
RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OVERVIEW

Immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised), both LMG and CFC will own approximately 37.9% and 37.1%, respectively, of our then-issued share capital and, under the Listing Rules, will each be considered to be our Controlling Shareholder. LMG and CFC will continue to be able to exercise their rights as Shareholders, including the rights in connection with the election of Directors and voting in respect of amendments to the Articles of Association. However, LMG and CFC will be subject to certain minority shareholder protection provisions under the Articles of Association.

COMPETITION

Our Business

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

No Competing Businesses

Our Directors have confirmed that currently there is no direct or indirect competition between our business and that of LMG and CFC, respectively. LMG is an investment holding company and its subsidiary (other than the Company), Luoyang Baima Textile is principally engaged in the sale and production of fabrics and clothing. CFC is an investment holding company. The principal activities of CFC and its subsidiaries are direct investment, mergers and acquisitions, venture capital, investment management and financial consulting. The nature of businesses conducted by LMG and CFC and their respective subsidiaries are largely different from ours. Our Directors have further confirmed that none of them is interested in any business which competes or is likely to compete, either directly or indirectly, with our business.

Competitive Businesses of Controlling Shareholders

In order to further protect the interests of our Shareholders, under the Non-Compete Agreements (further described below), both LMG and CFC have also undertaken to us the following:

- (1) to notify us in writing of any business opportunity which competes or may lead to competition and ensure that such business opportunity is first offered to us on fair and reasonable terms;
- (2) to grant us an option to purchase any interest in any business of LMG or CFC respectively arising from the business opportunity mentioned in paragraph (1) above; and
- (3) to grant us a right of first refusal to purchase on no less favorable terms, if LMG or CFC or any of their respective affiliates (as defined in that agreements) decides to transfer or sell to any third party, any interest in any business of LMG or CFC arising from the business opportunity mentioned in paragraph (1) above.

Non-Compete Agreements

We entered into non-compete agreements with LMG and CFC on September 6, 2006 (the “Non-Compete Agreements”). Under the Non-Compete Agreements, LMG and CFC agreed not to compete with us in our businesses. Each of LMG and CFC has undertaken in the Non-Compete

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Agreement that during the Non-Compete Period (as defined below), neither it nor any company in which it is a Substantial Shareholder (the “Affiliates”) will compete with us, directly or indirectly, whether on its own or jointly with another entity by participating in or providing any support to, any activities or businesses which directly or indirectly compete with our businesses, whether inside or outside the PRC.

The respective Non-Compete Agreement with LMG and CFC will take effect upon the listing of our H Shares on the Stock Exchange and the fulfillment of the preconditions under the underwriting agreement which has not been terminated, and remain effective until the earlier of (a) the date on which LMG or CFC directly or indirectly or through its Affiliates effectively holds less than 30% of our issued share capital; and (b) the date on which our H Shares cease to be listed on the Stock Exchange (the “Non-Compete Period”).

During the Non-Compete Period:

- (a) LMG and CFC and any of their respective Affiliates are required to notify us immediately of any business opportunity which competes, or may lead to competition, directly or indirectly with our businesses. LMG, CFC and their respective Affiliates are also obliged to offer such opportunity to us on fair and reasonable terms. Our independent non-executive Directors will decide whether to accept the offer of any such business opportunity; and
- (b) LMG and CFC have granted us:
 - (i) an option to purchase at a fair and reasonable price or as the case may be, CFC and us (the “Option to Acquire CB”), and subject to any relevant laws and applicable listing rules and existing third party rights, and
 - (ii) a right of first refusal to purchase on no less favorable terms, if LMG or CFC or any of their Affiliates intends to transfer or sell to any third party,

any interest in any businesses of LMG or CFC resulting from the business opportunity referred to in paragraph (a) above, which has been offered to, but has not been purchased or taken up by us and has been retained by LMG or CFC or any of their respective Affiliates.

LMG and CFC have undertaken to our Group to provide all information necessary for the enforcement of their undertakings granted under the Non-Compete Agreements. An annual declaration of LMG and CFC compliance with these undertakings granted under the Non-Compete Agreements will be made in the annual report and corporate governance report pursuant to Appendix 23 to the Listing Rules.

LMG and CFC will meet with all of their respective connected persons, including us, every six months to review their operational and financial performance of their respective business portfolio and to discuss business plans. Members of our senior management will represent us at these meetings, at which they may make inquiries in order to evaluate the performance of the businesses, if any, and to consider whether to exercise the Option to Acquire CB.

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Any decision relating to the exercise of the Option to Acquire CB and right of first refusal by our independent non-executive Directors will be disclosed in our annual report and other documents as required by the Listing Rules. Further, any exercise or non-exercise of the Option to Acquire CB under the Non-Compete Agreements would constitute a connected transaction. An annual review would also be conducted by our independent non-executive Directors on such decisions to exercise or not to exercise the Option to Acquire CB, and the right of first refusal.

If we decide to exercise the Option to Acquire CB and right of first refusal granted under the Non-Compete Agreements, we will ensure that we comply with the requirements under Rule 8.10(1)(b) and Chapter 14A of the Listing Rules.

Under the Non-Compete Agreements, LMG and CFC have agreed to indemnify us for breach of any provisions contained in the Non-Compete Agreements. If LMG or CFC fails to comply with its undertakings set out in the Non-Compete Agreements, we are entitled to exercising our contractual rights under the Non-Compete Agreements against LMG or CFC.

INDEPENDENT MANAGEMENT

Independence of Management and Adequate Measures to Manage Conflicts

We have two overlapping directors with LMG (Mr Duan Yuxian, our chairman and executive Director and Mr Li Faben, our executive Director) and one overlapping director with CFC (Mr Xu Jun, our non-executive Director). In addition, Mr Zhang Yufeng, our non-executive Director, also serves as the general manager of the No. 2 Investment Department of CFC. Notwithstanding such overlap, our Board and senior management operate as a matter of fact independently of our Controlling Shareholders, LMG and CFC, and they are in a position to fully discharge their duties to the Shareholders as a whole including public Shareholders after Listing without reference to such Controlling Shareholders. If conflicts of duty arise in the future with respect to such overlapping directors, for instance in case of contracts to be made by any member of our Group with any such Controlling Shareholders, the conflicts will be adequately managed in the best interests of the Shareholders as a whole including public Shareholders after Listing, in the detailed manner described below.

Overlapping LMG Directors

Mr Duan Yuxian was previously appointed as our Director by Luoyang SASAC and is concurrently a director and the chairman of LMG, which is wholly-owned by Luoyang SASAC. Mr Duan has overall supervisory responsibility at our Company. His primary duties include acting as our Company's legal representative, making decisions regarding the Company's finances, consolidating our industrial assets and management of our investments and financial forecast. Mr Li Faben was previously appointed as our Director by Luoyang SASAC and is concurrently a director of LMG. Mr Li's primary duties at the Company include assisting Mr Duan in the day-to-day management of our Company and responsible for mining, sales and marketing activities.

There are in the normal course of business of the Group no transactions between the Group and Luoyang SASAC, LMG or other entities controlled by Luoyang SASAC. If any such transactions arise in future, decisions with respect to the same will be made by the core management team comprising three out of four deputy general managers (namely, Messrs Wang Qinxi, Yang Jianbo and Wang Bin) but excluding Messrs Duan Yuxian and Li Faben. For all connected transactions other than those that are exempt from the reporting, announcement and independent shareholders' approval requirements contained in Chapter 14A of the Listing Rules, our Board will meet to

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approve such transactions in accordance with the requirements of Chapter 14A of the Listing Rules. Directors who are subject to a conflict of interest will abstain from the deliberations and vote. Additionally, where the transaction is required to be put before the independent Shareholders for approval, an independent Board committee will be established in accordance with the requirements of Chapter 13.39 of the Listing Rules.

Luoyang SASAC is also not interested, directly or indirectly, in any other business which competes with our business and LMG in particular has executed a non-compete agreement with us. There will therefore be no situation under which Messrs Duan and Li may have to choose between furthering our business objectives and the business objectives of Luoyang SASAC, LMG or other entities controlled by Luoyang SASAC in the same business area. Even if there should develop in the future any such situation, Messrs Duan and Li have undertaken with us that they will under no circumstances disclose our confidential business information of relating to such competitive business to Luoyang SASAC and will not personally be involved in any deliberations or decisions made by Luoyang SASAC with respect to such competitive business and will only consider the best interests of our Group in the matter.

The primary duties of Messrs Duan Yuxian and Li Faben at LMG include attending LMG's shareholders' and board of directors' meetings, ensuring the enforcement of directors' resolutions and handling LMG's matters in their respective capacities. Messrs Duan Yuxian and Li Faben have devoted most of their time to the daily operations and management of the Company. Throughout the Track Record Period, Messrs Duan Yuxian and Li Faben devoted more than 90% of their time to the management of our Company. Messrs Duan Yuxian and Li Faben currently devote, and will continue to devote, more than 90% of their time to the management of our Company. In view of their limited involvement at LMG, they will continue to devote most of their time and attention to the Company after Listing. Messrs Duan Yuxian and Li Faben maintain their dual roles with our Company and LMG for the overall benefit of our Company. Their continued presence at both companies would ensure the continuity and stability of operations of our Company.

Accordingly, we do not consider that the appointment of Messrs Duan and Li is likely to present any difficulties for us, and consider that the fact that Messrs Duan and Li were previously appointed by Luoyang SASAC and their current concurrent appointments in Luoyang SASAC and LMG as mentioned above will not hamper them from discharging their duties as Directors to all the Shareholders including the public Shareholders after Listing. We also consider that their presence on our Board will directly secure to our Group the continuing support of our Controlling Shareholder, LMG, and of Luoyang SASAC in the future development of business and greatly facilitate the maintenance of a continuing cordial and beneficial dialogue with LMG in respect of the same.

Overlapping CFC Director and Senior Management

Mr Xu Jun was previously appointed as our non-executive Director by CFC and is concurrently chairman and executive director of CFC. Mr Zhang Yufeng was previously also appointed by CFC as our non-executive Director and is concurrently the general manager of the No. 2 Investment Department of CFC. The duties and responsibilities of Messrs Xu Jun and Zhang Yufeng in our Company include acting as the Board representative of CFC, giving advice and recommendations to the operations of our Company through attending Board meetings, ensuring the enforcement of Director's resolutions and reviewing the Chairman's report on the operations of our Company. As Messrs Xu Jun and Zhang Yufeng are Board representatives of CFC and non-executive Directors, they do not have executive functions in our Company and are not responsible for and do not have any involvement in the day-to-day management of our Company.

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There are in the normal course of business of the Group no transactions between our Group and CFC or other entities controlled by CFC. Even if there were such transactions, they would not in the ordinary course of business be placed before our Board for a vote, and would be handled by our core management team at the operating level comprising our chairman Mr Duan and our four deputy general managers (namely, Messrs Li Faben, Wang Qinxi, Yang Jianbo and Wang Bin). For all connected transactions other than those that are exempt from the reporting, announcement and independent shareholders' approval requirements contained in Chapter 14A of the Listing Rules, our Board will meet to approve such transactions in accordance with the requirements of Chapter 14A of the Listing Rules. Directors who are subject to a conflict of interest will abstain from the deliberations and vote. Additionally, where the transaction is required to be put before the independent Shareholders for approval, an independent Board committee will be established in accordance with the requirements of Chapter 13.39 of the Listing Rules.

CFC is also not interested, directly or indirectly, in any other business which competes with the business of the Group and has executed a non-compete agreement with us. There will therefore be no situation under which Messrs Xu and Zhang have to choose between furthering our business objectives and the business objectives of CFC or other entities controlled by CFC in the same business area. Even if there should develop in the future any such situation, Messrs Xu and Zhang have undertaken with us that they will under no circumstances disclose our confidential business information relating to such competitive business to CFC and will not personally be involved in any deliberations or decisions made by CFC with respect to such competitive business and will only consider the best interests of our Group in the matter.

Accordingly, we do not consider that the appointment of Messrs Xu and Zhang is likely to present any difficulties for us, and consider that the fact that they were previously appointed by CFC and their concurrent appointments in CFC as mentioned above will not hamper them from discharging their duties as Directors to all the Shareholders including the public Shareholders after Listing. We also consider that their presence on our Board will directly secure to our Group the continuing support of our Controlling Shareholder, CFC, in the future development of business and greatly facilitate the maintenance of a continuing cordial and beneficial dialogue with CFC in respect of the same.

Proportion of Overlapping Directors and Senior Management

Our Board comprises five executive Directors, two non-executive Directors and four independent non-executive Directors making a total of 11 Directors. Whether in the case of LMG or CFC the ratio of overlapping Directors and senior management to non-overlapping Directors and senior management is only 2 : 9. Such nine non-overlapping Directors are expected to provide substantive balance to the overlapping Directors and senior management, and an appropriate safeguard against any possible failure by our Board as a whole to properly take into account the interests of the Shareholders including public Shareholders after Listing.

Save as disclosed above, there are no overlapping Directors and senior management between our Group and LMG or CFC (including subsidiaries and associates thereof) respectively. Based on the above, we are of the view that our Board and senior management can operate independently from our Controlling Shareholders.

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INDEPENDENT BUSINESS OPERATIONS

Our Company and all of our subsidiaries hold all relevant licenses that are material to our business operations and we have sufficient operation capacity in terms of capital, equipment and employees to operate our businesses independently. Save for being our Controlling Shareholders, there has been no past and current business or other relationship between us, LMG and CFC. Our Directors currently do not expect that immediately following the Listing, there will be any business transactions between the Company, LMG and CFC. Based on the above, our Directors are of the view that we are independent from our Controlling Shareholders in terms of business operations.

FINANCIAL INDEPENDENCE

As at the date of this prospectus, we do not have any outstanding loans granted by LMG or CFC to us or any guarantees provided by them to support our credit facilities. We believe we are capable of obtaining financing from third parties without reliance on LMG or CFC. We also have our own financial management systems. Based on the above, our Directors are of the view that we are financially independent from our Controlling Shareholders.