You should read this section in conjunction with our audited consolidated financial statements, including the notes thereto, which are set out in Appendix I "Accountants' Report" to this prospectus. The financial statements have been prepared in accordance with IFRS.

The following discussion and analysis contains certain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, whether actual outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. You should review the section headed "Risk Factors" in this prospectus for a discussion of important factors that could cause our actual results to differ materially from the results described in or implied by the forward-looking statements.

OVERVIEW

We are an integrated producer of molybdenum products. Our primary business operations involve molybdenum mining, flotation, roasting and smelting, and downstream processing.

Our products can be divided into the following five categories and are listed here in sequential order of production process:

- Molybdenum ore;
- Molybdenum concentrate;
- Molybdenum oxide;
- Ferromolybdenum; and
- Other products including ammonium molybdate, molybdenum powder, highly purified molybdenum dioxide and other products such as molybdenum threads, strips, rods and boards, and tungsten metal.

The following table sets out our income statement and other selected financial information for the periods presented, as derived from the Accountants' Report in Appendix I to this prospectus:

	Year ended December 31,		
	2004	2005	2006
	(RMB'000, except per Share data)		
Turnover	1,170,384	2,300,527	3,826,221
Cost of sales	(423,814)	(530,863)	(1,218,789)
Gross profit	746,570	1,769,664	2,607,432
Other income	13,612	13,558	25,502
Selling and distribution expenses	(6,046)	(10,314)	(20,408)
Administrative expenses	(85,897)	(78,935)	(97,178)
Restructuring expenses	(132,190)	(15,000)	—
Other expenses	(75,704)	(35,873)	(19,835)
Finance costs	(15,410)	(14,312)	(48,275)
Share of results of associates	2,263	11,048	7,048
Profit before taxation	447,198	1,639,836	2,454,286
Taxation	(165,880)	(482,509)	(739,821)
Profit for the year	281,318	1,157,327	1,714,465
Profit attributable to:			
Equity holders of the Company	276,289	1,157,327	1,515,263
Minority interests	5,029	—	199,202
	281,318	1,157,327	1,714,465
Dividends	75,000	519,957	760,110
Earnings per Share — Basic[1]	RMB0.08	RMB0.33	RMB0.43

Note:

(1) The calculation of basic earnings per Share is based on the profit attributable to our equity holders for each year and the weighted average number of Shares has been determined taking into consideration the 700,000,000 Shares issued upon the transformation of our Company into a joint stock limited company on August 25, 2006 and has been adjusted for the share split which becomes effective on the date of this prospectus.

The substantial improvement in our financial performance during the Track Record Period was primarily attributable to the overall strong recovery in the prices of molybdenum products and the streamlining of our business as a result of our corporate restructuring. Such improvement was also attributable to increases in our production and sales volumes of molybdenum products resulting from increases in our mining, flotation, roasting and smelting, and downstream processing capacities, and improvements in our recovery rates for our flotation as well as roasting and smelting operations. Pursuant to our corporate restructuring, we disposed of some non-profit generating assets and streamlined our business operations. Details of our corporate restructuring are set out in the section headed "Reorganization and Corporate Structure" in this prospectus.

The table below illustrates average molybdenum spot prices, our annual production volumes and average recovery rates (as indicators of production efficiency) for 2004, 2005 and 2006:

	2004	2005	2006
Annual Production			
Molybdenum ore (tonne)	4,981,010	6,588,894	9,459,542
Molybdenum concentrate (tonne)	10,140	10,291	20,818
Molybdenum oxide (tonne)	5,380	6,950	12,621
Ferromolybdenum (tonne)	1,418	1,599	6,279
Recovery Rate			
Flotation	81.9%	81.5%	82.8%
Roasting	95.8%	96.4%	97.1%
Smelting	98.0%	98.0%	97.9%
Average European spot molybdenum oxide spot prices during the year (US$/lb)	16.3	31.8	24.7

Our Directors are of the view that, given the considerable improvement in the molybdenum industry in general, and that we have substantially expanded our business scale and increased our operating efficiency, we are in a better position, financially and operationally, to withstand temporary circumstances which may have an adverse impact on our financial performance.

The following table sets out our turnover by product category for the years ended December 31, 2004, 2005 and 2006:

	Year ended December 31,		
	2004	2005	2006
		(RMB'000)	
Molybdenum ore	19,401	106,022	34,778
Molybdenum concentrate	316,945	360,535	924,584
Molybdenum oxide	550,111	1,196,801	946,469
Ferromolybdenum	261,406	445,442	1,477,131
Other products	22,521	191,727	443,259
Total	1,170,384	2,300,527	3,826,221

We sell our products to both domestic and overseas customers. Sales to our overseas customers in the years ended December 31, 2004, 2005 and 2006 totalled approximately RMB665.1 million, RMB1,173.7 million and RMB1,334.6 million, respectively, which accounted for approximately 56.8%, 51.0% and 34.9% of our turnover for the corresponding periods. Our remaining turnover for each of these periods was derived from domestic sales.

In December 2006, we entered into a three-year tripartite supply agreement with a major PRC steel producer and Yuhua to supply committed amounts of ferromolybdenum to such steel producer through Yuhua, commencing in January 2007. For details of our arrangements with Yuhua and such steel producer, please refer to the section headed "Business — Our customers" in this prospectus. We believe that our long-term and large-volume sales under this arrangement will increase our overall revenue and reduce unit administrative and transaction costs, although our profitability on such sales may change in the future, including the possibility of a decline.

For the years ended December 31, 2004, 2005 and 2006, our turnover, broken down by geographical area, is set out below:

	Year ended December 31,		
	2004	**2005**	**2006**
		(RMB'000)	
PRC	505,280	1,126,852	2,491,594
Asia (excluding PRC)	560,364	807,460	815,261
U.S.	71,319	302,862	484,020
Europe	33,421	63,353	35,346
Total	1,170,384	2,300,527	3,826,221

FACTORS AFFECTING RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our business and historical financial condition and results of operations have been, and will continue to be, affected by a number of important factors, including the following:

Economic growth globally and in the PRC. Molybdenum has extensive industrial uses. Its demand primarily depends on the state of the global economy and the stability of international trade. The four largest markets for molybdenum are Western Europe, the United States, Japan and the PRC. In recent years, the PRC has become an increasingly important market for molybdenum. Based on the estimates set out in the Roskill Molybdenum Economics Report, the PRC's rapid economic growth has been accompanied by growth in molybdenum consumption at a compound annual rate of approximately 17% from 2000 to 2005. In 2006, approximately 65.1% of our total turnover was derived from domestic sales.

Demand for molybdenum from the steel industry. The increase in global demand for molybdenum in recent years has been driven mainly by the growth of the steel industry in Europe, the United States, Japan and the PRC. The steel industry accounted for approximately 71% of the global molybdenum consumption in 2005, with stainless steel being the principal area of use. Among other major applications of molybdenum in steel production, full-alloy steel, tool steel and high-speed steel have all experienced moderate to strong growth in recent years as a result of their increased use in the automobile, oil and machinery industries.

Price volatility of products. We are exposed to the risk of fluctuations in the price of molybdenum. The international and domestic prices of molybdenum increased from 2002 to 2005, reaching a peak in mid 2005. The prices weakened towards the end of 2005 and rebounded slightly in 2006. Similar to other participants in our industry, we have limited ability to anticipate and manage commodity price fluctuations. Nevertheless, we generally attempt, to the extent possible, to adjust our production volume and product mix to achieve lower production costs and higher average selling prices.

The price movements of our various molybdenum products follow similar trends. Please refer to the section headed "Industry Overview" in this prospectus for the historical fluctuations in molybdenum prices.

Save for mineral resources compensation fees, which are levied as a percentage of sales revenue, none of the other major components of our cost of sales directly correlates with the fluctuations of molybdenum prices. Rather, most of the components of our cost of sales are more related to our production scale, such as raw materials and staff costs. As such, the percentage increase in cost of sales is not in line with the percentage increase in turnover.

Volume of and capacity for production. Our turnover is dependent upon our volume of and capacity for production. The volume of output of our various molybdenum products is constrained by the capacity of particular stages of our manufacturing process. The volume of our output of molybdenum ore is dependent upon the capacity of our mining operations at our Sandaozhuang Mine; the volume of our output of molybdenum concentrate is dependent upon the grade of our ore and the capacity of the flotation process carried out by our six flotation plants; and the volume of output of our molybdenum oxide and ferromolybdenum is dependent upon the roasting and smelting capacity of our wholly-owned subsidiary, Luomu Group Refining. Please refer to the section headed "Business — Our Production Processes and Facilities" in this prospectus for a description of our manufacturing process.

Global supply and production capacity. The demand for and pricing of our molybdenum products are affected by the global supply of molybdenum. The global supply is in turn dependent upon the capacity of our competitors' mining operations and production capabilities. For further details, please refer to the section headed "Risk Factors — We face increasing competition from domestic and foreign competitors" in this prospectus.

Geographic distribution of sales. Our financial performance is affected by the geographical distribution of our customers. Movements in molybdenum prices in the PRC and the other markets in which we sell our products, changes in the PRC's foreign exchange regulations and changes to tax policies on imports and exports all have an impact on our financial performance that varies depending on the geographic distribution of our sales. From time to time, we adjust our sales to different geographic areas based on our views of the market trends in those geographic areas as well as changes in regulations and tax policies.

PRC Government control and policies. The PRC Government exercises a substantial degree of influence over the mining, smelting, downstream processing, and import and export of molybdenum. Certain laws and regulations involve barriers to entry, setting, amending, or abolishing import tariffs, and limitations and duties on the export of certain molybdenum products. The PRC Government also levies import and export tariffs on importers and exporters of molybdenum products, as well as imposing resource taxes (資源稅) and mineral resources compensation fees (礦產資源補償費) on molybdenum miners. Changes in the level of PRC Government control could have a direct impact on our business, financial condition and results of operations. We believe that it is the PRC Government's industrial policy to consolidate the molybdenum industry into one consisting of larger entities. We will attempt to adjust our business strategies and operations to respond to this and to any other evolving PRC Government policy.

PRC income taxation. We have benefited from enterprise income tax reductions for our capital expenditure on equipment that is manufactured in the PRC. Primarily as a result of these tax reductions, our effective tax rate for 2004, 2005 and 2006 was approximately 37.1%, 29.4% and 30.1%, respectively. Our effective income tax rate was generally lower than the statutory income tax rate of 33% during the Track Record Period with the exception of 2004 because of the incurrence of expenses not deductible for tax purposes as a result of the restructuring in 2004. There is no assurance that we will continue to enjoy these tax reductions in the future. The enterprise income tax rate applicable to us is expected to decrease to 25% from January 1, 2008 pursuant to the Enterprises Income Tax Law promulgated on March 16, 2007.

SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies are those that require the management to exercise judgment and to make estimates that would yield materially different results if the management applied different assumptions or made different estimates.

Our financial statements have been prepared in accordance with IFRS. Our principal accounting policies are set out in Note 3 to the Accountants' Report, attached as Appendix I to this prospectus. IFRS requires that we adopt accounting policies and make estimates that our Directors believe are most appropriate in the circumstances for the purposes of giving a true and fair view of our results and financial position. We believe the most complex and sensitive judgments, because of their significance to our financial statements, result primarily from the need to make estimates about the effects of markets that are inherently uncertain. Actual results in these areas could differ from our estimates. We have identified below the accounting policies that we believe are the most critical to our consolidated financial statements and that involve the most significant estimates and judgments.

Turnover recognition

Our turnover is principally derived from sales of molybdenum and related products. Sales of goods are recognized when goods are delivered and title has passed. Turnover is recognized at the fair value of the consideration received or receivable.

Property, plant and equipment

Construction in progress

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

Other property, plant and equipment

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

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives. After taking into account their estimated residual values, using the straight–line method, the estimated useful lives of property, plant and equipment are as follows:

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

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

Mining rights

Mining rights are stated at cost less accumulated amortization and are amortized on a straight-line basis over the shorter of their useful lives estimated based on the total reserves of the mines or contractual period from the date on which they become available for use. We did not accrue or incur any amortization cost in relation to our mining rights until September 2006 as the mining rights were allocated to us for no consideration prior to their renewal in September 2006. The consideration for the renewal of such mining rights in September 2006 was RMB401,485,570. The MLR issued a confirmation letter dated January 30, 2007, confirming the payment of the consideration by six installments (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 made our first installment in September 2006. After Listing, the annual amortization of our mining rights is expected to be approximately RMB26.8 million.

Impairment of tangible assets

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, provided that the increased carrying amount may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

Allowances for doubtful debts

Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debts expenses in the year in which such estimate is changed.

Taxation

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

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

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

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

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

Provisions

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

DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

Turnover

Turnover represents revenue generated from the sale of our molybdenum products to external customers. Our molybdenum products include molybdenum ore, molybdenum concentrate, molybdenum oxide, ferromolybdenum and other products (such as ammonium molybdate and molybdenum powder).

Cost of sales

Cost of sales mainly includes production costs, such as production labor costs, fuel and power costs and auxiliary material costs, depreciation charges and mineral compensation fee payments.

Other income

Other income consists primarily of interest income on bank deposits, interest income on loan receivables, a discount on the acquisition of a subsidiary, gain realized on the disposal of property, plant and equipment, net gain realized on the sale of scrap materials, waiver of long outstanding payables (based on the legal opinion issued by our PRC legal advisor, such waiver complies with the relevant PRC laws and regulations) and government grants received.

Selling and distribution expenses

Selling and distribution expenses consist primarily of salary and travel allowances for sales personnel, advertising and promotion expenses, freight costs and packaging costs. As a result of different categories of products attracting different selling and distribution expenses, the level of these expenses may vary as our product mix changes.

Administrative expenses

Administrative expenses consist primarily of salary and benefits paid to our administrative staff, depreciation charges and maintenance and repair costs relating to properties used for administrative purposes, amortization charges, research and development expenses, travel and entertainment expenses, office-related expenses, legal and professional fees, and certain taxes and government levies including waste discharge fees.

Restructuring expenses

Restructuring expenses refer to the expenses incurred in connection with a series of streamlining exercises which we underwent between 2004 and 2006. These included the conversion of our Company from a wholly State-owned company to a limited liability company with partial private ownership in September 2004 upon CFC's subscription for a 49.0% equity interest in us. These expenses primarily include employee settlement costs arising from employee compensation following the termination of employment by a wholly State-owned company with limited liability and their subsequent re-employment. Please refer to the section headed "Reorganization and Corporate Structure — History and Development" in this prospectus for further details of the Reorganization.

Other expenses

Other expenses primarily consist of losses realized on the disposal of property, plant and equipment, impairment losses on property, plant and equipment, penalty and charitable donations.

As disclosed in Note 9 in the Accountants' Report, the penalty expenses incurred during the years ended December 31, 2004, 2005 and 2006 were approximately RMB2.3 million, RMB2.1 million and RMB0.9 million, respectively.

The penalty expenses incurred during 2004 primarily comprised a surcharge of RMB1,132,653 on late and insufficient tax payment, a penalty of RMB1,032,409 on cross-border underground mining of Taibaoshan and penalties of RMB100,000 and RMB38,000 on failures to conform to environmental standards by Luomu Group Refining and a small flotation plant of Taibaoshan, respectively.

The penalty expenses incurred during 2005 primarily comprised a surcharge of RMB1,996,324 on late and insufficient tax payment and a penalty of RMB80,000 on failure to conform to environmental standards by a small flotation plant of Taibaoshan.

The penalty expenses incurred during 2006 primarily comprised a penalty of RMB767,340 on the delay in handling the land use procedures and payment, a penalty of RMB40,000 on inappropriate emission of waste gas by Luomu Group Refining, a tax penalty of RMB24,160 on incorrect tax treatment of Dachuan, and a penalty of RMB30,000 on the conditions of the roads around the Sanqiang plant during the period of road reconstruction.

The aforesaid tax penalties are mainly related to the Reorganization in 2004, which is not expected to repeat in the future. These penalties were incurred primarily due to the differences between our interpretation of the relevant tax policies and that of the tax and audit authorities. The tax and audit authorities disagreed with our interpretation of the tax policies. We believe that the reasons for the differences in interpretation arose due to the expansion of our businesses, our restructuring which required our judgment on the deductibility of certain restructuring expenses, and changes in, and uncertainties with, local tax regulations and their interpretations. As a result, we had to adjust our tax payments which led to additional tax liabilities and penalty expenses.

We have paid the aforesaid penalties relating to our Reorganization and environmental and safety in accordance with the requirement of relevant administrative authorities and do not expect to face further penalties in the future.

We have taken or are considering to take various remedial measures to enhance internal control and compliance with laws and regulations. We are planning to engage professional tax consultants to advise us on tax-related issues and to improve timely communication with relevant tax authorities. We have engaged Protiviti Shanghai Co., Ltd., an internal control consulting firm, to advise us on enhancements of our internal control system, including our daily tax management (such as reviewing the procedures of tax filings). Additionally, we are considering engaging the tax department of an auditing firm to assist us with tax planning.

Since the launch of our large-scale open-pit mining, we have ceased all of our underground mining and cross-border mining activities (including the small flotation plant of Taibaoshan), which solved the problems associated with these activities. We have taken safety and restoration measures for the previous underground mining area in order to further minimize potential risks in the future. We have in recent years begun to introduce technical upgrade measures to improve environmental protection standards for our smelting production. This has reduced waste gas emissions and waste water discharges and are in compliance with PRC environmental laws and regulations. We intend to conduct continuous technical upgrades and explore cooperation opportunities with international mining partners or mining consulting firms in order to further minimize waste gas emissions and waste water discharges in the future.

Finance costs

Finance costs primarily consist of interest paid on borrowings less amounts capitalized for construction in progress. The capitalized amounts represent borrowing costs directly attributable to the acquisition, construction or production of related assets.

Share of results of associates

We conduct part of our operations through our associates. An associate is a company, that is not a subsidiary nor a jointly controlled entity, in which we have a long-term interest of generally not less than 20% of the equity voting rights, and over which we are in a position to exert significant influence. Our two associates are Yulu and Yuhua.

Our share of results of associates consists of the profits of the associates attributable to us pursuant to our equity interests in the associates or pursuant to the relevant joint venture contracts.

Minority interests

Minority interests represent third-party interests in our consolidated non wholly-owned subsidiaries.

2006 COMPARED TO 2005

The following table sets out the turnover, sales volume and average selling prices of our products in 2005 and 2006:

	Year ended December 31,							
	2005				2006			
	Sales Volume (tonne)	Average Selling Price (RMB/ tonne)	Turnover (RMB in millions)	% of Total Turnover	Sales Volume (tonne)	Average Selling Price (RMB/ tonne)	Turnover (RMB in millions)	% of Total Turnover
Molybdenum ore . . .	1,855,036	57.1	106.0	4.6	780,959	44.6	34.8	0.9
Molybdenum concentrate	1,557	231,535.0	360.5	15.7	5,332	173,405.9	924.6	24.2
Molybdenum oxide . .	4,296	278,584.7	1,196.8	52.0	4,638	204,075.0	946.5	24.7
Ferromolybdenum. . .	1,523	292,514.8	445.5	19.4	6,428	229,791.5	1,477.1	38.6
Other products	N/M(1)	N/M(1)	191.7	8.3	N/M(1)	N/M(1)	443.2	11.6
Total			2,300.5	100.0			3,826.2	100.0

Note:

(1) "N/M" indicates that the aggregation of the sales volume and the average sales price of other products are not meaningful because the "other products" category includes disparate products manufactured by us.

Our sales of molybdenum ore decreased from approximately 1.9 million tonnes in 2005 to approximately 0.8 million tonnes in 2006. The decrease was due to an increase in in-house use of our ore for our downstream processing since the commencement of operations of our No. 2 Ore Processing Plant (began trial-run in April 2006 and commercial operations in June 2006).

The following table sets out the cost of sales, unit cost of sales, gross profit and gross profit margins of our products in 2005 and 2006:

	Year ended December 31,							
	2005				2006			
	Cost of Sales (RMB million)	Unit Cost of Sales (RMB/ tonne)	Gross Profit (RMB million)	Gross Profit Margin (%)	Cost of Sales (RMB million)	Unit Cost of Sales (RMB/ tonne)	Gross Profit (RMB million)	Gross Profit Margin (%)
Molybdenum ore . . .	47.5	25.6	58.5	55.2	27.1	34.7	7.7	22.1
Molybdenum concentrate	63.9	41,040.5	296.6	82.3	246.1	46,155.3	678.5	73.4
Molybdenum oxide . .	234.0	54,469.3	962.8	80.4	270.7	58,365.7	675.8	71.4
Ferromolybdenum. . .	94.2	61,851.6	351.3	78.9	430.9	67,034.8	1,046.2	70.8
Other products	91.2	N/M	100.5	52.4	244.0	N/M	199.2	44.9
Total	530.8		1,769.7	76.9	1,218.8		2,607.4	68.1

Turnover

Turnover increased by 66.3% from RMB2,300.5 million in 2005 to RMB3,826.2 million in 2006. The increase in turnover was primarily attributable to an increase in the sales volume of our molybdenum products, which was partially offset by a decrease in the average selling prices of our products. The increase in the sales volume was primarily due to an overall increase in production resulting from (i) an increase in our mining capacity to 30,000 tpd following our acquisition of a controlling interest in Sanqiang (which has an ore processing capacity of 3,000 tpd), Jiuyang Mining (which has an ore processing capacity of 1,600 tpd) and Dadongpo (which has an ore processing capacity of 3,200 tpd) in January, February and March 2006, respectively, as well as the completion of the expansion of ore processing capacity at our No. 2 Ore Processing Plant by 10,000 tpd in June 2006 (trial run began in April 2006), (ii) an increase in the production of molybdenum oxide and ferromolybdenum made possible by the increased roasting and smelting capacity of our subsidiary, Luomu Group Refining (overall molybdenum oxide capacity and ferromolybdenum capacity were expanded to 18,000 tpa and 8,000 tpa respectively by August 2006), and (iii) an increase in the production of other products, attributable principally to the downstream processing operations of our subsidiaries, Luoyang High Tech and Dachuan, which commenced production in March 2005 and April 2005, respectively. The decrease in the average selling prices of our products was primarily due to an overall decline in molybdenum prices in the domestic and international markets in 2006 as compared to the prices in 2005.

Cost of sales

Cost of sales increased by 129.6%, from RMB530.8 million in 2005 to RMB1,218.8 million in 2006. This increase was primarily due to (i) an increase in our production volume, (ii) an increase in the amount of resource tax (資源稅) payable as a result of an increase in tax rate from RMB0.56 per tonne to RMB8.00 per tonne, effective from January 1, 2006, pursuant to the Notice of Ministry of Finance and the State Administration of Taxation on Adjusting Resource Tax Policy of Taxable Items such as Molybdenum Ore (財政部、國家稅務總局關於調整鉬礦石等品目資源稅政策的通知), (iii) higher processing costs associated with extensive use of lower-grade ore, (iv) amortization of mining rights of RMB9.1 million in 2006, and (v) an increase in export tax paid in 2006 as a result of the new export tax regulation effective on November 1, 2006.

The unit cost of molybdenum ore increased from RMB25.6 per tonne in 2005 to RMB34.7 per tonne in 2006 primarily due to (i) an increase in resource tax (資源稅) from RMB0.56 per tonne to RMB8.00 per tonne effective on January 1, 2006, and (ii) an increase in electricity tariff from RMB0.498 kwh to RMB0.523 kwh effective on June 30, 2006.

The unit cost of molybdenum concentrate increased from RMB41,041 per tonne in 2005 to RMB46,155 per tonne in 2006 primarily due to (i) an increase in the unit cost of molybdenum ore (the feeding material for molybdenum concentrate production) as discussed above, and (ii) higher processing costs associated with extensive use of lower-grade ore.

The unit cost of molybdenum oxide increased from RMB54,469 per tonne in 2005 to RMB58,366 per tonne in 2006. This increase was primarily due to an increase in unit cost of molybdenum concentrate (the feeding material for molybdenum oxide roasting), partially offset by the cancellation of the export tax rebate on molybdenum oxide effective from May 1, 2005. The cancellation of the export tax rebate resulted in no more input value-added tax being charged to cost subsequent to May 1, 2005.

The unit cost of ferromolybdenum increased from RMB61,852 per tonne in 2005 to RMB67,035 per tonne in 2006. This increase was primarily due to an increase in the unit cost of molybdenum concentrate (the feeding material for molybdenum oxide roasting and hence ferromolybdenum smelting).

Gross profit margin

Our overall gross profit margin decreased from 76.9% in 2005 to 68.1% in 2006, primarily as a result of a general weakness in the average selling prices of our major products and an increase in the unit costs of our major products (including the increase in the resource tax (資源稅) on molybdenum by RMB7.44 per tonne). The gross profit margins of our three major products (molybdenum concentrate, molybdenum oxide and ferromolybdenum) all recorded a decrease in 2006 compared to 2005.

Other income

Other income increased from RMB13.6 million in 2005 to RMB25.5 million in 2006. This increase was primarily due to (i) a one-time gain of RMB5.1 million reflecting the difference between the fair value of the assets acquired and the consideration we paid for a 51.0% interest in Sanqiang, (ii) a waiver of long-aged payables of RMB2.1 million which respective creditors are either liquidated or unable to be reached by us for a long period of time and (iii) interest income on bank deposits and loan receivables totaling RMB11.7 million.

Selling and distribution expenses

Selling and distribution expenses increased by 98.1%, from RMB10.3 million in 2005 to RMB20.4 million in 2006, primarily due to (i) an increase in advertising expenses and (ii) an increase in transportation fees paid by us mainly as a result of increased sales volume.

Administrative expenses

Administrative expenses increased by 23.2%, from RMB78.9 million in 2005 to RMB97.2 million in 2006. This increase was primarily due to (i) increases in depreciation and amortization charges, tax payments including property tax, land use tax and stamp duty, research and development expenses, government levies and travel expenses, resulting primarily from the commencement of operations at our downstream processing facilities and the overall increase in the capacity of our molybdenum production, (ii) increased expenses following our acquisitions of controlling interests in Dadongpo, Sanqiang and Jiuyang Mining and (iii) an increase in audit and consulting fees.

Other expenses

Other expenses decreased by 44.8%, from RMB35.9 million in 2005 to RMB19.8 million in 2006. This decrease was primarily due to a decrease in losses on disposal of property, plant and equipment from RMB26.0 million in 2005 to RMB11.3 million in 2006, which was partially offset by goodwill write-off of RMB3.4 million following our acquisitions of controlling interests in Dadongpo and Jiuyang Mining.

Finance costs

Finance costs increased by 237.8%, from RMB14.3 million in 2005 to RMB48.3 million in 2006. This increase was primarily due to an increase in interest paid on bank borrowings from RMB21.9 million to RMB62.4 million to finance (i) our investment in a new flotation plant (now part of the No. 2 Ore Processing Plant), (ii) expansion of our open-pit mining operations, and (iii) the acquisitions of 51% interests in Dadongpo, Sanqiang and Jiuyang Mining. Such increase in finance costs was partially offset by the increased amount of interest capitalized, from RMB9.2 million to RMB15.8 million.

Taxation

Taxation increased by 53.3%, from RMB482.5 million in 2005 to RMB739.8 million in 2006, primarily due to an increase in our taxable profit.

Minority interests

Minority interests were zero in 2005. Minority interests of RMB199.2 million in 2006 reflect the minority stakes in our non-wholly-owned subsidiaries, Dadongpo, Sanqiang and Jiuyang Mining, which we acquired in early 2006.

Profit attributable to equity holders

Profit attributable to equity holders increased from RMB1,157.3 million in 2005 to RMB1,515.3 million in 2006, primarily due to increases in our turnover resulting from an overall increase in our molybdenum production. Primarily due to weaker average selling prices of our molybdenum products in 2006 compared to 2005, our net profit margin after minority interests decreased from 50.3% in 2005 to 39.6% in 2006.

2005 COMPARED TO 2004

The following table sets forth the turnover, sales volume and average selling prices of our molybdenum products in 2004 and 2005:

	Year ended December 31,							
	2004				2005			
	Sales Volume (tonne)	Average Selling Price (RMB/ tonne)	Turnover (RMB million)	% of Total Turnover	Sales Volume (tonne)	Average Selling Price (RMB/ tonne)	Turnover (RMB million)	% of Total Turnover
Molybdenum ore . . .	775,676	25.0	19.4	1.7	1,855,036	57.1	106.0	4.6
Molybdenum concentrate	3,731	84,937.0	316.9	27.1	1,557	231,535.0	360.5	15.7
Molybdenum oxide . .	4,018	136,908.9	550.1	47.0	4,296	278,584.7	1,196.8	52.0
Ferromolybdenum. . .	1,685	155,192.9	261.5	22.3	1,523	292,514.8	445.5	19.4
Other products	N/M	N/M	22.5	1.9	N/M	N/M	191.7	8.3
Total			1,170.4	100.0			2,300.5	100.0

Note: "N/M" indicates that the aggregation of the sales volume and the average sales price of other products are not meaningful because the "other products" category includes disparate products manufactured by us.

The following table sets out the cost of sales, unit cost of sales, gross profit and gross profit margins of our molybdenum products in 2004 and 2005:

	Year ended December 31,							
	2004				2005			
	Cost of Sales (RMB million)	Unit Cost of Sales (RMB/ tonne)	Gross Profit (RMB million)	Gross Profit Margin (%)	Cost of Sales (RMB million)	Unit Cost of Sales (RMB/ tonne)	Gross Profit (RMB million)	Gross Profit Margin (%)
Molybdenum ore . . .	19.3	24.9	0.1	0.5	47.5	25.6	58.5	55.2
Molybdenum concentrate	122.6	32,859.8	194.3	61.3	63.9	41,040.5	296.6	82.3
Molybdenum oxide . .	181.9	45,271.3	368.2	66.9	234.0	54,469.3	962.8	80.4
Ferromolybdenum. . .	92.8	55,074.2	168.7	64.5	94.2	61,851.6	351.3	78.9
Other products	7.2	N/M	15.3	68.0	91.2	N/M	100.5	52.4
Total	423.8		746.6	63.8	530.8		1,769.7	76.9

Turnover

Turnover increased by 96.6% from RMB1,170.4 million in 2004 to RMB2,300.5 million in 2005. This increase was primarily due to (i) an overall increase in the average selling prices of molybdenum ore, molybdenum concentrate, molybdenum oxide and ferromolybdenum, (ii) an increase in the sales volume of our molybdenum ore made possible by an increase in our ore output from 5.0 million tonnes in 2004 to 6.6 million tonnes in 2005, which resulted from an increase in our annual ore production capacity from 5.5 million tonnes to 6.9 million tonnes, and (iii) an increase in the sales volume of our other products resulting from the commencement of production of downstream molybdenum products by our subsidiaries, Luoyang High Tech and Dachuan, which commenced production in March 2005 and April 2005, respectively.

Cost of sales

Cost of sales increased by 25.3% from RMB423.8 million in 2004 to RMB530.9 million in 2005. This increase was primarily due to (i) higher processing costs associated with the more extensive use of our ore, including lower-grade ore, (ii) an increase in labor costs, and (iii) increased production and sales of our downstream molybdenum products. The increase in the market price of molybdenum from 2004 to 2005 enabled us to increase our usage of lower-grade ore profitably.

The unit cost of molybdenum ore increased slightly from RMB24.9 per tonne in 2004 to RMB25.6 per tonne 2005, primarily due to increased labor costs and fuel costs in 2005.

The unit cost of molybdenum concentrate increased from RMB32,860 per tonne in 2004 to RMB41,041 per tonne in 2005. This increase was primarily due to (i) higher processing costs associated with extensive use of lower-grade ore, (ii) increased labor costs, and (iii) higher costs of molybdenum concentrate purchased from third parties for domestic trading purposes.

The unit cost of molybdenum oxide increased from RMB45,271 per tonne in 2004 to RMB54,469 per tonne in 2005. This increase was primarily due to (i) higher unit cost of molybdenum concentrate (the feeding material for molybdenum oxide roasting) and (ii) increased labor costs, partially offset by the cancellation of the export tax rebate on molybdenum oxide effective from May 1, 2005. The cancellation of the export tax rebate resulted in no more input value-added tax being charged to cost subsequent to May 1, 2005.

The unit cost of ferromolybdenum increased from RMB55,074 per tonne in 2004 to RMB61,852 per tonne in 2005. This increase was primarily due to higher unit cost of molybdenum concentrate (the feeding material for molybdenum oxide roasting and hence ferromolybdenum smelting) as well as increased labor costs.

Gross profit margin

As a result of a substantial increase in the average selling prices of our major products (including molybdenum ore) in 2005, our overall gross profit margin increased from 63.8% in 2004 to 76.9% in 2005 despite an increase in unit costs of our major products. The gross profit margins of our three major products (molybdenum concentrate, molybdenum oxide and ferromolybdenum) all recorded a substantial increase in 2005 compared with 2004.

Other income

Other income remained substantially the same at RMB13.6 million in 2004 and 2005. Other income principally comprised bank interest income, interest income on loan receivables, write-off of long outstanding payables, net gain on sales of scrap materials and government grants.

Selling and distribution expenses

Selling and distribution expenses increased by 71.7% from RMB6.0 million in 2004 to RMB10.3 million in 2005, primarily due to increases in transportation and freight expenses, export fees and advertising costs.

Administrative expenses

Administrative expenses decreased by 8.1%, from RMB85.9 million in 2004 to RMB78.9 million in 2005. This decrease was primarily due to a decrease in administrative expenses after the completion of our Reorganization in 2004 and the lower administrative fees for obtaining loan facilities.

Restructuring expenses

Restructuring expenses decreased from RMB132.2 million in 2004 to RMB15.0 million in 2005. The restructuring expenses in 2004 included all the employee settlement cost, loss on dissolution of subsidiaries and other restructuring cost primarily attributable to staff housing compensation expenses. The restructuring expenses in 2005 represented the employee compensation expenses of RMB15.0 million paid to the PRC Government as a compensation to the PRC Government for the termination of our commitment to pay any future education expenses to schools. Please refer to the section headed "Reorganization and Corporate Structure — History and Development" in this prospectus for further details of the Reorganization.

Other expenses

Other expenses decreased by 52.6%, from RMB75.7 million in 2004 to RMB35.9 million in 2005. In 2004, expenses were relatively high due to the impairment loss realized on the closure and write-off of our underground mining facilities.

Finance costs

Despite increased borrowings of RMB598.2 million in 2005, compared with RMB257.4 million in 2004, our finance costs decreased by 7.1%, from RMB15.4 million to RMB14.3 million. This decrease was primarily due to the increased capitalization of interest paid on bank loans from RMB3.8 million to RMB9.2 million.

Taxation

Taxation increased by approximately 190.8%, from RMB165.9 million in 2004 to RMB482.5 million in 2005. This increase was largely due to our increased taxable profit in 2005, partially offset by a tax deduction of RMB18.4 million for our purchase of equipment manufactured in the PRC.

Minority interests

In 2004, we recorded a RMB5.0 million minority interest to reflect a 22.2% equity interest in our subsidiary, Taibaoshan, then held by Taibaoshan's labor union. This 22.2% interest was assigned to us on August 30, 2004 pursuant to the approval by the Luanchuan County Finance Bureau (欒川縣財政局). As a result, minority interests in 2005 were zero.

Profit attributable to equity holders

Profit attributable to equity holders increased by 318.9% from RMB276.3 million in 2004 to RMB1,157.3 million in 2005, and our net profit margin after minority interests increased from 23.6% in 2004 to 50.3% in 2005. This increase was primarily due to the expansion in our production and sales as well as the relatively strong average selling prices of our molybdenum products in 2005.

The net profit margin after minority interests was substantially higher in 2005 compared to 2004. This was primarily due to a substantial increase in the average selling prices of our molybdenum products in 2005.

LIQUIDITY AND CAPITAL RESOURCES

Our cash needs are primarily related to investments in property, plant and equipment, costs and expenses relating to operating activities, and repayment of bank loans. We have historically generated our cash resources from capital contributions from our Shareholders, short-term and long-term bank loans, and operating activities. We recorded a net inflow of cash of RMB53.7 million, RMB217.2 million and RMB469.8 million in 2004, 2005 and 2006, respectively.

We had positive operating cash flow during the Track Record Period. We recorded net current liabilities during the Track Record Period primarily due to our decision to source bank borrowings in the form of short-term bank debt rather than long-term debt. This was done to finance our working capital and capital expenditure requirements in order to take advantage of the lower interest rates of the short-term bank loans. We recorded a net current asset position of RMB573.0 million as at February 28, 2007. Since December 2006, we have taken measures to improve the mix between short-term bank debt and long-term bank debt in order to achieve a better financial structure. We have signed banking facility agreements with our banks. Under these banking facilities, we may borrow up to the credit limit of the respective banking facility, although each withdrawal or renewal is subject to approval by the lending bank. We have not sought to obtain specific comfort letters from the relevant banks for renewal of the bank loans when falling due or for renewal of the banking facilities upon expiry. This is because the banks typically will not issue such comfort letters before the relevant bank loan or banking facility falls due. Our Directors confirm that we have not encountered problems in relation to the renewal of bank loans or facilities in the past. Our Directors also do not believe that we will have such problems in the future in light of our good credit standing and relationships with our principal lending banks. As at December 31, 2006, we secured total banking facilities totaling RMB1,885.3 million, of which RMB1,045.3 million was utilized. Of the total banking facilities, long-term banking facilities amounted to RMB930 million, of which RMB560 million was utilized as at December 31, 2006. The remaining banking facilities were short-term facilities of RMB955.3 million, of which RMB485.3 million was utilized as at December 31, 2006. Despite the recent substantial retirement of short-term bank debt, we expect to have continuous access to short-term bank debt in the future, when needed, based on our good relationship with our banks and our credit status.

As at December 31, 2006, our dividend payables were RMB193.2 million. Such amount of dividend payable had been fully settled by January 2007. At a general meeting held on October 19, 2006, we resolved to distribute to LMG and CFC our distributable profits from May 31, 2006 up to the day immediately preceding the Listing Date (the "Special Dividend"). As at December 31, 2006, our distributable profits were RMB777.3 million. Pursuant to a general resolution passed on March 25, 2007, we declared out of the distributable reserve as at December 31, 2006, part of the Special Dividend totaling RMB720 million to LMG and CFC. Such dividend was fully paid on April 6, 2007 and was financed by our Group's internal cash resources. The rest of the Special Dividend (the "Final Special Dividend"), i.e., the amount of the dividend representing the balance of the distributable profits as at December 31, 2006 (RMB57.3 million) and the distributable profits for the period from January 1, 2007 up to the day immediately preceding the Listing Date, will be declared and paid after the Listing. Assuming the Listing Date is April 26, 2007, we estimate that the Final Special Dividend will be approximately RMB560 million, being the aggregate of the balance of the distributable profits as at December 31, 2006 in the sum of RMB57.3 million and the distributable profits for the period from January 1, 2007 to the date immediately preceding the Listing Date. We will only declare and pay the Final Special Dividend after completion of the Special Audit, which is currently expected to be by July 2007. Our Directors confirm that the payment of the Special Dividend would not adversely affect our financial position taken as a whole, having regard to our strong operating cash flow, our unutilized banking facilities and the expected timing of the payment.

We plan to fund the capital expenditures and related expenses described in this prospectus with cash from operating activities, net proceeds from the Global Offering and short-term and long-term borrowings. Based on the availability of banking facilities, our operating cash flow and net proceeds from the proposed Global Offering, our Directors anticipate that we will have sufficient funds to meet our working capital requirements and financing requirements for our capital expenditures for at least the next 12 months from the date of this prospectus.

CASH FLOW DATA

The following table sets below certain information regarding our consolidated cash flows for the periods indicated:

	Year ended December 31,		
	2004	**2005**	**2006**
	(RMB in millions)		
Net cash from operating activities	417.3	1,110.8	1,298.5
Net cash used in investing activities	(276.7)	(749.3)	(694.7)
Net cash used in financing activities	(86.9)	(144.3)	(134.0)
Increase in cash and cash equivalents	53.7	217.2	469.8
Cash and cash equivalents at January 1	86.7	140.4	357.6
Cash and cash equivalents at end of year	140.4	357.6	827.4

CASH FLOW FROM OPERATING ACTIVITIES

Cash inflow from operating activities increased to RMB1,110.8 million in 2005 from RMB417.3 million in 2004. This increase was primarily due to an increase in our profit before tax and an increase in trade and other payables, which were partially offset by an increase in trade and other receivables and an increase in inventories.

Cash inflow from operating activities increased to RMB1,298.5 million in 2006 from RMB1,110.8 million in 2005. This increase was primarily due to an increase in our profit before tax and, partially offset by a decrease in trade and other payables and an increase in trade and other receivables.

CASH FLOW FROM INVESTING ACTIVITIES

In 2004, 2005 and 2006, net cash outflow from investing activities was RMB276.7 million, RMB749.3 million and RMB694.7 million, respectively. The cash was used primarily for the expansion of our production capacities. The cash outflow was primarily due to purchases of property, plant and equipment.

CASH FLOW FROM FINANCING ACTIVITIES

In 2004, net cash outflow from financing activities was RMB86.9 million. Such net cash outflow was primarily the net effect of repayment of bank borrowings of RMB408.1 million, dividend payments of RMB75.0 million, interest payments of RMB19.3 million, new bank borrowings of RMB285.3 million, a capital injection of RMB137.2 million, contributions from shareholders amounting to RMB41.0 million and an increase in amount due from a shareholder of RMB34.6 million.

In 2005, net cash outflow from financing activities was RMB144.3 million. Such net cash outflow was primarily the net effect of dividends paid to shareholders of RMB497.7 million, repayment of bank borrowings of RMB246.7 million, interest payments of RMB21.9 million, new bank borrowings of RMB587.5 million and a decrease in amount due from a shareholder of RMB34.6 million.

In 2006, net cash outflow from financing activities was RMB134.0 million. Such net cash outflow was primarily the net effect of repayment of bank borrowings of RMB1,298.0 million, dividends paid to shareholders of RMB589.2 million, interest payments of RMB46.6 million, new bank borrowings of RMB1,743.1 million and the issue of new shares raising RMB53.7 million.

WORKING CAPITAL

Taking into account the estimated net proceeds from the Global Offering, available banking facilities and cash flows from our operations, our Directors confirm that we have sufficient working capital for our operations for at least the next 12 months from the date of this prospectus.

Inventory analysis

The following table shows a summary of our inventory balance as at the respective balance sheet dates below, as well as the average inventory turnover days:

	As at December 31,		
	2004(1)	**2005(2)**	**2006(2)**
	(RMB in millions, except average inventory turnover)		
Raw materials	34.2	44.3	98.2
Work in progress	4.8	39.6	11.8
Finished goods	16.8	80.0	110.7
Total	55.8	163.9	220.7
Turnover of average inventory (days)	48.1	75.5	57.6

Notes:

(1) Average inventory is measured at the end of the period. Turnover of average inventory, in days, is the average inventory divided by cost of sales multiplied by 365.

(2) Average inventory is the inventory at the beginning of the period plus the inventory at the end of the period with the sum divided by two. Turnover of average inventory, in days, is the average inventory divided by cost of sales multiplied by 365.

Our turnover of average inventory increased from 48.1 days in 2004 to 75.5 days in 2005 due to our increased exports of ferromolybdenum. We increased our exports of ferromolybdenum in 2004, in anticipation of the abolition of the tax rebate granted by the PRC Government to exporters of ferromolybdenum effective January 1, 2005. Such increased exports of ferromolybdenum resulted in a lower inventory of ferromolybdenum at the end of 2004.

Our turnover of average inventory days decreased from 75.5 days in 2005 to 57.6 days in 2006, primarily due to an increase in cost of sales resulting mainly from increased sales volume.

Certain raw materials, mainly specific spare parts and components required for our molybdenum production, which are not readily available in the local province where we operate, can be outstanding for more than one year. Our general practice is to order for such spare parts and components well in advance and maintain sufficient inventory of such spare parts and components so as to avoid any disruption to our operations. Accordingly, the utilization rate of raw materials is relatively lower than that of work in progress and finished goods.

Trade and bill receivables

Our trade and bill receivables represent receivables from the sales of our products. The following table sets out the turnover of our average trade and bill receivables for the periods indicated:

	Year ended December 31,		
	2004(1)	**2005(2)**	**2006(2)**
		(days)	
Turnover of average trade and bill receivables. . . .	37.5	27.6	41.1

Notes:

(1) Average trade and bill receivables is measured at the end of the period. Turnover of average trade and bill receivables in days equals average trade and bill receivables divided by turnover for the relevant period multiplied by 365.

(2) Average trade and bill receivables equals trade and bill receivables at the beginning of the period plus trade and bill receivables at the end of the period divided by two. Turnover of average trade and bill receivables in days equals average trade and bill receivables divided by turnover for the relevant period multiplied by 365.

Our turnover of average trade and bill receivables decreased slightly from 37.5 days in 2004 to 27.6 days in 2005. In 2006, the turnover of average trade and bill receivables increased to 41.1 days. The increase was primarily due to an increase in trade and bill receivables in the last quarter of 2006 as we offered better sales credit terms to our customers.

The table below sets out an ageing analysis of our trade and bill receivables, as at the balance sheet dates indicated:

	As at December 31,		
	2004	2005	2006
		(RMB'000)	
0–90 days	119,982	139,244	582,016
91–180 days	454	80,277	36,791
181–365 days	5,461	5,867	676
1–2 years	4,567	7,115	15,975
>2 years	1,214	5,866	5,536
	131,678	238,369	640,994
Less: Allowance for doubtful debt	(11,391)	(10,455)	(7,535)
Total	120,287	227,914	633,459

Trade payables

Our trade payables represent the purchase of raw materials from various suppliers. The following table sets out the turnover of our average trade payables for the periods indicated:

	Year ended December 31,		
	2004(1)	2005(2)	2006(2)
		(days)	
Turnover of average trade payables	59.8	49.3	25.1

Notes:

(1) Average trade payables is measured at the end of the period. Turnover of average trade payables in days equals average trade payables divided by cost of sales for the relevant period multiplied by 365.

(2) Average trade payables equals trade payables at the beginning of the period plus trade payables at the end of the period divided by two. Turnover of average trade payables in days equals average trade payables divided by cost of sales for the relevant period multiplied by 365.

Our turnover of average trade payables decreased from 59.8 days in 2004 to 25.1 days in 2006. Such a decrease was largely due to (i) sufficient cash balance on hand, enabling us to settle our trade payables promptly, and (ii) fluctuations in the end-of-period balances of trade payables. Please refer to the section headed "Business — Suppliers" in this prospectus for further details on our suppliers.

The table below sets out an ageing analysis of our trade payables, as at the balance sheet dates indicted:

	As at December 31,		
	2004	2005	2006
		(RMB'000)	
0–90 days	30,985	28,445	58,959
91–180 days	10,958	14,114	14,522
181–365 days	21,909	25,124	8,269
1–2 years	5,634	6,182	11,862
Total	69,486	73,865	93,612

Other receivables and other payables

The following table sets out, by principal category, our other receivables as at the balance sheet dates indicated:

	As at December 31,		
	2004	2005	2006
		(RMB'000)	
Advances for staff disbursement(1)	5,508	6,293	6,168
Prepayments(2)	21,742	28,377	25,525
Deposits(3)	3,072	6,420	6,398
Others	1,000	2,206	9,424
	31,322	43,296	47,515

Notes:

(1) Consist of advances made to our employees for travel and other expenses relating to our business operations.

(2) Consist primarily of prepayments made to our suppliers for raw materials.

(3) Consist primarily of amounts held by third parties as deposits for our future purchase of raw materials and spare parts.

Advances for staff disbursements increased from RMB5.5 million as at December 31, 2004 to RMB6.3 million as at December 31, 2005 and RMB6.2 million as at December 31, 2006. This increase was due to an increase in the sales volume of our products, leading to an increase in the advances made to our employees' travel and other expenses relating to our business operations.

Our prepayments increased from RMB21.7 million as at December 31, 2004 to RMB28.4 million as at December 31, 2005. This increase was due to an increase in the sales volume of our products, leading to an increase of prepayments for purchases of raw materials. Between December 31, 2005 and December 31, 2006, our prepayments decreased from RMB28.4 million to RMB25.5 million. This decrease was due to utilization of our prepayments and lesser prepayments made in 2006. In addition, our deposits increased from RMB3.1 million as at December 31, 2004 to RMB6.4

million as at December 31, 2005 and remained stable at RMB6.4 million as at December 31, 2006. This change was primarily due to the change in deposits made to third parties related to purchases of raw materials and spare parts as a result of our business needs.

The following table sets out, by principle category, our other payables and accruals as at the balance sheet dates indicated:

	As at December 31,		
	2004	2005	2006
		(RMB'000)	
Payables in respect of mining rights(1)	—	—	360,337
Advances from customers	7,014	45,324	24,487
Accrued wages	20,650	32,276	18,054
Accrued retirement benefit cost	10,372	10,209	1,354
Other staff benefits payable	20,230	6,871	4,865
Payables in respect of purchase of property, plant and equipment and construction materials	27,415	77,928	170,759
Payables in respect of land use rights	—	3,907	—
Mineral resources compensation fees payable(2)	14,384	48,289	26,959
Other tax payables	60,692	24,503	58,330
Payables in respect of employee settlement cost(3)	19,684	19,145	4,374
Others(4)	39,172	38,956	37,290
	219,613	307,408	706,809

Notes:

(1) Consist of payables in respect of mining rights acquired by us in 2006.

(2) Consist of amounts payable to the PRC Government in relation to the mineral resources compensation fee payable by us in each year/period. It is calculated on the basis of a ratio of the sales income of mineral by reference to the compensation fee rate and coefficient of mining recovery rate.

(3) Payables in respect of employee settlement cost due within one year represent amounts payable to qualified contracted employees of the Group as a result of the Reorganization in 2004 as disclosed in note 8(b)(i) in the Accountants' Report on Appendix I to this prospectus. Since the qualification status of these contracted employees is subject to confirmation from the relevant PRC authorities, certain balances were still outstanding as at December 31, 2004, 2005 and 2006, a portion of the balance was settled in December 2006 and, based on the current information available to the Directors, the remaining balance will be settled within one year from the balance sheet date.

(4) Consist primarily of transportation expenses payable, accrued expenses arising from our business operations and disbursements to suppliers and others for payments that they made on behalf of us.

Other payables and accruals mainly comprised payables in respect of mining rights, advances from customers, accrued wages, payables in respect of purchase of property, plant and equipment and construction materials, mineral resources compensation fees payable and other tax payables. Between December 31, 2005 and December 31, 2006, the total outstanding amount of other payables and accruals increased from RMB307.4 million to RMB706.8 million. This increase was primarily due to an increase in payables in respect of purchase of property, plant and equipment and construction materials, as well as the payables in respect of our mining rights. Between December 31, 2004 and December 31, 2005, the other payables and accruals increased from RMB219.6 million to RMB307.4 million. This increase was primarily due to an increase in payables in respect of purchase of property, plant and equipment and construction materials, advances from customers and mineral resources compensation fees payable.

Held-for-trading investments

The following table sets out our held-for-trading investments as at the balance sheet dates indicated:

	As at December 31,		
	2004	2005	2006
		(RMB'000)	
Quoted debentures	—	60,000	60,348
Quoted unit trust	—	—	40,140
Marketable securities	—	—	1,000
Investments funds	510	510	—
Other debentures	5	5	5
	515	60,515	101,493

Breakdown of quoted debentures:

	As at December 31,		
	2004	2005	2006
		(RMB'000)	
Note 1	—	10,000	10,000
Note 2	—	50,000	50,348
	—	60,000	60,348

Notes:

(1) The debentures are unsecured, carry interest at 3.11% per annum and will mature on August 28, 2015.

(2) The debentures carry interest at 2.83% per annum and will mature on August 25, 2012. As at December 31, 2005, the debentures were used to secure short-term banking facilities granted to the Company.

Quoted unit trust represents an amount invested in a unit trust managed by Bank of China. According to the terms of the agreement with Bank of China, there is no expiry date on the duration of the arrangement and the annual return is expected to be not lower than the return from treasury bonds of the PRC for the same period.

Held-for-trading investments increased from RMB0.5 million as at December 31, 2004 to RMB101.5 million as at December 31, 2006. This increase was due to increased investment by utilizing our excess funds to increase returns for our Shareholders.

The fair value of the above held for trading investments are determined based on the bid prices quoted by the banks.

Although we do not currently have any strategy of maintaining or increasing our held-for-trading investments, we may invest some of our excess cash in held-for-trading investments or money market instruments in the future provided that such investment does not affect our core business and such investment can enhance returns to our Shareholders.

Available-for-sale investments

Our investment in unlisted equity securities (on a Group basis) amounted to RMB2.3 million as at December 31, 2006. It represented our investments in private entities established in the PRC, which are set out below:

Name of unlisted entity	Cost of investment (RMB)	Month of purchase	Return (RMB)
Henan Qianjin	200,000	May 2005	N/A
Miaozi Credit Cooperative Union (廟子信用社)	100,000	November 2004	3,519
Lengshui Credit Cooperative Union (冷水信用社)	2,000,000	November 2004	70,560

Loan receivables

The table below sets out our loan receivables as at the balance sheet dates indicated:

	Period	At December 31, 2004	2005	2006
			(RMB'000)	
Yichuan Electric Power Group Corp. Baoyushan Coal Mine[(1)]	November 24, 2004 to May 24, 2005	50,000	20,000	—
Luoyang Baima Group Co., Ltd.[(2)]	RMB50 million: June 7, 2005 to December 6, 2005 RMB30 million: May 19, 2005 to November 18, 2005	—	80,000	—
Luoyang City Xinlongan Real Estate Co., Ltd.[(1)]	December 1, 2005 to November 29, 2006	—	10,000	—
Total		50,000	110,000	—

Notes:

(1) The amounts at the balance sheet date represent fixed rate loans arranged through banks. The loans were secured, bearing interest ranged from 5.74% to 7.2%, repayable on demand in the relevant periods. Amount has been subsequently settled.

(2) As at December 31, 2005, RMB80 million represented fixed rate loans arranged through a bank, which carried interest at 4.96% per annum. The amounts were secured by certain property, plant and equipment of Luoyang Baima Group Co., Ltd. and were repayable on demand. The RMB80 million loan receivables were repaid on October 20, 2006.

According to the General Principles of Loans and the judicial interpretation of Supreme Court of the PRC, a company can entrust the bank to provide a loan to other entities. As the entrusted loans had been approved by our Shareholders and our Board, we believe the entrusted loans were lawful.

Except for Luoyang Baima Group which is a related company of the Group, all other entities are Independent Third Parties.

As at December 31, 2006, we did not have any outstanding loan receivables.

TAXATION

Except for Luoyang High Tech, our Group is subject to enterprise income tax levied at a rate of 33% of taxable income determined in accordance with the relevant laws and regulations in the PRC. Luoyang High Tech is regarded as a high technology enterprise and is subject to an enterprise income tax rate of 15% with the exemption from enterprise income tax of its first two years of profits. The enterprise income tax rate applicable to us is expected to decrease to 25% from January 1, 2008 pursuant to the Enterprises Income Tax Law promulgated on March 16, 2007.

Pursuant to the government notice of (Cai Shui Zi [2000] No. 49) 財稅字[2000]49號, we are entitled to a tax reduction, which is calculated as 40% of the additions of PRC produced plant and equipment for production use in 2004 and 2005. The tax reduction is, however, limited to the amount of increase in enterprise income tax for the current year in which the plant and equipment are acquired as compared with the tax amount of the preceding year. The portion of the tax reduction that is not utilized can be carried forward for future application for a period of not more than five years from the year in which the plant and equipment are acquired. We utilized such tax reduction in 2004 and 2005.

Our effective tax rate for 2004, 2005 and 2006 was 37.1%, 29.4% and 30.1%, respectively. Our effective tax rate during the Track Record Period was generally lower than the domestic enterprise income tax rate of 33% because of tax deductions discussed above, with the exception of 2004 because of incurrence of expenses not deductible for tax purposes as a result of the restructuring that year.

Taxation for the Track Record Period can be reconciled to the profit before taxation as follows:

	Year ended December 31,		
	2004	2005	2006
		(RMB'000)	
Profit before taxation	447,198	1,639,836	2,454,286
Tax at the domestic income tax rate of 33%	147,575	541,146	809,914
Tax effect of expenses not deductible for tax purposes(1)	51,191	6,918	1,837
Transfer to capital reserve deductible for tax purposes but not charge to income under IFRS(2)	(23,669)	(36,436)	(62,533)
Tax effect of income not taxable for tax purposes(3)	(1,886)	(7,100)	(7,071)
Reduction of income tax in respect of tax benefit	(6,584)	(18,375)	—
Tax effect of share of results of associates	(747)	(3,644)	(2,326)
Tax charge for the year	165,880	482,509	739,821

Notes:

(1) Consists primarily of restructuring expenses, donations and education expenses, penalty, loss on dissolution of subsidiaries, accrual expenses and expenses exceeding taxable allowances which are not deductible for tax purposes under PRC Tax Law.

(2) Pursuant to regulations in the PRC relating to the mining industry, we are required to transfer an amount to the capital reserve account which is deductible for PRC tax purposes. The amount is calculated as the shortfall of the amount of depreciation on property, plant and equipment in respect of mines and the amount calculated based on the volume of molybdenum ore extracted each year and at the applicable rate per tonne of molybdenum ore. This expense is not charged to income under IFRS.

(3) Consists of government grants and income on discount on acquisition of a subsidiary which are not taxable for tax purposes under PRC Tax Law.

Tax Payable

The table sets out our tax payables as at the balance sheet dates indicated:

	As at December 31,		
	2004	**2005**	**2006**
		(RMB'000)	
Enterprise income tax payables	189,015	292,183	300,059

The increase in tax payable during the Track Record Period was primarily due to substantial increases in our taxable profits as a result of the expansion of our business as well as a generally strong price performance of our products during the Track Record Period.

INDEBTEDNESS

Bank borrowings

The table below sets out our bank borrowings as at the dates indicated:

	As at December 31,		
	2004	**2005**	**2006**
		(RMB in millions)	
Bank loans repayable:			
on demand or within one year.	257.4	518.2	555.3
more than one year but not exceeding five years	—	80.0	490.0
Total	257.4	598.2	1,045.3

As at December 31, 2004, 2005 and 2006, we had outstanding bank loans guaranteed by Independent Third Parties of RMB102.7 million, RMB380.1 million and RMB805.3 million, respectively. All such guarantees by Independent Third Parties will be released upon Listing.

Our debt primarily consists of bank loans. A majority of our borrowings is short-term to take advantage of the lower annual interest applicable to short-term borrowings. As at December 31, 2006, the effective interest rates for our borrowings ranged from 3.00% to 6.80% and the weighted average interest rate of our borrowings was 5.92%. The renewal of our short-term loans is subject to approval by the lending banks.

As at December 31, 2006, we secured total banking facilities amounting to RMB1,885.3 million, of which RMB1,045.3 million was utilized. Of the total banking facilities, long-term banking facilities amounted to RMB930.0 million, of which RMB560.0 million was utilized by the end of 2006. The remaining banking facilities were short-term facilities amounting to RMB955.3 million of which RMB485.3 million was utilized. Under these banking facilities, we may borrow up to the credit limit of the respective banking facility, although each withdrawal or renewal is subject to approval by the lending bank. We have not sought to obtain specific comfort letters from the relevant banks for renewal of the bank loans when falling due or for renewal of the banking facilities upon expiry as the banks typically will not issue such comfort letters before the relevant bank loan or banking facility falls due. Our Directors confirm that we have not encountered problems in relation to the renewal of bank loans or facilities in the past. Our Directors do not believe that we will have such problems in the future in light of our good credit standing and relationships with our principal lending banks.

As at February 28, 2007, our total bank borrowings amounted to RMB1,195.3 million. In addition, we had aggregate banking facilities of RMB1,890.3 million, of which RMB1,195.3 million had been utilized as at February 28, 2007. Our Directors confirm that there have been no material changes in our indebtedness since February 28, 2007.

The following table sets out our current assets, current liabilities and net current assets as at February 28, 2007:

	As at February 28, 2007
	(RMB in millions)
Current assets	
Inventories	223
Trade and other receivables	493
Amount due from an associate	3
Land use right — current portion	5
Held-for-trading investments	61
Pledged bank deposits	7
Bank balances and cash	1,256
Total	2,048
Current liabilities	
Trade and other payables	435
Tax payable	430
Bank borrowings — due within one year	610
Total	1,475
Net current assets	573

Contingent liabilities

The table below presents our contingent liabilities as at the dates indicated:

	As at December 31,		
	2004	2005	2006
	(RMB in millions)		
Guarantees given to banks in connection with banking facilities granted to and utilized by Independent Third Parties	17.0	424.0	—

As at the Latest Practicable Date all the guarantees given to banks in connection with banking facilities granted to Independent Third Parties had been released.

We currently are not a party to any litigation that is likely to have a material adverse impact on our business, results of operations or financial condition.

Save as mentioned above, our Directors confirm that there has been no material change in our contingent liabilities since December 31, 2006.

Capital commitments

The following table presents our capital commitments as at the dates indicated:

	As at December 31,		
	2004	2005	2006
	(RMB in millions)		
Commitments for the acquisition of property, plant and equipment contracted for	272.8	26.1	92.1

Our Directors confirm that there has been no material change in our commitments since December 31, 2006.

Capital expenditure

Our capital expenditure generally comprises purchases of property, plant and equipment. The following table shows our capital expenditure on property, plant and equipment for the periods indicated:

	Year ended December 31,		
	2004	2005	2006
	(RMB millions)		
Property, plant and equipment	147.9	560.5	738.4

For the year ended December 31, 2004, our capital expenditure was mainly used for (i) expansion of our open-pit mining operations, (ii) expansion of No. 2 Ore Processing Plant, (iii) increasing Dachuan's downstream processing capability, (iv) expansion of No. 3 Ore Processing

Plant, (v) the construction of a pump separation and the crushing facilities, (vi) relocation of our smelting facilities, (vii) maintenance of our tailings facilities and (viii) purchase of construction materials.

For the year ended December 31, 2005, our capital expenditure was mainly used for (i) expansion of our open-pit mining operations at our Sandaozhuang Mine, (ii) development of our downstream processing of molybdenum-related products, (iii) construction of the Luomu Building, (iv) expansion of the ore-processing capabilities in No. 2 Ore Processing Plant and (v) investments in equipment and projects.

For the year ended December 31, 2006, our capital expenditure was mainly used for (i) ongoing expansion of open-pit mining operations at the Sandaozhuang Mine, (ii) ongoing construction of downstream processing of molybdenum-related products at Dachuan, (iii) construction of Luomu Building, (iv) development of molybdenum-related chemical products, (v) technology upgrade at No. 2 Ore Processing Plant, (vi) development of Luoyang High Tech's downstream processing of molybdenum and tungsten products, (vii) expansion of the ore processing capabilities at No. 3 Ore Processing Plant and (viii) other investments in equipment and projects.

We intend to fund our planned capital expenditure through a combination of the proceeds of the Global Offering, bank loans, and cash flow from operating activities. Please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus.

For the year ending December 31, 2007, our major planned capital expenditure totals RMB728.8 million which is expected to include the following projects:

	Estimated amount of expenditure
	(RMB in millions)
• ongoing development of Luoyang High Tech's downstream processing of molybdenum and tungsten related products	202.3
• ongoing expansion of the ore-processing capabilities at No. 3 Ore Processing Plant	156.7
• ongoing construction of the Luomu Building	203.0
• development of tungsten recycling project at Dadongpo	58.1
• development of tungsten recycling project at Sanqiang	54.5
• development of tungsten recycling at No. 1 Ore Processing Plant	54.2
Total:	728.8

We must obtain PRC Government approvals for any projects involving significant capital investments in our operations. All of our projects as mentioned above have been approved by the relevant PRC authorities.

In addition, we have the intention to build a new molybdenum roasting and smelting plant with a designed roasting capacity of approximately 40,000 tpa. The total cost associated with the plant is estimated to be approximately RMB800 million. However, such plan is still at a very preliminary stage. Whether we are going to or are able to build this plant, and the timing of the construction of this plant, will depend on a detailed feasibility study which has yet to be completed, market conditions and outlook, domestic regulatory approval process as well as our financial resources.

Our anticipated capital expenditure beyond 2007 is subject to change based upon the evolution of our business plan, including the progress of our capital projects, market conditions, domestic regulatory environment and our outlook on future business conditions.

MARKET RISKS

We are, in the normal course of business, exposed to market risks relating primarily to fluctuations in commodity prices, as well as credit risks and interest rate risks. Our risk management strategy aims to minimize the adverse effects of these risks on our financial performance.

Molybdenum prices

The prices of our products are impacted by international and domestic market prices and changes in global supply and demand for such products. Fluctuations in both global and domestic prices and demand for our products are beyond our control. Price volatility of molybdenum is also affected by the global and PRC economic cycles as well as the fluctuations of the global currency markets. As the pricing of our products correlates with global and domestic molybdenum prices, any significant decrease in molybdenum prices may materially and adversely affect our financial condition and results of operations.

Interest rates

Our exposure to interest rate risk relates primarily to our short-term and long-term bank borrowings, which totalled approximately RMB1,045.3 million as at December 31, 2006. An increase in prevailing interest rates would lead to an increase in interest cost on our short-term borrowing when such debt is rolled over. To date, we have not entered into any type of interest rate agreements or derivatives, which are generally not available in the PRC, to hedge against interest rate fluctuations. To the extent that we do so in the future, we cannot assure you that any future hedging activities will protect us from fluctuations in interest rates.

Foreign exchange

We conduct operations primarily in China and sell our products to customers in various foreign countries. Our exposure to exchange rate fluctuations results primarily from the receipt of most of our export revenue in U.S. dollars. We do not currently have a formal hedging policy in place and have not entered into any foreign currency exchange contracts or derivatives transactions to hedge our currency risk. To the extent that we decide to do so in the future, we cannot assure you that any such hedging activities will protect us from fluctuations in exchange rates.

Inflation

In recent years, China has not experienced significant inflation, and therefore inflation has not had a significant effect on our business during the Track Record Period. According to the Bureau of Statistics, China's overall national inflation rate, as represented by the general consumer price index, was approximately 3.9% and 1.8% in 2004 and 2005, respectively.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

As at the Latest Practicable Date, we confirm that there are no circumstances that will give rise to a disclosure requirement under Rule 13.13 to Rule 13.19 of the Listing Rules.

PROFIT FORECAST FOR THE SIX MONTHS ENDING JUNE 30, 2007

Our Directors forecast that, on the bases and assumptions set out in Appendix III to this prospectus and in the absence of unforeseeable circumstances, the forecast consolidated profit attributable to our Shareholders for the six months ending June 30, 2007 will not be less than RMB950 million (equivalent to approximately HK$960 million). The profit forecast for the six months ending June 30, 2007 has been prepared by our Directors based on our results of the unaudited management accounts for the two months ended February 28, 2007 and a forecast of our consolidated results for the four months ending June 30, 2007. We have undertaken to the Stock Exchange that our interim report for the six months ending June 30, 2007 will be audited pursuant to Rule 11.18 of the Listing Rules.

The above profit forecast is based on the assumptions set out in Appendix III to this prospectus including prices for our molybdenum products. Molybdenum prices for the three months ended March 31, 2007 are based on actual prices contracted by the Group. Each of the average selling prices of molybdenum concentrate, molybdenum oxide and ferromolybdenum for the three months ending June 30, 2007 is largely based on their respective average selling price for the three months ended March 31, 2007. The price movements of molybdenum concentrate, molybdenum oxide and ferromolybdenum historically have been closely related because the production processes of these products are closely related. The following table sets forth a sensitivity analysis of the forecast consolidated profit attributable to our Shareholders for the six months ending June 30, 2007 with respect to the forecast average selling prices for molybdenum concentrate, molybdenum oxide and ferromolybdenum for the three months ending June 30, 2007.

Variation from management's forecast on average selling prices of our molybdenum concentrate, molybdenum oxide and ferromolybdenum	Corresponding six months 2007 forecast consolidated profit attributable to our Shareholders	Variation from six months 2007 forecast consolidated profit attributable to our Shareholders
(%)	(RMB millions)	(%)
15%	1,039.8	9.4%
10%	1,009.9	6.3%
5%	980.0	3.1%
0%	950.1	0.0%
(5%)	920.2	(3.1%)
(10%)	890.3	(6.3%)
(15%)	860.4	(9.4%)

Our forecast consolidated profit attributable to our Shareholders for the six months ending June 30, 2007 may not necessarily give any indication on, and should not be interpreted as a guidance of, our full year financial results for 2007, and will be different from the actual consolidated net profit attributable to our Shareholders if the actual prices of molybdenum concentrate, molybdenum oxide and ferromolybdenum differ from the assumed prices. Our business and operations are generally not subject to any material seasonality. However, they have in the past been, and will continue to be, affected by a number of factors. For further details of such factors, please refer to the sections headed "Risk Factors" and "Financial Information — Factors affecting results of operations and financial condition" in this prospectus.

PROPERTY VALUATION

BMI Appraisals Limited, an independent property valuer, has valued our property interests as at February 28, 2007 and is of the opinion that the market value of our property interests in aggregate amounted to RMB566,500,000 as at February 28, 2007. The full text of the letter, summary of values and valuation certificates with regard to such property interests are set out in Appendix IV to this prospectus.

The table below sets forth (i) the reconciliation of our properties interests from our audited consolidated financial statements as at December 31, 2006 to the unaudited net book value of our property interests as at February 28, 2007; and (ii) the reconciliation of the unaudited net book value of our property interests and the valuation of such property interests as at February 28, 2007:

	(RMB in thousands)
Net book value of our property interests as at December 31, 2006	
— Buildings and mining structures[(1)]	208,441
— Construction in progress[(1)]	70,253
— Land use rights	216,308
	495,002
Movements for the two months ended February 28, 2007	
Additions	24,788
Depreciation and amortization	3,749
Net book value as at February 28, 2007	516,041
Valuation surplus as at February 28, 2007	50,459
Valuation as at February 28, 2007 per Appendix IV	566,500

Note:

(1) Our property interests as indicated above comprised the properties valued by BMI Appraisals Limited and contained in Appendix IV to this prospectus, which are different from the items on the consolidated balance sheets and the accompanying notes in the Accountants' Report in Appendix I. Accordingly, the net book value of our property interests as at December 31, 2006 have been extracted with adjustment on buildings and mining structures and construction in progress not relating to our property interests of RMB1,004,193,000 and RMB241,271,000 respectively.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following illustrative statement of our unaudited pro forma adjusted net tangible assets is based on our audited consolidated net tangible assets as at December 31, 2006 as set out in the Accountants' Report in Appendix I to this prospectus and is adjusted as described below:

	Consolidated net tangible assets attributable to the equity holders of the Company as at December 31, 2006[(1)]	Estimated net proceeds from the Global Offering[(2)]	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share[(3)]	
	RMB'000	RMB'000	RMB'000	RMB	HK$
Based on the Offer Price of HK$5.00 for each Offer Share	1,467,075	5,173,313	6,640,388	1.39	1.41
Based on the Offer Price of HK$6.80 for each Offer Share	1,467,075	7,050,475	8,517,550	1.79	1.80

Notes:

(1) The consolidated net tangible assets attributable to the equity holders of the Company as at December 31, 2006 has been extracted from the accountants' report, the text of which is set out in Appendix I to this prospectus, after adjusting for the mining rights of approximately RMB392,413,000.

(2) The estimated net proceeds form the Global Offering are based on the Offer price of HK$5.00 and HK$6.80 per Share, respectively, after deduction of the underwriting fees and other related expenses payable by us. No account has been taken of the Shares which may be issued pursuant to any exercise of Over-allotment Option.

(3) The unaudited pro forma net tangible asset value per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 4,767,810,525 Shares (being the number of shares expected to be in issue immediately after completion of the Global Offering, without taking into account any shares which may be issued upon the exercise of the Over-allotment Option).

(4) Our property interests were valued by BMI Appraisals Limited and the valuation in respect of which was set out in Appendix IV to this prospectus. Pursuant to the valuation performed by BMI Appraisals Limited, our property interests as at February 28, 2007 amounted to approximately RMB566,500,000. Comparing the valuation amount as at February 28, 2007 to the unaudited net book value of our property interests as at February 28, 2007 of RMB516,041,000, there was a difference of approximately RMB50,459,000 which will not be included in our financial statements for the year ending December 31, 2007. If the revaluation surplus was recorded in the financial statements, our depreciation expense would increase by approximately RMB2 million per annum.

(5) Our unaudited pro forma net tangible assets do not take into account the effect of the Special Dividend to be distributed to our Controlling Shareholders.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in our financial or trading position or our prospects since December 31, 2006, being the date of the latest audited consolidated financial results as set out in the Accountants' Report in Appendix I to this prospectus.

DIVIDENDS

We may distribute dividends by way of cash or by other means that we consider appropriate. Any decision to distribute dividends would require the approval of our Board and would be at its discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. Any decision to declare or to pay dividends in the future, and the amount of any dividends, will depend on a number of factors, including our financial results, our Shareholders' interests, general business conditions and strategies, our capital requirements and other factors that our Directors may consider important.

Please refer to "Dividend Policy" for further details on our dividend policy.

DISTRIBUTABLE RESERVES

We are registered in the PRC and are required to follow the laws and regulations of the PRC and our Articles of Association, both of which provide for a statutory reserve fund, which is funded from net profit after tax, but before dividends distributed at the discretion of our board of directors, on at least 10% of net profit. The statutory reserve fund is provided for each entity until the balance of such fund has reached 50% of the entity's registered capital. The statutory reserve fund may only be used, upon approval by the relevant authority, to offset accumulated losses or to increase capital. According to the Company Law, the statutory reserve fund shall be provided at 10% of the profit after tax of the current year. The discretionary common reserve may be drawn subject to the approval of Shareholders at general meetings. Upon Listing, we may not distribute dividends exceeding the lower of the Group's distributable reserves as determined under PRC GAAP and those under IFRS. In accordance with the Company Law, profit after tax can be distributed as dividends after appropriate contributions to the statutory common reserve fund. As at December 31, 2006, we had approximately RMB777.3 million available for distribution to our Shareholders.