recorded a profit attributable to equity holders of the Company of RMB276.3 million, RMB1,157.3 million and RMB1,515.3 million, respectively.

COMPETITIVE STRENGTHS

Upon Listing, we will be the largest listed primary molybdenum producer in the world as measured by publicly reported resources and in the PRC as measured by annual molybdenum ore mining and flotation plant capacity

Upon Listing, our Directors believe that we will be the largest listed primary molybdenum producer in the world as measured by publicly reported resources. As at December 31, 2006, the molybdenum resources at our Sandaozhuang Mine under the JORC Code were approximately 736 Mt of mineral ore at an average grade of 0.10% molybdenum and our molybdenum reserves under the JORC Code in our Sandaozhuang Mine were approximately 467 Mt of mineral ore at an average grade of 0.11% molybdenum.

We are in a period of significant production growth. Following the expansion of ore mining capacity at our Sandaozhuang Mine to 30,000 tpd and the commissioning of an additional 10,000 tpd of ore flotation capacity to reach a total flotation capacity of 30,000 tpd, we have the largest molybdenum ore processing and flotation facilities in the PRC, the fastest growing major molybdenum consumption market, and are one of the largest primary molybdenum producers in the world as measured by annual molybdenum ore mining and flotation plant capacity.

Our Directors believe that our large-scale operations enable us to benefit from economies of scale in production and sales. In addition, our Directors believe that this gives us a competitive advantage as a preferred supplier to major customers in the PRC and internationally. Our large-scale operations can help ensure consistent product quality and stable supply and therefore reduce logistical and administrative expenses for our customers.

We have growth potential with access to abundant high-grade reserves

We believe our access to significant molybdenum and tungsten reserves at our Sandaozhuang Mine gives us a long-term competitive advantage in respect of ore supply to support our existing and prospective molybdenum and tungsten production operations.

Our Sandaozhang Mine has one of the world's largest molybdenum reserves. The primary orebody belonging to the Sandaozhang Mine contains one of the largest defined reserves of molybdenum and the second largest defined reserves of tungsten in the world, according to the Minarco Report.

Through our Sandaozhuang Mine, we have access to one of the world's largest defined reserves of molybdenum. These molybdenum reserves account for approximately 36% of the total reserves of the Luoyang Luanchuan molybdenum reserve area and, according to the CNMIA Report, are among the best reserves in this area in terms of grade, extractability and geological conditions. We have conducted mining and development activities at our Sandaozhuang Mine since the beginning of the 1970s. We believe we have gained an in-depth understanding of the mineralogy and geology of our resource base and our reserves are well defined by drilling and sampling. Our reserves represent a total production volume of approximately 498,000 tonnes of molybdenum and are able to support more than 46 years of mine production assuming an annual production rate of 9.9 Mt of ore.

With the purchase of majority interests in three flotation plants and the commissioning of additional flotation capacity at our Sandaozhuang Mine in April 2006, bringing our flotation capacity to 30,000 tpd, we are in a period of significant production growth. Our total molybdenum concentrate production was approximately 10,291 tonnes and 20,818 tonnes in 2005 and 2006, respectively, and is projected to increase to approximately 28,107 tonnes and 33,744 tonnes in 2007 and 2008 respectively. Furthermore, our total molybdenum oxide and ferromolybdenum production was approximately 6,950 tonnes and 1,599 tonnes, respectively, in 2005; and approximately 12,621 tonnes and 6,739 tonnes, respectively, in 2006. In light of the progressive expansion of capacity at our roasting and smelting plant, we expect our total molybdenum oxide and ferromolybdenum production will further increase to approximately 18,000 tonnes and 11,007 tonnes, respectively, in 2007 and approximately 20,000 tonnes and 15,000 tonnes, respectively, in 2008. These plans are supportable under our existing ore mining capacity of 30,000 tpd. Additionally, we are investigating the potential to increase our mining capacity beyond the capacity permitted under our current mining rights, subject to government approval.

Our Sandaozhuang Mine contains the second largest defined mineral resource of tungsten in the world. As at December 31, 2006, our tungsten ore reserves under the JORC Code were approximately 467 million tonnes at an average grade of 0.11% WO₃. The total tungsten concentrate production of Yulu, our 40% owned joint venture with Xiamen Tungsten, which has access to the tailings from our No. 2 Ore Processing Plant, was approximately 843 tonnes in 2005. Following the commissioning of significant tungsten recovery capacity linked with our No. 2 Ore Processing Plant, Yulu's tungsten concentrate production was approximately 858 tonnes in 2006 and is expected to more than triple, with planned production of 2,766 tonnes and 3,478 tonnes in 2007 and 2008 respectively. Our plans to construct our own tungsten recovery plants will enable us to further increase our tungsten concentrate production in the near term, with production of 314 tonnes and 3,021 tonnes anticipated in 2007 and 2008, respectively.

We are an efficient and integrated primary producer of molybdenum

We are an efficient primary producer of molybdenum. Our Sandaozhuang Mine contains high-grade molybdenum ore and is mined using relatively low risk, conventional open-pit mining techniques. We utilize third-party contractors for labor-intensive tasks requiring lower technical sophistication, such as drilling and blasting, ore waste loading and transportation. We have also automated many of our on-site ore transportation and processing procedures, which enhances mining and ore movement efficiencies, leading to lower mining costs.

Our processing facilities are located within easy reach of our mining operations and use conventional extraction techniques. Our Directors believe that we operate modern large-scale flotation, roasting and smelting operations that employ advanced technology and equipment to achieve low unit production costs. Additionally, our plans to improve the production efficiency at our plants are expected to lead to lower unit production costs.

Our Sandaozhuang Mine also achieves by-product value through the extraction of tungsten from ore process tailings, which is conducted at our No. 2 Ore Processing Plant through Yulu. We expect that increasing our tungsten production and realizing the value of this by-product of our molybdenum operations through our plans to build our own tungsten recovery plants will lead to improvements in the overall cost structure and profitability of our Sandaozhuang Mine operations.

According to the Minarco Report, we are one of the largest molybdenum producers in China with world-class integrated mining and processing facilities located in Henan. Our position as one of the largest integrated primary producers of molybdenum in the world enables us to provide

consistent product quality and security of supply of molybdenum products to our customers. Further, our Directors believe that our integrated production chain offers a competitive advantage by enabling us to vary product mix quickly in response to changes in market conditions and customer requirements.

We are well positioned to take advantage of our strategic location

The PRC has one of the largest reserves of molybdenum in the world and was the world's third largest molybdenum producer in 2005. Henan Province contains approximately 40% of the total molybdenum resources in the PRC, and our Sandaozhuang Mine accounts for approximately 70% of the total molybdenum mining production in Henan Province.

Our location positions us in the midst of the extensive molybdenum reserves and well developed infrastructure of the Luoyang area and enables us to operate our flotation and roasting and smelting plants in close proximity to our Sandaozhuang Mine. Additionally, Henan Province contains abundant resources of various other minerals. We believe the geographical location of our operations and our position as the largest molybdenum producer in the area gives us a competitive edge in terms of access to potential reserves and production investment and acquisition opportunities in the future.

We are well positioned to become a market consolidator in the PRC molybdenum industry

Our Directors believe that it is the PRC Government's industry policy to consolidate the PRC molybdenum industry into one consisting of larger, more efficient and less polluting producers. Existing PRC legislation which aims to limit environmental damage, the use of obsolete processing equipment and waste of resources has forced many smaller molybdenum operations to close since 1999, and the issuance of mining permits for small- and medium-sized operations has been restricted.

Our Directors believe that our mining, flotation, roasting and smelting operations have been consistent with the PRC Government's industry policy objective. We expect to be able to maintain our leading position and benefit from the higher barriers to entry as a result of stricter future government regulation in the PRC molybdenum industry. Our Directors believe that as smaller and less efficient facilities are gradually phased out, we will enjoy an increasingly dominant position in the molybdenum industry in the PRC, which will make us a likely candidate to emerge as a market consolidator. Our Directors believe that our scale of operations and financial strength relative to smaller domestic miners and smelters will allow us to selectively pursue attractive acquisition opportunities as our industry consolidates.

As part of our expansion process, we acquired a 51% equity interest in each of Dadongpo, Sanqiang and Jiuyang Mining in 2006, which increased our daily ore processing capacity by approximately 7.8 Kt.

We have an experienced and dedicated senior management team in the molybdenum and tungsten industries

Our senior management team has extensive experience in the molybdenum industry, and many of them have been with our Group for many years. A majority of our executive Directors, including Mr Duan Yuxian, Mr Li Faben and Mr Wang Qinxi, have at least 15 years of experience in the molybdenum industry. We also have competent senior management with extensive experience in mining, flotation, roasting and smelting, and downstream operations. In addition, some of our

executive Directors and senior management team, including Mr Duan Yuxian, Mr Li Faben, Mr Wang Qinxin, Mr Wang Bin and Mr Yang Jianbo, have experience in research and development of tungsten recovery technologies and management expertise in tungsten recovery business via Yulu, our 40% joint venture with Xiamen Tungsten. Our Directors believe that our experienced and dedicated senior management team has contributed to the significant growth of our business and our position as a growing producer of specialty metals and precious metals.

In recent years, we have transformed our corporate governance structure from that of a traditional State-owned enterprise operated under a planned economy into one that is more commonly associated with market-oriented business operations.

STRATEGIES

Our goal is to consolidate our position in the molybdenum industry and become a leading producer of specialty metals and precious metals. We intend to accomplish this objective through the following key strategies:

Maintain and improve our leading position in the PRC molybdenum industry

Upon Listing, our Directors believe that we will be the largest listed primary molybdenum producer in the world as measured by publicly reported resources. The global market for molybdenum is estimated to have grown at a CAGR of 4.3% from 1990 to 2005. As at the Latest Practicable Date, our Directors were not aware of any development which would lead them to believe that the growth of the molybdenum market will not continue.

In response to this anticipated growth, we intend to expand our roasting and smelting capacity at our existing facilities. Further, we intend to construct an additional plant, expand our downstream processing capacity and capabilities, and improve our production efficiency and upgrade our production technology to improve recovery rates. Our Directors believe that these measures are important in order to maintain and consolidate our leading position in the PRC molybdenum industry.

In addition, we intend to expand our ore mining capacity beyond 9.9 Mt per annum through application to the PRC authorities. This, in turn, will facilitate additional growth and may help us further consolidate our leading position in the PRC molybdenum industry.

Improve our operational efficiency by increasing the recovery rates at our operations

We aim to improve our recovery rates and hence our operational efficiency through the implementation of technological and process improvements at our flotation, roasting and smelting facilities. We expect these programs to increase our production within our existing production throughput and capacity levels.

We intend to improve the recovery rates achieved at our flotation plants from an average of 82% in 2006 to 90% within the next few years through the implementation of process and technological upgrades at each of our flotation plants. We expect to achieve this through the implementation of in-house research development programs.

Furthermore, we intend to improve the recovery rates achieved at our roasting and smelting plant from approximately 97.1% and approximately 97.9% in 2006, respectively, to 99.0% and 98.5%, respectively, within the next few years. We expect to achieve these improvements by

processing a higher recovered grade of molybdenum in concentrate following the recovery improvements at our flotation plant. We also intend to leverage our technology and service relationship with Climax Molybdenum Company, a subsidiary of Phelps Dodge, to identify and implement process and technological improvements at our existing roasting and smelting plant.

We expect that these programs will increase our ultimate production in terms of molybdenum metal. Furthermore, we expect the higher recovery rates achieved at our flotation, smelting and roasting plants will lead to the production of higher grade molybdenum concentrate, and higher grade and purer high-end molybdenum products. We expect this will meet the increasing quality requirements of our domestic and international high-end customers and lead to increases in the prices we can achieve for our products, thereby increasing the profitability of our business.

Leverage our leading position in China's molybdenum market to enhance and expand our customer relationships and enhance our profitability

We plan to leverage our leading position in China's molybdenum market, the world's fastest growing major consumption market for molybdenum, to improve our customer relationships and enhance our profitability.

According to the CNMIA Report, we are the largest ferromolybdenum supplier in the PRC and our supply of ferromolybdenum represents approximately one-third of the total volume of ferromolybdenum consumed in the PRC. We intend to enhance our customer base to further align our exposure to the growing Chinese molybdenum market. One such strategy is to position ourselves as the supplier of choice for major suppliers in the Chinese stainless steel industry. From 2007, we plan to supply substantially all of our ferromolybdenum production to major Asian stainless steel producers such as Baosteel, TISCO and POSCO Zhangjiagang, secured by long-term supply contracts. Our existing supply arrangements with Baosteel, TISCO and POSCO Zhangjiagang represent a considerable portion of their respective estimated ferromolybdenum consumption in 2007.

Capitalize our tungsten reserves through the development of our own tungsten production facilities

We intend to increase our tungsten production capabilities through the construction of our own tungsten recovery facilities. Our development plans aim to provide for an aggregate additional 15,200 tpd of flotation capacity, with facilities to be constructed at our No. 1 Ore Processing Plant, our No. 3 Ore Processing Plant and our Sanqiang and Dadongpo flotation plants.

Furthermore, we expect that increasing our tungsten production and realizing the value of this by-product of our molybdenum operations will lead to improvements in the overall cost structure and profitability of our Sandaozhuang Mine operations.

Explore acquisition opportunities and expand our product portfolio

We plan to monitor closely the market for molybdenum products and other specialty metals and precious metals with a view to exploring suitable acquisition opportunities. Our Directors believe that diversification of our product line will reduce the risks typically associated with a high degree of product concentration, as is the case with our current operations. We plan to explore suitable opportunities to produce metals such as tungsten, gold, silver, indium, vanadium and titanium. If these plans can be successfully implemented, we will be able to offer a range of new specialty metal and precious metal products to the market.

BUSINESS

In exploring future acquisition opportunities, we will carefully consider and balance some or all of the following criteria in order to pursue acquisitions prudently with a view to further growing our business and maximizing returns to our Shareholders:

- the resources, reserves or mining operations of molybdenum, specialty metals and precious metals;
- the amount, grade, mineability and sustainability of the target resources or reserves;
- whether the cost and benefit of the acquisition satisfies our stringent internal financial criteria;
- the synergy between our Group and potential targets in terms of technology and know-how, management expertise, and business compatibility and complementability;
- the geographical proximity to our existing operations; and
- whether the acquisition can enhance the overall sustainability of our existing and future businesses.

Enhance production safety and environmental protection

We strive to improve our production safety and environmental protection systems and performance to a level consistent with international practice.

We will strictly adhere to applicable PRC laws and regulations in constructing and maintaining environmentally compliant facilities with a high safety standard. We will endeavor to continue to improve our production safety and environmental protection by implementing the measures outlined below:

- We will endeavor to continue to effectively operate the occupational safety and health management system (GB/T28001) and the environmental management system (ISO14001) to achieve comprehensive safety and environmental management, to reduce operational risks and to address safety and environmental concerns; and
- We intend to further improve our safety and environmental protection standards through (i) continual technical upgrades and (ii) exploring opportunities to cooperate with international mining partners or mining consulting firms with a view of undertaking safety practices at all of our operations, in order to develop and manage the implementation of safety practices consistent with international practice.

For details of our production safety and environmental protection, please refer to the section headed “Business — Environmental Compliance” and “Business — Occupational Health and Safety” in this prospectus.

OUR PRODUCTS

The table below sets out our existing molybdenum and tungsten products at various manufacturing stages. Please also refer to the section headed “Business — Our Production Processes and Facilities” below for a detailed description of the manufacturing processes of our products.

<u>Manufacturing stage</u>	<u>Products</u>
Mining	Ore from which both molybdenum and tungsten are extracted
Flotation	Molybdenum concentrate (containing 47 to 51% molybdenum)
Tungsten reprocessing ⁽¹⁾ . . .	Tungsten concentrate (containing 30 to 65% tungsten)
Roasting	Molybdenum oxide (containing 51 to 57% molybdenum)
Smelting	Ferromolybdenum (containing 60 to 67% molybdenum)
Downstream processing . . .	Other products, such as: <ul style="list-style-type: none"> ● ammonium molybdate ● molybdenum powder ● molybdenum trioxide ● 99.9% molybdenum metal and other products (including threads, strips, rods, boards) ● tungsten metal

Note:

(1) Presently undertaken by Yulu, our 40% owned joint venture with Xiamen Tungsten, at facilities associated with our No. 2 Ore Processing Plant.

Molybdenum ore is floated to produce molybdenum concentrate. Molybdenum concentrate can be roasted and smelted to produce molybdenum oxide and ferromolybdenum, respectively. Molybdenum oxide and ferromolybdenum are mainly used in steel manufacturing. Molybdenum oxide can also be further processed to produce refined products such as ammonium molybdate, molybdenum powder, molybdenum trioxide and molybdenum metal.

As an integrated producer of molybdenum products, we produce and sell products at all stages of the production chain, including molybdenum concentrate, molybdenum oxide and ferromolybdenum, as well as ammonium molybdate, molybdenum powder, molybdenum trioxide, and 99.9% molybdenum metal products such as threads, strips, rods and boards.

Tungsten production activities are presently undertaken by Yulu, our 40% owned joint venture with Xiamen Tungsten, at facilities associated with our No. 2 Ore Processing Plant. We intend to expand our tungsten production capabilities through the construction of our own recovery facilities at our Sandaozhuang Mine in 2007 and expand our tungsten metal processing capabilities through the construction of additional downstream processing capacity by 2008.

BUSINESS

Our production by product

The table below shows our molybdenum and tungsten production from 2003 to 2006 and our projected molybdenum and tungsten production from 2007 to 2008.

<u>Annual production (tonnes)</u>	<u>2003</u> <u>(actual)</u>	<u>2004</u> <u>(actual)</u>	<u>2005</u> <u>(actual)</u>	<u>2006</u> <u>(actual)</u>	<u>2007</u> <u>(forecast)</u>	<u>2008</u> <u>(forecast)</u>
Mine production	4,350,000	4,981,010	6,588,894	9,459,542	9,900,000	9,900,000
Molybdenum concentrate ⁽¹⁾	9,694	10,140	10,291	20,818	28,107	33,744
Molybdenum oxide	3,381	5,380	6,950	12,621	18,000	20,000
Ferromolybdenum	596	1,418	1,599	6,739	11,007	15,000
Tungsten concentrate Yulu ⁽²⁾	—	—	843	858	2,766	3,478
Tungsten concentrate (100% owned plants) ⁽³⁾	—	—	—	—	314	3,021

Notes:

- (1) Includes 100% of the production from our 51% owned Sanqiang, Dadongpo and Jiuyang Process Plants.
- (2) Includes 100% of the tungsten production from Yulu, our 40% owned joint venture with Xiamen Tungsten. Tungsten concentrate production is shown at 65% grade WO₃ consistent with our reporting standards and corresponds to Yulu's actual and expected production at 30% to 65% grade WO₃ translated to the equivalent production at 65% grade WO₃ for reporting purposes only.
- (3) Estimated tungsten production from our planned 100% owned plants. Tungsten concentrate production is shown at 65% grade WO₃ consistent with our reporting standards and corresponds to our expected production at 40% grade WO₃ translated to the equivalent production at 65% grade WO₃ for reporting purposes only.

Our Sandaozhuang Mine was in a ramp-up phase in 2006, reaching its designed capacity of 30,000 tpd of ore in April 2006. In line with this ramp-up, ore production was approximately 9.46 Mt in 2006, with our Sandaozhuang Mine expected to realize the full year benefit of its designed ore mining capacity of 9.9 Mt per annum in 2007.

Our molybdenum concentrate production has increased in line with our mined ore production following the purchase of majority interests in three flotation plants and the expansion of our No. 2 Ore Processing Plant in 2006 to an aggregate flotation capacity of 30,000 ore tpd. We expect all our mined ore production to be processed at our flotation plants in 2007 and 2008.

We expect our molybdenum roasting plant will achieve production in 2007 in line with its designed capacity of 18,000 tonnes of molybdenum oxide following the expansion of this facility in 2006. We plan to further expand the annual capacity of this facility to 20,000 tonnes of molybdenum oxide in 2008. Our molybdenum smelting plant is being progressively expanded from 11,000 tpa at the end of 2006 to an annual designed ferromolybdenum capacity of 12,000 tonnes in 2007 and 15,000 tonnes in 2008. In line with these expansions, we expect to produce 11,007 tonnes and 15,000 tonnes of ferromolybdenum in 2007 and 2008 respectively.

We expect our tungsten concentrate production to fully ramp up by 2008 as a result of the increase in flotation capacity at Yulu's facility from 5,000 tpd to 15,000 tpd in 2007 commensurate with the expansion at our No. 2 Ore Processing Plant in 2006 and as our own tungsten recovery plants commence production.

BUSINESS

Our turnover by product

For the year ended December 31, 2006, our turnover attributable to the sale of molybdenum concentrate, molybdenum oxide and ferromolybdenum, our three principal products, in aggregate accounted for approximately 87.5% of our total turnover.

The table below sets out the breakdown of our turnover by product category. During the years ended December 31, 2004, 2005 and 2006, our turnover was RMB1,170.4 million, RMB2,300.5 million and RMB3,826.2 million, respectively, and we recorded a profit attributable to equity holders of the Company of RMB276.3 million, RMB1,157.3 million and RMB1,515.3 million, respectively.

Breakdown of Turnover by Product Categories
Year ended December 31,

	2004			2005			2006		
	Sales Volume (tonnes)	Turnover (RMB millions)	% of total turnover	Sales Volume (tonnes)	Turnover (RMB millions)	% of total turnover	Sales Volume (tonnes)	Turnover (RMB millions)	% of total turnover
Molybdenum ore . . .	775,676	19.4	1.7	1,855,036	106.0	4.6	780,959	34.8	0.9
Molybdenum concentrate	3,731	316.9	27.1	1,557	360.5	15.7	5,332	924.6	24.2
Molybdenum oxide . .	4,018	550.1	47.0	4,296	1,196.8	52.0	4,638	946.5	24.7
Ferromolybdenum . . .	1,685	261.5	22.3	1,523	445.5	19.4	6,428	1,477.1	38.6
Other products ⁽¹⁾ . . .	N/M	22.5	1.9	N/M	191.7	8.3	N/M	443.2	11.6
Total		<u>1,170.4</u>	<u>100.0</u>		<u>2,300.5</u>	<u>100.0</u>		<u>3,826.2</u>	<u>100.0</u>

Note:

- (1) The sales volume of other products is not meaningful for disclosure as there are various types of such products with different unit weights and measurements.

Yulu, our 40% owned joint venture with Xiamen Tungsten, is accounted for as our associate. Therefore, revenue from the sale of tungsten concentrate by Yulu is not included in the above table. For details of the profit contribution of our associates, please refer to our financial information and the accountants' report in Appendix I to this prospectus.

OUR MINERAL RESOURCES AND MINING RIGHTS

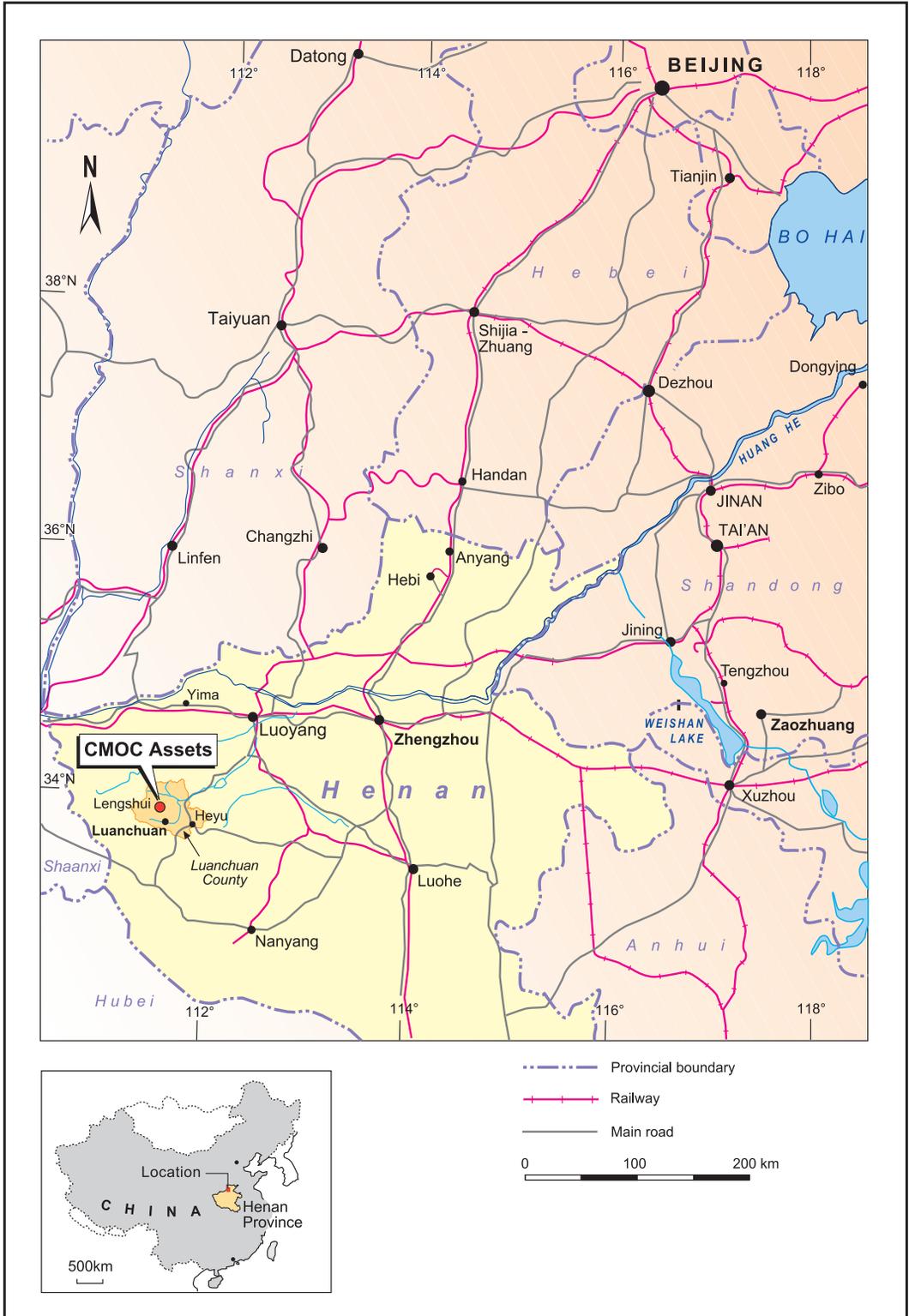
Our existing mining resources and production facilities

We possess abundant molybdenum and tungsten resources and are a leading producer of molybdenum and a growing producer of tungsten in the PRC.

Our operations are focused on our wholly-owned and operated Sandaozhuang Mine, an open-pit mine located in Luanchuan County, Luoyang City, Henan Province. Our molybdenum production activities are fully integrated, with six flotation plants, three of which are wholly-owned, and a roasting and smelting plant and downstream processing facilities, all located within close proximity to our Sandaozhuang Mine. Our tungsten recovery activities are presently undertaken through Yulu, our 40% owned joint venture with Xiamen Tungsten, which owns the tungsten recovery facility associated with our No. 2 Ore Processing Plant. We plan to increase our tungsten recovery production by constructing our own tungsten production facilities in 2007. For further details about our production and processing facilities, please refer to the section headed "Business — Our Production Processes and Facilities" in this prospectus.

BUSINESS

Associated with our Sandaozhuang Mine operations, we have secured mining rights covering approximately 2,509.1 square kilometers in Luanchuan County. The following map shows the geographical location of our Sandaozhuang Mine and Luanchuan County in China.



Source: Minarco Report

For details of our mining areas, please refer to the Minarco Report in Appendix V to this prospectus.

Sandaozhuang Mine operations

Overview and background

Sandaozhuang Mine is located in Luanchuan County, which is approximately 200 kilometers south-west of Henan Province's capital city, Zhengzhou. The terrain around the mine is generally rugged and the topographic surface ranges from approximately 1,100 to 1,600 meters above sea level.

Mining of the Sandaozhuang deposit commenced officially in 1972, primarily targeting resources using underground mining methods. Production from open-pit mining operations commenced in 1998, with the initial output targeted at 5,000 tpd. Ore production reached 8,000 tpd by the end of 2001.

In the past three years, we have significantly expanded our operations. Our Sandaozhuang Mine has undergone a number of expansions, including a recent production upgrade to 30,000 tpd from a single open-pit operation. As part of this recent production upgrade, all our underground mining operations ceased by late 2005. At the same time, we have doubled raw throughput capacity at our ore flotation plant facilities to 30,000 tpd, with mined ore production capacity sufficient to satisfy our molybdenum concentrate production.

Geology and resources

Luanchuan County is a mineral rich area which hosts one of the world's largest exploited primary molybdenum orebodies. The mining district is situated within the Qinling trend, oriented northwest-southeast and is seen to be a part of the limb of the Sanchuan-Luanchuan Fold Belt.

The molybdenum and tungsten mineralization at our Sandaozhuang Mine is extensive and well understood, with the resources at the open-pit mine being well defined by mining and assaying. The primary orebody belonging to our Sandaozhuang Mine contains one of the largest defined reserves of molybdenum and the second largest defined reserves of tungsten in the world.

The table below sets out the molybdenum and tungsten resources and reserves at our Sandaozhuang Mine under the JORC Code as at December 31, 2006. The JORC compliant Proved and Probable Ore Reserves were 467 Mt at 0.11% grade molybdenum and 0.11% grade tungsten as at December 31, 2006. For definitions of the technical terms used in the tables, please refer to the section headed "Technical Glossary" in this prospectus.

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Summary of our molybdenum and tungsten resources as at December 31, 2006

Mineral Resource⁽¹⁾ Statement — JORC

<u>Total (Mt)</u>	<u>Measured⁽²⁾ (Mt)</u>	<u>Indicated⁽³⁾ (Mt)</u>	<u>Inferred⁽⁴⁾ (Mt)</u>	<u>Mo%</u>	<u>WO₃%</u>
736	405	317	15	0.10	0.09

Notes:

- (1) Mineral Resource is inclusive of Ore Reserves.
- (2) Measured Mineral Resource is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. Further information regarding JORC Code classifications is set out in the Minarco Report in Appendix V to this prospectus.
- (3) Indicated Mineral Resource is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. Further information regarding JORC Code classifications is set out in the Minarco Report in Appendix V to this prospectus.
- (4) Inferred Mineral Resource is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a low level of confidence. Further information regarding JORC Code classifications is set out in the Minarco Report in Appendix V to this prospectus.

Summary of our molybdenum and tungsten reserves as at December 31, 2006

Ore Reserve Statement — JORC

<u>Total (Mt)</u>	<u>Proved Reserves⁽¹⁾ (Mt)</u>	<u>Probable Reserves⁽²⁾ (Mt)</u>	<u>Mo%</u>	<u>WO₃%</u>	<u>Contained Molybdenum Metal (Kt)</u>	<u>Contained Tungsten Metal (Kt)</u>
467	303	163	0.11	0.11	498	506

Notes:

- (1) Proved Ore Reserve is the economically mineable part of a Measured Mineral Resource. Further information regarding JORC Code classifications is set out in the Minarco Report in Appendix V to this prospectus.
- (2) Probable Ore Reserve is the economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource. Further information regarding JORC Code classifications is set out in the Minarco Report in Appendix V to this prospectus.

Current Ore Reserves estimates are adequate for a mine life in excess of 46 years assuming constant annual mine production of 9.9 Mt, the projected production volume for 2007.

For details of our JORC compliant resources and reserves, please refer to the Minarco Report in Appendix V to this prospectus.

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Historical and forecast mine production

<u>Sandaozhuang Mine</u>	<u>2003</u> <u>(actual)</u>	<u>2004</u> <u>(actual)</u>	<u>2005</u> <u>(actual)</u>	<u>2006</u> <u>(actual)</u>	<u>2007</u> <u>(forecast)</u>	<u>2008</u> <u>(forecast)</u>
Ore Production —						
Open-pit (Mt)	2.75	3.67	6.29	9.46	9.90	9.90
Ore Production —						
Underground (Mt)	1.60	1.31	0.30	—	—	—
Waste Production (Mt)	<u>6.02</u>	<u>7.57</u>	<u>8.97</u>	<u>14.19</u>	<u>11.88</u>	<u>11.88</u>
Total Material Moved (Mt)	<u>8.77</u>	<u>11.24</u>	<u>15.26</u>	<u>23.65</u>	<u>21.78</u>	<u>21.78</u>
Open-pit Stripping Ratio	<u>2.19</u>	<u>2.06</u>	<u>1.43</u>	<u>1.50</u>	<u>1.20</u>	<u>1.20</u>
Average Grade Mo (%) ⁽¹⁾	<u>0.151</u>	<u>0.138</u>	<u>0.132</u>	<u>0.131</u>	<u>0.155</u>	<u>0.180</u>
Average Grade WO ₃ (%) ⁽¹⁾⁽²⁾	<u>N/M</u>	<u>N/M</u>	<u>N/M</u>	<u>0.055</u>	<u>0.068</u>	<u>0.074</u>

Notes:

- (1) The current mining schedule assumes that (i) the molybdenum grade will fluctuate between 0.13% and 0.16% between 2009 and 2023 and will decrease gradually to a level closer to 0.10% after 2023 and (ii) the tungsten grade will increase from current levels to 0.12% between 2009 and 2023 and will fluctuate between 0.10% and 0.14% after 2023.
- (2) There are no statistics for tungsten grades available from 2003 to 2005 as the statistics available are not meaningful given the low levels of processing during this time.

Ongoing fees and taxes

Under relevant PRC laws and regulations, we are required to pay resource taxes and mineral resources compensation fees to the PRC Government in relation to our mining operations. The table below sets out the relevant payments made by us for the years ended December 31, 2004, 2005 and 2006.

	<u>2004</u>	<u>2005</u>	<u>2006</u>
	(RMB millions)		
Resource Taxes (資源稅)	2.9	4.0	88.8
Mineral Resources Compensation Fees (礦產資源補償費)	13.5	35.9	45.1

Mining rights

Mining of the Sandaozhuang deposit commenced officially in 1972. It primarily targeted resources using the underground mining method. Production from the open-pit mining operations commenced in June 1998. Prior to 1998, our predecessors, being LLMG, LCMCC and LLMC, engaged in underground mining activities and all the mineral resources mined were from the Sandaozhuang Mine.

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We currently hold valid mining rights to our Sandaozhuang Mine, covering 2,509.1 square kilometers. Our predecessor, LLMC, was initially allocated the mining rights for 33 years at nil consideration in 1989. As the mining rights were granted by the PRC Government by allocation, we were not required to pay for the allocated mining rights prior to our conversion into a joint stock company with limited liability on August 25, 2006. Following such conversion and the change of our company name, we re-applied for, and were granted, a renewal of the mining rights on September 28, 2006. The renewed mining rights are valid from 2006 to 2021. We intend to apply for a further renewal of the mining rights upon their expiration.

The consideration for the renewed mining rights of our Sandaozhuang Mine, being RMB401.5 million, was appraised based on the projected 30 years of service remaining for the mine. The MLR issued a confirmation letter dated January 30, 2007 confirming the payment of such consideration by six instalments (being approximately RMB40.1 million in 2006, RMB40.1 million in 2007, RMB80.3 million in 2008, RMB80.3 million in 2009, RMB80.3 million in 2010 and RMB80.3 million in 2011), with interest payable from 2007 at a rate not less than the prevailing bank lending rate for the period. The exact amount of the interest payable is to be determined by the relevant PRC regulations. We intend to fund these payment obligations with cash generated by our operations and, if necessary, by obtaining additional financing from external sources in the event that our internal funds are insufficient to fully cover any particular instalment payment when due. We paid the first instalment in September 2006, and it was accepted by the MLR.

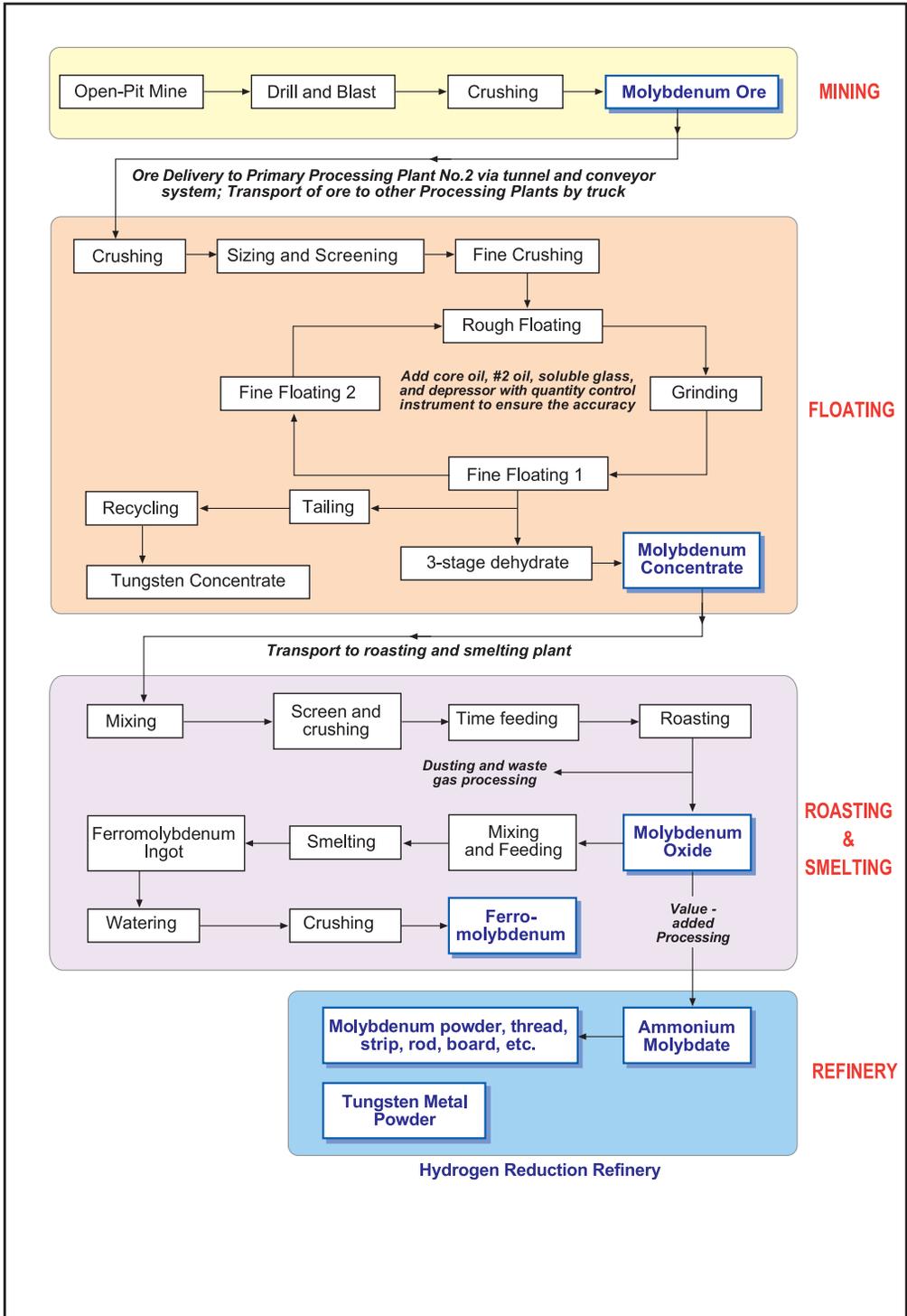
Our mining rights were appraised by Beijing Zhongbaoxin Asset Evaluation Company Limited, and the respective amounts of consideration have been approved by the MLR.

Renewal of mining rights

In September 2006, we obtained the mining rights in relation to our Sandaozhuang Mine for a total consideration of approximately RMB401.5 million, the appraised value based on a service period of 30 years remaining for the mine. However, our current mining rights extend only to June 1, 2021. Our PRC legal advisor has advised us that so long as (i) the principal parameters (such as the mining area, the mining capacity and the term of the service period) of the Mining Rights Appraisal Report, as confirmed in the Confirmation Letter for the Appraisal Result of the Mining Rights issued by the MLR on July 5, 2006, remain the same, and (ii) we have completed the necessary legal procedures as required by the Procedures for Administration of Registration of Mining of Mineral Resources and applicable laws and regulations at that time, there is no legal impediment preventing us from obtaining renewal of the mining rights for our Sandaozhuang Mine from the PRC Government after June 1, 2021 and we are not required to pay additional acquisition costs for any such renewal. However, there can be no assurance that we will be able to renew our mining rights on favorable terms, or at all, once such rights expire. Since our business is dependent on our Sandaozhuang Mine, if we are unable to renew such rights, our financial condition and results of operations will be materially and adversely affected. Please refer to the section headed “Risk Factors — Risks Relating to Our Business and Our Industry — We may be unable to renew our mining rights” in this prospectus.

OUR PRODUCTION PROCESSES AND FACILITIES

Our manufacturing process involves mining, flotation, roasting and smelting, and downstream processing. The following chart summarizes and illustrates the standard workflow for molybdenum and tungsten production at our Sandaozhuang Mine.



Source: Minarco Report

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The following table sets out information about our existing production facilities. All of our operations are located within close proximity to our Sandaozhuang Mine.

Description	Date commenced operations	Interest	Capacity ⁽¹⁾
Sandaozhuang Mine	1972	100%	30,000 tpd
Flotation plant			
No. 1 Ore Processing Plant.	1985	100%	4,000 tpd
No. 2 Ore Processing Plant.	1985/2006 ⁽²⁾	100%	15,000 tpd
No. 3 Ore Processing Plant.	1998	100%	3,200 tpd
Sanqiang Process Plant	2003	51% ⁽³⁾	3,000 tpd
Dadongpo Process Plant.	2003	51% ⁽⁴⁾	3,200 tpd
Jiuyang Process Plant	2003	51% ⁽⁵⁾	1,600 tpd
Total			30,000 tpd
Secondary processing plant			
Tungsten recovery plant.	2002	40% ⁽⁶⁾	15,000 tpd
Roasting and smelting plant	2002	100%	18,000 tpa molybdenum oxide 11,000 tpa ferromolybdenum
Downstream processing plant			
Dachuan	2003	75% ⁽⁷⁾	1,000 tpa ammonium molybdate, 500 tpa molybdenum powder
Luoyang High Technology Plant	2005	100%	1,600 tpa molybdenum/tungsten metals

Notes:

- (1) Capacity as at December 31, 2006.
- (2) Includes a new plant with annual capacity of 10,000 tpd that was commissioned in 2006.
- (3) Sanqiang is our 51% owned joint venture with Luanchuan County Chengzhi Mining Co., Ltd.
- (4) Dadongpo is our 51% owned joint venture with Luanchuan County Taifeng Industry and Trading Co., Ltd.
- (5) Jiuyang Mining is our 51% owned joint venture with Luanchuan County Hongji Mining Co., Ltd.
- (6) Yulu is our 40% owned joint venture with Xiamen Tungsten.
- (7) Dachuan is our 75% owned joint venture with Gongda Zhiyuan.

Mining

Our Sandaozhuang Mine is a large scale, modern open-pit mining operation. Its current daily ore mining capacity of 30,000 tonnes, corresponding to an annual ore mining capacity of 9.9 Mt, makes it the largest molybdenum mine in China and the third largest of its type in the Asia Pacific region in terms of mining capacity.

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Our Sandaozhuang Mine produces ore from which both molybdenum and tungsten are extracted. The table below sets out ore production and capacity of our Sandaozhuang Mine from 2003 to 2006 and the projected ore production and capacity of our Sandaozhuang Mine from 2007 to 2008.

Annual production (tonnes)	2003 (actual)	2004 (actual)	2005 (actual)	2006 (actual)	2007 (forecast)	2008 (forecast)
Mine production	4,350,000	4,981,010	6,588,894	9,459,542	9,900,000	9,900,000
Mine capacity ⁽¹⁾	4,600,000	5,500,000	6,930,000	9,900,000	9,900,000	9,900,000

Note:

(1) Relates to mine capacity at the end of the year.

We have obtained all the land use rights of the mine sites that we are currently operating.

Our mining branch is the operator of all our mining activities.

Our Sandaozhuang Mine has historically been operated by open-pit and underground mining methods. Sandaozhuang Mine has undergone a number of expansions over the last three years, including the recent production upgrade to 30,000 tpd from a single open-pit operation. As part of the production upgrade, all of our underground mining operations ceased by late 2005.

Open-pit mining is undertaken at the site using conventional truck and shovel mining techniques, with all mineral ore hauled to one of the three crushing stations located in the vicinity of the mine before it is transported to our flotation plants. All waste material is hauled to a waste dump in the vicinity of the open-pit.

We have adopted GPS-RTK technology for real-time monitoring of the mining process and have implemented a vehicle monitoring system based on GPS technology to improve the transportation efficiency at the open-pit.

We engage independent third-party contractors to undertake some labor intensive tasks with lower technological sophistication, such as drilling and blasting, ore and waste loading, and transportation. We have entered into a number of outsourcing service contracts with our service contractors. These outsourcing service contracts generally have a term of one year and are renewable upon expiry. Pursuant to the outsourcing service contracts, we make monthly payments to the service contractors. The total fees we paid to our service contractors for the years ended December 31, 2004, 2005 and 2006 were RMB38.2 million, RMB231.2 million and RMB300.0 million, representing approximately 3.3%, 10.0% and 7.8%, respectively, of our total turnover for the corresponding periods. Depending on the nature of the services, the fees were treated as expenses or were capitalized. Our contractors are responsible for any losses caused by, or incurred pursuant to, the work carried out under the outsourcing service contracts.

For further details on the ore mining at our Sandaozhuang Mine, please refer to the Minarco Report in Appendix V to this prospectus.

Processing

Processing at our Sandaozhuang Mine operations for the recovery of molybdenum is carried out in three separate stages:

- flotation: molybdenum is recovered in concentrate form containing 47% to 51% molybdenum grade from ore mined at our Sandaozhuang Mine;
- roasting and smelting: molybdenum concentrate is roasted to produce molybdenum oxide, which is then smelted to produce ferromolybdenum; and
- downstream processing: production of various refined molybdenum products from molybdenum concentrate, molybdenum oxide and tungsten refined products from purchased APT.

Yulu, our 40% owned joint venture with Xiamen Tungsten, takes molybdenum concentrator tailings from our largest primary processing plant (No. 2 Ore Processing Plant) for reprocessing to recover the contained tungsten. This recovery process produces a concentrate containing between 30% and 65% tungsten (WO_3) grade. Further information regarding this process is provided below and in the Minarco Report set out in Appendix V to this prospectus.

Flotation

We have the largest molybdenum ore flotation plant facilities in China with infrastructure capable of receiving over 30,000 tpd of ore. Our flotation facilities comprise six ore flotation plants located near the site of our Sandaozhuang Mine. We wholly own the three largest plants, which together have a capacity of 22,200 tpd of ore. Our three smaller facilities, which have a total capacity of 7,800 tpd of ore, are owned through Sanqiang, Jiuyang Mining and Dadongpo, three of our non-wholly owned subsidiaries. We control and manage all six operations.

All ore material produced by the single open-pit mining operation is delivered to one of our six flotation plants where the material is processed using conventional crushing, grinding and flotation techniques to liberate the molybdenum metal from the ore rock.

Crushed ore is transported to our flotation plants by conveyor belts, underground conveyors or heavy trucks. The existence of three crushing stations helps to ensure our continuous operation even when a particular station requires repair and maintenance. Crushed ore is fed from the stockpiles to the respective grinding circuit, typically comprising a closed ball mill circuit, followed by froth flotation to recover molybdenum in a concentrate containing between 47% and 51% molybdenum grade.

Minarco is of the view that the processing plants use modern, efficient flotation techniques. The average molybdenum recovery rate in 2006 was approximately 82%, with our No. 2 Ore Processing Plant achieving a recovery rate of approximately 85%. In line with our strategy to improve the recovery and efficiency of our flotation plants, we expect our overall recovery rate to increase to 90% within the next few years.

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As at December 31, 2006, our total flotation plant capacity was approximately 30,000 tpd. The table below shows our total molybdenum concentrate production from 2003 to 2006 and our total projected molybdenum concentrate production from 2007 to 2008.

Annual production (tonnes)	2003 (actual)	2004 (actual)	2005 (actual)	2006 (actual)	2007 (forecast)	2008 (forecast)
Ore processed	3,774,000	4,224,000	4,501,000	8,658,000	9,900,000	9,900,000
Ore flotation capacity ⁽¹⁾	3,960,000	4,620,000	4,950,000	9,900,000	9,900,000	9,900,000
Molybdenum concentrate production .	9,694	10,140	10,291	20,818	28,107	33,744

Note:

(1) Relates to ore flotation capacity at the end of the year.

The increase in our molybdenum concentrate production output in 2006 was mainly due to the commencement of operations of our new 10,000 tpd plant at the No. 2 Ore Processing Plant and our acquisitions of 51% interests in each of Sanqiang, Jiuyang Mining and Dadongpo in early 2006.

Molybdenum concentrator tailings produced by the No. 2 Ore Processing Plant are sent to the tungsten recovery facility operated by Yulu, our 40% owned joint venture with Xiamen Tungsten. Molybdenum concentrator tailings produced at the other flotation facilities are currently sent directly to tailings dam facilities near the respective flotation plants. Following construction of our own tungsten recovery plants in 2007, the molybdenum concentrator tailings at our other plants (excluding Jiuyang Process Plant) will be reprocessed for tungsten, before being sent to our tailings dam facilities.

For further details on the flotation processes at our Sandaozhuang Mine, please refer to the Minarco Report in Appendix V to this prospectus.

Roasting and smelting

A majority of the molybdenum concentrate produced at our flotation plant is sent to our roasting and smelting facility where it is further processed to produce either molybdenum oxide or ferromolybdenum.

In the roasting facility, molybdenum concentrate is roasted in an oxidizing atmosphere (450°C) and subsequently heated to 680°C to 780°C to volatilize contaminants and remove sulfur before being cooled to produce molybdenum oxide. Ferromolybdenum is produced by smelting molybdenum oxide using a four stage process.

Based on the Minarco Report, our molybdenum oxide typically contains approximately 51% to 57% molybdenum, and our ferromolybdenum typically contains approximately 60% to 67% molybdenum. Following a production expansion completed in August 2006, our roasting capacity was approximately 18,000 tpa of molybdenum oxide at the end of 2006 and is being further expanded to 20,000 tpa in 2008. Our smelting capacity is being progressively expanded to an annual capacity of 15,000 tonnes ferromolybdenum. This is expected to be completed by 2008.

Luomu Group Refining, our wholly-owned subsidiary, is the entity that conducts our roasting and smelting operations.

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The table below shows molybdenum oxide and ferromolybdenum production and capacity at Luomu Group Refining from 2003 to 2006 and the projected molybdenum oxide and ferromolybdenum production and capacity at Luomu Group Refining from 2007 to 2008.

<u>Annual production (tonnes)</u>	<u>2003</u> <u>(actual)</u>	<u>2004</u> <u>(actual)</u>	<u>2005</u> <u>(actual)</u>	<u>2006</u> <u>(actual)</u>	<u>2007</u> <u>(forecast)</u>	<u>2008</u> <u>(forecast)</u>
Molybdenum oxide production	3,381	5,380	6,950	12,621	18,000	20,000
Molybdenum oxide capacity ⁽¹⁾	3,500	6,000	10,000	18,000 ⁽²⁾	18,000	20,000
Ferromolybdenum production	596	1,418	1,599	6,739	11,007	15,000
Ferromolybdenum capacity ⁽¹⁾	1,000	2,000	5,000	11,000 ⁽³⁾	12,000	15,000

Notes:

- (1) Relates to production capacity at the end of the year.
- (2) Expansion of capacity was completed in August 2006.
- (3) Expansion of capacity was completed in November 2006.

The increase in our molybdenum oxide and ferromolybdenum production capacity in 2006 was due to the commissioning of capacity expansions earlier that year.

Some of our molybdenum oxide is smelted to produce ferromolybdenum and some molybdenum oxide is processed further to produce refined products at our downstream processing plants.

For further details on the roasting and smelting processes at our Sandaozhuang Mine, please refer to the Minarco Report in Appendix V to this prospectus.

Downstream processing

Our downstream processing takes some of the molybdenum concentrate produced by the flotation plants and the molybdenum oxide produced by the roasting and smelting plant, and via a process of electrolytic reduction, produces, firstly, ammonium molybdate, and secondly, molybdenum powder. These are further processed to produce 99.9% pure molybdenum metal and other products such as molybdenum threads, strips, rods and boards. Further, we also produce minor quantities of tungsten metal products from APT purchased from Xiamen Tungsten, our joint venture partner at Yulu.

We conduct our downstream processing at Dachuan, our 75%-owned subsidiary, and Luoyang High Tech, our wholly-owned subsidiary.

<u>Description</u>	<u>Equity</u> <u>Interest</u>	<u>Year of</u> <u>Commencing</u> <u>Operations</u>	<u>Capacity</u>	<u>Process</u>
Dachuan	75%	2003	1,000 tpa ammonium molybdate, 500 tpa molybdenum powder	Pyro Refining Mechanical Fabrication
Luoyang High Technology	100%	2005	1,600 tpa molybdenum/tungsten metals	Pyro Refining Mechanical Fabrication

For further details on the downstream processing operations at our Sandaozhuang Mine, please refer to the Minarco Report in Appendix V to this prospectus.

Tungsten recovery

Our Sandaozhuang Mine achieves by-product value through the extraction of contained tungsten from molybdenum concentrator tailings. The extraction of tungsten from molybdenum concentrator tailings at our No. 2 Ore Processing Plant is conducted by Yulu, our 40% owned joint venture with Xiamen Tungsten.

The molybdenum concentrator tailings from our No. 2 Ore Processing Plant are refloated in a three-stage process (rougher, scavenger and cleaner), comprising seven sub-aeration mechanical flotation cells and a Rougler Column flotation cell, to recover tungsten. There is an approximate 500 times concentration upgrade using this method giving a concentrator yield of 30% to 65%, depending on the grade of the tailings (0.06% to 0.12% WO₃).

The table below shows tungsten production of Yulu, our 40% owned joint venture with Xiamen Tungsten, from 2003 to 2006 and the projected tungsten production of Yulu and our wholly-owned plants from 2007 to 2008.

<u>Production (tonnes)</u>	<u>2003</u> <u>(actual)</u>	<u>2004</u> <u>(actual)</u>	<u>2005</u> <u>(actual)</u>	<u>2006</u> <u>(actual)</u>	<u>2007</u> <u>(forecast)</u>	<u>2008</u> <u>(forecast)</u>
Annual tungsten concentrate production (Yulu) ⁽¹⁾	—	—	843	858	2,766	3,478
Daily flotation capacity (Yulu) ⁽²⁾	—	—	5,000	15,000	15,000	15,000
Annual tungsten concentrate production (wholly-owned plants) ⁽³⁾	—	—	—	—	314	3,021
Daily flotation capacity (wholly-owned plants) ⁽²⁾	—	—	—	—	5,000	15,200

Notes:

- (1) Includes 100% of the production from Yulu, at 65% grade WO₃ consistent with our reporting standards and corresponds to Yulu's actual and expected production at 30% to 65% grade WO₃ translated to the equivalent production at 65% grade WO₃ for reporting purposes only.
- (2) Relates to daily ore processing capacity at end of the year.
- (3) Produced from planned 100% owned plants. Tungsten concentrate production is shown at 65% grade WO₃ consistent with our reporting standards and corresponds to our expected production at 40% grade WO₃ translated to the equivalent production at 65% grade WO₃ for reporting purposes only.

We intend to increase our tungsten production capabilities through the construction of our own tungsten recovery facilities in 2007. Our development plans provide for an aggregate additional flotation capacity of 15,200 tpd, with facilities to be constructed at four of our other five processing plants (No. 1 Ore Processing Plant, No. 3 Ore Processing Plant, Sanqiang Process Plant and Dadongpo Process Plant) to ensure that the value of the tungsten is not lost in the molybdenum concentrator tailings. All these new tungsten recovery plants, which are wholly-owned by us, are expected to become operational by early 2008.

The operating and production processes for tungsten and molybdenum are similar. Through Yulu, our 40% owned joint venture with Xiamen Tungsten, we have been involved in the extraction of tungsten from molybdenum concentrator tailings produced at our No. 2 Ore Processing Plant. Our Directors and senior management having experience in tungsten operations include Mr Duan Yuxian, Mr Li Faben, Mr Wang Qinxi, Mr Wang Bin and Mr Yang Jianbo.

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For further details on the tungsten recovery process at our Sandaozhuang Mine, please refer to the Minarco Report in Appendix V to this prospectus.

Project development plan for 2007

Our project development plan for 2007 includes:

- the construction of four new tungsten recovery plants with an aggregate flotation capacity of 15,200 tpd;
- the expansion of our No. 3 Ore Processing Plant to a flotation capacity of 5,000 tpd; and
- the construction of a new molybdenum/tungsten downstream processing plant with an annual production capacity of 1,500 tonnes.

The construction of four new tungsten recovery plants will ensure that molybdenum concentrator tailings from our existing flotation plants (except from our Jiuyang Process Plant) can be reprocessed to recover the contained tungsten. Construction of the tungsten recovery plants is expected to be completed by the end of 2007.

The construction of the new molybdenum/tungsten downstream processing plant is expected to be completed by the end of 2008.

UTILITIES

Energy. Our operations require electricity supplied by the local power grid. Currently, we do not have plans to develop our own power generation facilities. During the Track Record Period, we did not experience any power supply suspension or shortages that resulted in a material interruption of our production operations.

Water. We use water sourced from nearby rivers and recycled water in our flotation and smelting operations. During the Track Record Period, we did not experience any water supply interruptions or shortages that resulted in the suspension of our production operations.

For the years ended December 31, 2004, 2005 and 2006, the cost of utilities comprising energy and water expenses accounted for approximately 16.0%, 13.6% and 9.4%, respectively, of our total cost of sales over the corresponding periods.

QUALITY CONTROL

Our manufacturing processes for molybdenum products comply with the standards of the ISO 9001:2000 Quality Management System issued by Quality Assurance Center of China Association for Quality (中質辨質量保證中心). As at December 31, 2006, we had approximately 190 dedicated staff members responsible for quality inspections. Certain staff members from other departments are also involved in quality inspections and assurance.

Our products are subject to our internal quality inspection as well as on-site sampling inspections carried out by the Luoyang branch of the General Administration of Quality Supervision, Inspection and Quarantine (國家質量督檢驗檢疫總局). We conduct quality tests by randomly

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sampling our molybdenum products at least once per month. Detailed inspection reports are submitted to the management for review, and products that fail the examination are not released for sale.

REPAIR AND MAINTENANCE OF FACILITIES

We inspect and maintain our facilities and equipment on a regular basis in accordance with our repair and maintenance manual. As at December 31, 2006, we had a team of approximately 180 staff members responsible for the repair and maintenance of our facilities. The production departments of our headquarters, branches and subsidiaries are responsible for the overhaul and inspection of their respective facilities. The repair and maintenance of our facilities is not expected to lead to a suspension of operations for a long period of time. We did not experience any major technical problems with our key facilities during the Track Record Period.

SALES AND DISTRIBUTION

Sales and marketing

We have established a centralized sales and marketing structure for better pricing and credit control. As at December 31, 2006, our sales team had approximately 40 members. We sell our products directly to our customers. We have well-established relationships with large steel manufacturers in Asia.

In respect of overseas sales, we and Luoyang High Tech, one of our wholly-owned subsidiaries, are licensed to export our products directly. The table below sets forth the amount, in absolute and percentage terms, of our domestic and export sales for the years ended December 31, 2004, 2005 and 2006:

	Year ended December 31,					
	2004		2005		2006	
	Amount (RMB millions)	% of turnover	Amount (RMB millions)	% of turnover	Amount (RMB millions)	% of turnover
PRC	505.3	43.2%	1,126.9	49.0%	2,491.6	65.1%
Overseas	665.1	56.8%	1,173.6	51.0%	1,334.6	34.9%

Approximately 51.0% and 36.3% of our overseas sales in 2006 was generated from sales to customers in Korea and the United States, respectively.

During the Track Record Period, we engaged in marketing activities to promote our products, including sponsoring conventions for molybdenum producers and participating in special trade shows and marketing and promotional fairs.

Pricing

Demand for our molybdenum products is affected by, among other factors, the economic, environmental and government policies in the PRC and in other parts of the world.

We take into account the following factors when we price our products:

- Prices of the same products in the international market and in the PRC domestic market;
- Our production cost and profitability;
- Our relationships with our customers; and
- Demand and supply in the market.

Export license and quota

Pursuant to the Category of Goods Administered under Export Licenses in 2007 (《2007年出口許可證管理貨物目錄》), promulgated by MOFCOM and the Ministry of Customs on December 22, 2006, exports of molybdenum-related products are subject to export license regulations, and exports of tungsten and tungsten products are subject to export quota license regulations from January 1, 2007. The issuance of export licenses for molybdenum-related products is based on “one license for each batch” (“一批一證”), which means that each export license can only be used once at the customs within the term of its validity, which is usually six months. On March 28, 2007, MOFCOM issued a notice seeking to further tighten control over the exports of molybdenum-related products by shortening the term of validity of export licenses to 30 days, which means exporters will need to apply for a new export license if they fail to export the relevant products within the 30-day term of validity under any existing export license. We have been in full compliance with the relevant regulations and have received all the required export licenses for all our exports of molybdenum-related products since January 1, 2007.

Pursuant to the Application Standards and Procedures of Export Licenses for Indium and Molybdenum (《錳、鉬出口許可證申請標準和申報程序》), promulgated by MOFCOM on March 9, 2007, the export licenses for molybdenum-related products producers shall be determined by the MOFCOM based on a number of criteria including, among others, volume of production and export during the past three years (with priority given to integrated producers with an extended product chain and a focus on downstream processing), quality qualification, operating and energy consumption efficiency and environmental certification. Based on the criteria described above, and taking into account the fact that we are a leading integrated molybdenum producer in China with large-scale, world class integrated mining and processing facilities complying with PRC environmental laws and regulations in all material aspects, our Directors believe that we will not encounter any difficulties in obtaining export licenses in the future for the export of our molybdenum-related products.

Recently, there has been market speculation that an export quota system will be imposed on the export of molybdenum products in the PRC in the near future. However, it remains uncertain as to whether or when such export quota system will be introduced and, if so, what form it will take. The impact of such export quota system, including the impact on market prices for molybdenum in the PRC and other parts of the world, if implemented, is unknown. We cannot assure you that our

financial condition and results of operations would not be materially and adversely affected should such export quota system on molybdenum products be introduced and applied to molybdenum exporters such as us.

Tungsten production in China and their export are subject to production allocation quota and export quota, respectively. We have not exported any tungsten products but intend to apply for such quota permit in the future. Other than tungsten products, the production and export of our other products are currently not subject to quota. Our downstream processing of tungsten is not subject to production allocation quota.

Details of the license and quota systems for such products are set out in the sections headed “Industry Overview” and “Regulatory Environment” in this prospectus.

New export tax regulation

According to the Notice on Adjusting the Interim Import and Export Tariff Rate of Certain Commodities 《關於調整部分商品進出口暫定稅率的通知》 issued by the Tariff Regulations Committee of the State Council (國務院關稅稅則委員會) on October 27, 2006, exports of roasted molybdenum ore, roasted molybdenum concentrate (i.e. molybdenum oxide), molybdenum ore and concentrate (excluding roasted concentrate) and ferromolybdenum shall be taxed at a rate of 10% from November 1, 2006.

Our customers

Our customers include domestic and international manufacturers of steel and chemicals, such as POSCO Zhangjiagang, TISCO and WISCO. In recent years, the rapid development of the steel, oil, industrial machinery, automobile and defense industries in the PRC has led to increased demand for our molybdenum products in the PRC.

Sales to our domestic customers in the years ended December 31, 2004, 2005 and 2006 were approximately RMB505.3 million, RMB1,126.9 million and RMB2,491.6 million, respectively, representing approximately 43.2%, 49.0% and 65.1%, respectively, of our turnover for the corresponding periods. Our remaining turnover is generated from overseas sales.

For the years ended December 31, 2004, 2005 and 2006, sales to our single largest customer accounted for approximately 20.7%, 19.2% and 12.2% of our turnover, respectively. Sales to our five largest customers accounted for approximately 46.5%, 47.3% and 45.0% of our turnover for the years ended December 31, 2004, 2005 and 2006, respectively. None of the Directors or Supervisors, or their respective associates or shareholders holding 5% or more of our issued share capital has any interest in our top five customers. Save for Yuhua, which became one of our top five customers for the year ended December 31, 2006, the other top five customers are Independent Third Parties. We have a 33% equity interest in Yuhua.

Prior to December 2006, pursuant to a supply agreement with Yuhua, we sold our products to Yuhua, which, through its distribution channels, on-sold to one of the leading steel producers in China. In December 2006, we entered into a tripartite supply agreement with the steel producer and Yuhua, pursuant to which we have agreed to supply, and the steel producer has agreed to purchase through Yuhua, 240 tonnes of ferromolybdenum per month for three years commencing January 2007. We believe that such long-term cooperation should assist us in developing a closer working relationship with the steel producer and enable us to secure long-term and large-volume sales. In recognition of such long-term and large-volume commitment, we have agreed to make such sales

through Yuhua to the steel producer at a discount to prevailing market prices. Yuhua is responsible for providing logistics services and enjoys the same discount as it previously enjoyed under arrangements prior to December 2006.

Under the tripartite supply agreement, we and Yuhua enter into monthly supply agreements setting out details of the sales including specifications of the products, price and quantity. Yuhua and the steel producer also enter into corresponding monthly supply agreements documenting the terms of the sales between Yuhua and the steel producer. Pursuant to the monthly supply agreements between Yuhua and us, Yuhua takes delivery of our products from us, where upon title to the products passes to Yuhua, and Yuhua makes payment to us within seven days after receiving our invoices. Yuhua delivers the products to the steel producer, and collects payment from the steel producer according to its monthly supply agreements with the steel producer. Under these arrangements, Yuhua has no right of recourse against us for our products sold to Yuhua, and Yuhua assumes the risk if the steel producer fails to make payment to it for the products delivered. In accordance with the IFRS, we recognize the sales to Yuhua after Yuhua takes delivery of the products from us, i.e., when the title to the products passes to Yuhua. In the event of default by insolvency, or failure or inability of Yuhua to perform its obligations under the cooperation agreement, we are obligated under the cooperation agreement to deliver the products to the steel producer, from which we will collect the sales proceeds directly. Under such circumstances, we would still have a claim against Yuhua for any outstanding payment and/or return of products previously delivered to it. There has not been any instance in the past where Yuhua failed to deliver the products to the steel producer which has resulted in any loss to us. Apart from the discounts to the steel producer and Yuhua, our Directors consider the sale terms under the tripartite supply agreement to be generally in line with those of our other major customers. We do not have any supply arrangements with our other customers similar to those with the steel producer and Yuhua.

Payment and delivery

For domestic sales of our products, we deliver our products to our customers or we may require our customers to collect the products from our production facilities. For overseas sales of our products, we usually deliver our products upon receipt of letters of credit issued on behalf of our customers.

For domestic customers, we generally grant credit terms of up to 90 days, depending on the size of the order and the past payment records of the customer. For overseas sales of our products, we accept letters of credit with terms of not more than one month and we generally transport our products to our customers and bear the transportation costs on CIF terms.

SUPPLIERS

The main raw materials purchased by us include explosives and oil. For the years ended December 31, 2004, 2005 and 2006, purchases from our single largest supplier accounted for approximately 11.9%, 11.3% and 6.5% of our total purchases of raw materials, respectively. Purchases from our five largest suppliers accounted for approximately 27.7%, 39.3% and 25.4% of our total purchases of raw materials for the years ended December 31, 2004, 2005 and 2006, respectively. All of our top five suppliers are Independent Third Parties in which none of the Directors or Supervisors, or their respective associates or shareholders holding 5% or more of our issued share capital, has any interest.

We generally receive credit terms of approximately 30 days from our suppliers.

RESEARCH AND DEVELOPMENT

We have a province-accredited research and development center with approximately 130 professionals responsible for the research and development of new technologies, new production know-how and new products. In the past, we have cooperated with domestic and foreign research institutes to enhance our research and development capabilities. We will continue to cooperate with such institutes on a project-by-project basis as and when suitable opportunities arise.

The ore from our Sandaozhuang Mine is processed through a series of processes, including crushing, grinding, flotation and dehydrating. Based on the Minarco Report, our average recovery rate was over 82% in 2006, which is above average compared with other similar PRC operations. We intend to further improve our molybdenum recovery rate through our own research and development efforts and cooperation with suitable parties. We have implemented a number of technologies at our flotation plants, such as the use of flotation column technology (浮選柱技術) coupled with an automatic controlling system to improve our molybdenum recovery rate.

We commenced the operation of a new flotation plant associated with our No. 2 Ore Processing Plant in May 2006, which was designed by the Changsha Nonferrous Design Institute (長沙有色冶金設計研究院). This plant incorporates advanced technologies, processes and equipment that have been used to improve our production efficiency, including:

- Large-scale flotation columns, BSK-40 float selectors and double-screw air compressors to achieve an energy saving of 30% for our flotation process; and
- Low electricity consumption per unit of primary ore of 21 kilo-watts, and water consumption per unit of primary ore of 2.7 cubic meters.

One of our wholly-owned subsidiaries, Luoyang High Tech, a high-tech enterprise certified by the Henan Province Department of Science and Technology (河南省科學技術廳) in December 2005 producing 1,600 tonnes per annum of molybdenum and tungsten metal products, completed construction and commenced operation of one of the world's first molybdenum thread production lines, with an annual production capacity of 160 tonnes of molybdenum thread.

INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, we held four registered trademarks. We have applied for two other trademarks in the PRC and 12 trademarks in Hong Kong. Details of our trademarks and other intellectual property rights are set out in the section headed “Statutory and General Information — Further Information about the Company — Intellectual Property Rights” in Appendix IX to this prospectus.

COMPETITION

We face competition in both the international and domestic markets.

The international market for molybdenum products is an open market. The prices of molybdenum products are principally dependent on supply and demand in the marketplace.

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According to the Roskill Molybdenum Economics Report, apart from us, the leading molybdenum producers in the international market include Corporación Nacional del Cobre de Chile (“Codelco”), Phelps Dodge Mining Co., Rio Tinto plc and Blue Pearl Mining Limited (which recently acquired Thompson Creek Mining Company).

There are a number of small and medium-sized molybdenum producers in China. Although we and JDC are the two leading molybdenum producers domestically, JDC’s products are mainly for export. Our Directors believe that we are a leading supplier in the PRC domestic market.

In May 2004, a notice on “Certain Opinions on Screening and Rectification of Calcium Carbide and Steel Alloy Industries” was issued by the NDRC and other departments and transmitted by the General Office of the State Council 《國務院辦公廳轉發發改委等部門〈關於對電石和鐵合金行業進行清理整頓若干意見〉的通知》. The notice imposed stringent requirements in compliance with environmental protection standards. Refineries (including molybdenum producers) that do not meet these stringent requirements will be closed.

Our Directors believe that the barriers to entry in our industry include access to molybdenum resources, the large scale of production involved in molybdenum production, the high quality of product required by customers, the environmental and safety regulations to be complied with and the industry know-how required. In addition, under the Mineral Resources Law of the PRC, mining enterprises must obtain a mining license to conduct mining operations. Our Directors believe that these governmental measures and barriers to entry are beneficial to us and have the effect of strengthening our competitiveness against smaller molybdenum producers. However, the PRC’s entry into the WTO has resulted and may continue to result in increased competition in the PRC, including a potential increase in the number of alliances between foreign and domestic companies and revisions to regulations designed to protect domestic enterprises. Please refer to the section headed “Risk Factors — Risk Relating to Our Business and Our Industry — We face increasing competition from domestic and foreign competitors” in this prospectus.

EMPLOYEES

As at December 31, 2006, we had approximately 5,200 full-time employees. Please refer to the section headed “Directors, Supervisors, Senior Management and Employees” in this prospectus for further details on our employees and other employment-related matters.

ENVIRONMENTAL COMPLIANCE

We are subject to PRC national and local environmental laws and regulations on matters such as air emissions, discharge of waste water and pollutants, land reclamation, waste disposal and mining control. We had no material breaches of any applicable environmental laws or regulations during the Track Record Period. Our PRC legal advisor confirms that we are in compliance with the applicable environmental laws and regulations of the PRC. Our environmental protection systems and facilities comply with applicable PRC national and local environmental protection laws and regulations in all material respects.

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During the years ended December 31, 2004, 2005 and 2006, we incurred certain penalties arising from non-compliance of environmental regulations and standards, details of which are set out below:

- Penalty expenses of RMB100,000 and RMB38,000 incurred in 2004 by Luomu Group Refining and a small flotation plant of Taibaoshan, respectively, for failure to conform to environmental standards;
- Penalty expenses of RMB80,000 incurred in 2005 by a small flotation plant of Taibaoshan for failure to conform to environmental standards; and
- Penalty expenses of RMB40,000 incurred in 2006 by Luomu Group Refining for inappropriate emission of waste gas.

These penalty expenses were incurred as a result of (i) the inappropriate discharge of waste water from the small flotation operations of Taibaoshan, which violated the relevant environmental safety requirements and (ii) the inappropriate emission of waste gas during smelting operations at Luomu Group Refining. We failed to identify and rectify these breaches on a timely basis in order to avoid penalty charges. This was due to the rapid expansion of our business scale and changes in the interpretation and enforcement of environmental laws and regulations in the PRC. It took us time to catch up with such changes and to implement continuous upgrades to our production facilities. The small flotation plant ceased operations in 2005 following the expansion of our open-pit mine, and we have mitigated air quality emissions by appropriate pollution control systems (flue gas scrubber) which are designed and operated according to the requirements of the relevant regulatory authority. Therefore, our Directors believe that similar events can be avoided in the future. On November 2, 2006, the NDRC issued a notice which states that, among other enterprises, we have met the criteria for being recognized as a qualified iron alloy enterprise. The criteria included meeting the relevant national standards on gas emission and waste water discharge. We intend to further improve our environmental performance through continuous technical upgrades and explore cooperations with international mining partners or mining consulting firms with a view to further minimizing waste gas emissions and waste water discharges in the future.

We have established an environmental control system involving regular internal examinations to detect potential environmental hazards, as well as rectification measures in the areas of waste management, harmful substances handling, and reforestation. Moreover, there has been no evidence of contamination of land resulting from our operations. According to the Minarco Report, there is no evidence of acid forming activity from our operations, nor any evidence of effects on plants or visible effects on waterways, although this will continue to be monitored. Our Department of Safety and Environmental Protection (安環處) is responsible for overseeing and implementing our environmental protection and compliance policy. We conduct regular and spot-check environmental examinations, details of which are set out in the paragraph “Occupational Health and Safety” of this section. We have the following systems in place to address fundamental environmental management and safety management requirements: (i) a safety and environmental protection inspection system; (ii) an on-site dust prevention and management system; (iii) a regulatory compliance management system; (iv) a dangerous area and strategic point-source pollution management system; (v) periodic checks of safety and environmental protection; (vi) management controls for handling, storage and use of explosives and hazardous substances; and (vii) a revegetation scheme of the open-pit ore slag (waste dump). Our rehabilitation plans are prepared in accordance with the Water and Soil Conservation Law of China. For example, we have a nearly 20 hectare area of rehabilitation at the Shuishougou slag dump at the open-pit mine. This rehabilitation program has a total budget of RMB2.5 million and we believe that it has worked well since being

established in spring 2005. We have another rehabilitation plan for areas within two other major slag dumps at the open-pit mine at a total cost of RMB430,000. In addition, we have a waste water recycling system from which part of water for our production processes is obtained. For details of these systems and strategies, please refer to the section headed “Independent Technical Review Report — Environment Safety and Social Assessment” in Appendix V to this prospectus.

We have adopted the following specific measures to ensure that our operations comply with environmental laws and regulations:

- implementing a system under which the relevant member of our Group is fully responsible for any environmental non-compliance matters;
- establishing specific committees which are responsible for the evaluation of environmental compliance at each phase of our operations and our projects under construction;
- strengthening internal environmental compliance training;
- installing automatic waste water monitoring devices at our processing plants;
- engaging a Grade A design firm for the design of tailing discharge systems at our processing plants; and
- establishing a specific program to reduce the acidity of sulfur dioxide discharge.

As at December 31, 2006, we had approximately 200 staff members in our Department of Safety and Environmental Protection. Some of them are appointed to inspect our mining site and ore-processing sites on a regular basis to ensure that all production procedures comply with the relevant laws and regulations. We offer internal environmental compliance training to our employees.

As at the Latest Practicable Date, we were not subject to any material environmental claims, lawsuits, penalties or disciplinary actions. However, the PRC Government is moving towards more rigorous enforcement of environmental laws and regulations and the adoption of more stringent environmental standards. The future imposition of stricter environmental legislation, or more restrictive interpretation or enforcement of current environmental laws and regulations, could have a material adverse effect on our financial condition and results of operations. Please refer to the section headed “Risk Factors — Risks Relating to Our Business and Our Industry — More restrictive interpretation or more rigorous enforcement of current environmental laws and regulations, or the adoption of new environmental laws and regulations, or unanticipated environmental effects from our operations, could require us to incur new or increased costs” in this prospectus.

For the years ended December 31, 2004, 2005 and 2006, we spent approximately RMB35.2 million, RMB16.7 million and RMB24.0 million, respectively, on environmental compliance related activities (such as the purchase of equipment and machinery, the payment of environmental compliance testing fees, the construction of waste water discharge ducts and green zones, and the payment of waste discharge fees). According to our environment control plan which was adopted in early 2007, our expenditure on environmental compliance related activities for 2007 is estimated to be approximately RMB32 million. We expect that our spending associated with environmental compliance requirements will represent approximately 2.0% of our costs of sales going forward.

Our production facilities for molybdenum concentrate, molybdenum oxide, ferromolybdenum and downstream products have been certified to be in compliance with the standards of the ISO 14001:2004 Environmental Management System.

OCCUPATIONAL HEALTH AND SAFETY

Our production facilities are certified to be in compliance with GB/T 28001-2001 Occupational Safety and Health Management System. We have allocated a number of personnel and facility resources for occupational health and safety management matters. We have also established best-practice guidelines and reporting systems relating to occupational health and safety, and provided relevant training to our employees.

We and all of our subsidiaries possess the relevant production safety permits required by PRC workplace safety laws.

We conduct regular internal examinations on safety and environmental compliance on a semi-annual basis, organized and led by the Safety Committee of our Company, and conducted together with personnel from the Department of Safety and Environmental Protection (安環處). At subsidiary and branch company levels, the regular internal examinations are conducted on a quarterly basis, led by the manager or chief deputy manager of the relevant subsidiary or branch company and conducted together with personnel in charge of safety and environmental matters at the relevant subsidiary or the branch company. There are also internal examinations at department and plant level on a monthly basis, led by department and plant managers. Designated safety personnel are responsible for overseeing safety and environmental compliance on a daily basis. In addition, from time to time, we also conduct examinations during periods such as national holidays and winter seasons. These examinations are organized by the Department of Safety and Environmental Protection. No material defects on our safety practices have been identified during our examinations.

Our safety performance during the Track Record Period was consistent with the safety targets set out in our established safety plan. There were no fatalities at any of the Company's operations during the Track Record Period. Our overall injury rate was an average of 0.248% in 2006, which is consistent with our safety plan target of below 0.25% to 0.50% depending on the work area. We did not have any major accidents at our Sandaozhuang Mine or other facilities during the Track Record Period.

During the Track Record Period, we incurred certain penalties in relation to breaches of occupational health and safety rules as a result of the condition of the roads around the Sanqiang plant during a period of road reconstruction. For further details, please refer to the section headed "Financial Information — Description of Selected Income Statement Line Items — Other Expenses" in this prospectus. The road reconstruction has been completed.

In order to provide health care benefits to our employees, we have maintained medical insurance which includes basic medical insurance, supplemental medical insurance and work-related casualty insurance.

According to the Minarco Report, the safety standards at our operations are considered by Minarco to be "above average" by Chinese standards. As part of the plan for the Listing, and consistent with our strategy to improve our production safety performance in the future to a level consistent with international practice, we intend to conduct continual technical upgrades. We also

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intend to explore opportunities to cooperate with international mining partners or mining consulting firms with experience in mine safety to complete a review at all of our operations in order to develop and manage the implementation of safety practices consistent with international practice.

INSURANCE

We maintain insurances, such as pension insurance, medical insurance (including supplemental medical insurance and work-related casualty insurance) and unemployment insurance in accordance with applicable PRC laws and regulations.

We also maintain insurance policies for our major production facilities and other property, plant and equipment in the PRC. These policies cover losses arising from fire, earthquakes and other calamities in respect of buildings, machinery, equipment and automobiles. We also maintain directors' and officers' liability insurance. Currently, we do not maintain business interruption insurance because our Directors believe that such policies are either not readily available in the PRC or would require payment of unacceptably high premiums. We have not made any material claims under our insurance policies and have not experienced any material business interruptions during the Track Record Period.

Our PRC legal advisor has advised us that we are not required to maintain any insurance on environmental damage (including soil and groundwater contamination) under PRC laws and regulations. As such, we have not maintained such insurances.

During the Track Record Period, we did not experience any significant loss or damage to our facilities. We renew insurance policies annually as required by PRC law. Our Directors confirm that, subject to the relevant disclosure in the section headed "Risk Factors — Risks Relating to Our Business and Our Industry — "We may not have insurance coverage that is adequate to cover potential liabilities and losses", our Directors consider the insurance coverage on our assets to be adequate as at the Latest Practicable Date.

LITIGATION AND REGULATORY MATTERS

From time to time, we are involved in legal proceedings in the ordinary course of business. As at the Latest Practicable Date, we were not involved in any legal or arbitration proceedings that we believe would have a material adverse impact on our business, financial condition or operating results, if decided adversely against us.

During the Track Record Period, we were involved in a legal action against Gongda Zhiyuan, which holds a 25% equity interest in Dachuan, our 75%-owned subsidiary. Gongda Zhiyuan failed to make its capital contribution to Dachuan through the transfer of various patents and non-patented technologies to Dachuan pursuant to a joint venture agreement with us, dated December 10, 2002. In November 2006, we filed a lawsuit in the People's Court of Luanchuan seeking to disqualify Gongda Zhiyuan's 25% interest in Dachuan and to rescind the joint venture agreement.

On February 9, 2007, the People's Court of Luanchuan gave a judgment that Gongda Zhiyuan failed to make its capital contribution to Dachuan pursuant to the joint venture agreement and shall not be considered a shareholder of Dachuan. The court further annulled the joint venture agreement, dated December 10, 2002, between Gongda Zhiyuan and us. We were given to understand that Gongda Zhiyuan appealed to the Intermediate People's Court of Luoyang City against the judgment in February 2007. However, as at the Latest Practicable Date, we had not received the formal appeal notice. If the litigation is eventually concluded in our favor, we can apply to the Luoyang

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Administration of Industry and Commerce to register ourselves as the sole shareholder of Dachuan. If the Luoyang Administration of Industry and Commerce registers us as the sole shareholder of Dachuan, the business license of Dachuan will remain valid and will not be revoked as a result of this court case. However, if the judgment and the litigation is eventually concluded in favor of Gongda Zhiyuan, Gongda Zhiyuan will remain as a shareholder of Dachuan, holding a 25% equity interest in it, and the joint venture agreement will continue to be effective, as advised by our PRC legal advisor. Our Directors do not consider that there will be any material impact on us if Gongda Zhiyuan has a final judgment ruled in its favor. We have obtained an indemnity from our Controlling Shareholders for any actual loss, damage or liability that we may incur or suffer in the event our legal action against Gongda Zhiyuan is unsuccessful.

For further details of the court proceeding, please refer to the section headed “Risk Factors — Dachuan’s registration and business license may be revoked as a result of the non-payment of the registered capital by Gongda Zhiyuan, our joint venture partner in Dachuan” in this prospectus.

During the years ended December 31, 2004, 2005 and 2006, we incurred penalties of approximately RMB2.3 million, RMB2.1 million and RMB0.9 million, respectively. These related mainly to surcharges on late tax payments and tax penalties incurred in the PRC. Further details of the penalties are set out in the section headed “Financial Information — Description of Selected Income Statement Line Items” in this prospectus. We have paid all the penalties we incurred and are considering remedial actions such as appointing professional tax consultants after the Listing to advise us on tax-related issues and to improve communications with the relevant tax authorities. We have also engaged Protiviti Shanghai Co., Ltd., an internal control consulting firm, to advise us on enhancement of our internal control system which oversees our daily tax management (such as reviewing the procedures connected with our tax filings). Additionally, we are also considering engaging the tax department of an auditing firm to assist us in tax planning.

Our Directors are of the view that there are no circumstances in relation to our past, current and planned operations, including the operations of our subsidiaries, associates and affiliates, that have or could potentially lead to any material legal dispute or proceedings against us or our subsidiaries, associates or affiliates.

We are in compliance with applicable PRC laws and regulations in all material respects. Furthermore, our Directors are of the view that we have obtained all necessary licenses, approvals and permits that are material for our business operations and that, since our inception, we have been in compliance in all material respects with applicable laws and regulations in all jurisdictions where we operate our businesses.

LAND AND BUILDINGS

Land

As at February 28, 2007, we held 50 parcels of granted land with a total site area of approximately 2,865,624.884 square meters, with land use rights certificates. All of these land parcels are situated at Luoyang City, Henan Province, the PRC.

We have obtained the land use rights certificate for the area of our Sandaozhuang Mine where we have mined. If we decide to mine the other areas of our Sandaozhuang Mine in the future, we will have to apply for, and obtain, the relevant land use right certificate(s) for those areas and have to pay the relevant land premium. We do not intend to mine other areas of our Sandaozhuang Mine at present.

Buildings

As at February 28, 2007, we owned various buildings and structures with a total gross floor area of approximately 253,091.2 square meters. All of them are located in Luoyang City, Henan Province, and they are mainly used as offices, production facilities, dormitories, storage buildings and ancillary facilities. We have been issued the requisite ownership certificates with respect to these buildings.

Processing plants

We have various plants and facilities to carry out our production process, to which, as confirmed by our PRC legal advisor, our Group has obtained all the necessary title certificates. All our plants and facilities are located within close proximity to our Sandaozhuang Mine. Details of the plants and facilities, production capacities, and date commenced operations are set out in the section headed “Business — Our Production Processes and Facilities” in this prospectus.

Property valuation

BMI Appraisals Limited, an independent property valuation firm, has valued our property interests as at February 28, 2007. The text of BMI Appraisals Limited’s letter and summary of valuation, together with the valuation certificates, are set out in Appendix IV to this prospectus.

Our PRC legal advisor has advised us that the use of our properties does not contravene the use specified in the land use rights certificates.