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13 April, 2007

The Directors
洛陽欒川鉬業集團股份有限公司 China Molybdenum Co., Ltd.
Morgan Stanley Dean Witter Asia Limited
UBS AG

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to 洛陽欒川鉬業集團股份有限公司 China Molybdenum Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2006 (the "Relevant Periods") for inclusion in the prospectus of the Company dated 13 April, 2007 (the "Prospectus").

The Company was established in the People's Republic of China (the "PRC") on 22 December 1999 as a wholly state-owned company with limited liability as a result of the merger of two state-owned enterprises. The registered capital was RMB251,000,000 upon establishment. As part of the corporate restructuring in September 2004, as explained more fully in the paragraph headed 'Reorganization and Corporate Structure' in the Prospectus, Cathay Fortune Corporation Holdings 鴻商控股有限公司 ("CFCH"), later renamed as Cathay Fortune Corporation 鴻商產業控股集團有限公司 ("CFC") subscribed for 49% of equity interest in the Company with the subscription price of RMB137,209,800 being paid into the registered capital of the Company. Also, as a result of the corporate restructuring, the state-owned capital was reduced to RMB142,810,200, after deduction of a total amount of RMB108,189,800. Accordingly, the registered capital of the Company was then changed to RMB280,020,000. The People's Government of Luoyang City held the 51% equity interest in the Company until 5 December 2005 when it authorized the State-owned Assets Supervision and Administration Commission of the People's Government in Luoyang Municipality ("Luoyang SASAC") to hold the interest in the Company. In August 2006, Luoyang SASAC transferred the 51% equity interest to Luoyang Mining Group Co. Ltd ("LMG"). The Company was transformed into a joint stock limited company on 25 August 2006 by converting its registered capital and reserves as at 31 May 2006 into 700,000,000 shares of RMB1 each.

The Company is an integrated producer of molybdenum in the PRC. Its operations consist of molybdenum mining, flotation, smelting and refining to produce molybdenum and other related products, including molybdenum oxide, ferromolybdenum and molybdenum concentrate.

As at the date of this report, the Company has the following subsidiaries and associates:

| Name of company | Date of establishment | Place of establishment and operation | Issued and fully paid/registered capital | Attributable equity interest of the Group | Principal activities |
|---|---|---|---|---|---|
| **Directly-owned subsidiary** | | | | | |
| 洛陽欒川鉬業集團冶煉有限責任公司 Luomu Group Refining Co., Ltd. ("Luomu Group Refining") . . . . . . . . . . | 5 June 2002 | PRC — Limited liability company | RMB5,660,000 | 100% | Manufacturing of molybdenum oxide, molybdenum steel and related products |
| 洛陽欒川鉬業集團鎢鉬銷售貿易有限公司 Luomu Group Sales and Trading Co., Ltd. ("Luomu Group Sales and Trading") | 27 March 2001 | PRC — Limited liability company | RMB2,000,000 | 100% | Trading of molybdenum products |
| 洛陽大川鉬鎢科技有限責任公司 Luoyang Dachuan Molybdenum & Tungsten Technology Co., Ltd. ("Dachuan") . . . . . . | 10 March 2003 | PRC — Limited liability company | RMB50,000,000 | 75% | Manufacturing of ammonium molybdate and molybdenum powder |
| 洛陽高科鉬鎢材料有限公司 Luoyang High Tech Molybdenum & Tungsten Materials Co., Ltd. ("Luoyang High Tech") . . | 14 January 2005 | PRC — Limited liability company | RMB5,000,000 | 100% | Manufacturing of molybdenum powder, tungsten powder, and related products |
| 欒川縣三強鉬鎢有限公司 Luanchuan County Sanqiang Molybdenum & Tungsten Co., Ltd. ("Sanqiang ") *(Note a)*. . . . . . . . . . . . | 24 March 2003 | PRC — Limited liability company | RMB55,480,000 | 51% | Ore processing |
| 欒川縣九揚礦業有限公司 Luanchuan County Jiuyang Mining Co., Ltd. ("Jiuyang Mining") *(Note b)*. . . . . . . . . . . . | 9 May 2003 | PRC — Limited liability company | RMB33,390,000 | 51% | Ore processing |
| 欒川縣大東坡鎢鉬礦業有限公司 Luanchuan County Dadongpo Tungsten & Molybdenum Co., Ltd. ("Dadongpo") *(Note c)*. . . . . . . . . . . . | 2 June 2003 | PRC — Limited liability company | RMB65,654,000 | 51% | Ore processing |
| 洛陽鉬都國際飯店有限公司 Luoyang Mudu International Hotel Co., Ltd. ("Mudu Hotel") . . . . . . . | 11 October 2006 | PRC — Limited liability company | RMB30,000,000 | 100% | Hotel and catering |
| 洛陽坤宇礦業有限公司 Luoyang Kunyu Mining Co., Ltd. ("Kunyu Mining"). . . | 27 September 2006 | PRC — Limited liability company | RMB10,000,000 | 70% | Production of various non-ferrous metals |

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

*Notes:*

All the subsidiaries and associates were invested by the Group since the date of establishment of the relevant subsidiary or associate except the followings:

(a) On 20 January 2006, the Company acquired 51% equity interest in Sanqiang by subscribing new shares in the entity at a consideration of approximately RMB28,295,000.

(b) On 6 March 2006, the Company acquired 51% equity interest in Jiuyang Mining by subscribing new shares in the entity at a consideration of approximately RMB17,028,000.

(c) On 21 February 2006, the Company acquired 51% equity interest in Dadongpo by subscribing new shares in the entity at a consideration of approximately RMB33,484,000.

The statutory consolidated financial statements of the Company for the three years ended 31 December 2006 were prepared in accordance with relevant accounting principles and regulations applicable in the PRC. The statutory consolidated financial statements of the Company for the two years ended 31 December 2005 were audited by Luoyang Zhonghua Accountancy Co. Ltd. (洛陽中華會計師事務所有限責任公司). The statutory consolidated financial statements of the Company for the year ended 31 December 2006 were audited by Deloitte Touche Tohmatsu CPA Limited (德勤華永會計師事務所有限公司).

The statutory financial statements of the Company's principal subsidiaries and associates comprising the Group were prepared in accordance with the relevant accounting rules and regulations applicable to these enterprises in the PRC for the three years ended 31 December 2006 and were audited by the following respective certified public accountants registered in the PRC:

| Name of subsidiary | Statutory auditors | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| Luomu Group Refining (洛陽欒川鉬業集團冶煉有限責任公司) . . . | Luoyang Zhonghua Accountancy Co., Ltd (洛陽中華會計師事務所有限責任公司) | Luoyang Zhonghua Accountancy Co., Ltd (洛陽中華會計師事務所有限責任公司) | Luoyang Zhonghua Accountancy Co., Ltd (洛陽中華會計師事務所有限責任公司) |
| Luomu Group Sales and Trading (洛陽欒川鉬業集團鎢鉬銷售貿易有限責任公司) . . . . . . . . . . . | N/A *(Note 3)* | Luoyang Zhonghua Accountancy Co., Ltd (洛陽中華會計師事務所有限責任公司) | Luoyang Zhonghua Accountancy Co,. Ltd (洛陽中華會計師事務所有限責任公司) |
| Luoyang High Tech (洛陽高科鉬鎢材料有限公司) . . . . . . . . | N/A *(Note 1)* | Luoyang Zhonghua Accountancy Co., Ltd (洛陽中華會計師事務所有限責任公司) | Luoyang Zhonghua Accountancy Co., Ltd (洛陽中華會計師事務所有限責任公司) |

| Name of subsidiary | Statutory auditors 2004 | 2005 | 2006 |
|---|---|---|---|
| Luoyang Baima Textile (洛陽白馬紡織有限公司) | N/A *(Note 1)* | N/A *(Note 3)* | N/A *(Note 6)* |
| Dachuan (洛陽大川鉬鎢科技有限責任公司) | N/A *(Note 3)* | Luoyang Zhonghua Accountancy Co., Ltd (洛陽中華會計師事務所有限責任公司) | Luoyang Zhonghua Accountancy Co., Ltd (洛陽中華會計師事務所有限責任公司) |
| Luoyang Luanchuan Taibaoshan Minerals Co., Ltd. ("Taibaoshan") (洛陽欒川鉬業集團太寶山礦業有限責任公司) | Luanchuan Xian Yinxiang Accounting Firm (欒川縣伊祥會計師事務所) | N/A *(Note 3)* | N/A *(Note 2)* |
| Sanqiang (欒川縣三強鉬鎢有限公司) | N/A *(Note 4)* | N/A *(Note 4)* | Luoyang Zhonghua Accountancy Co., Ltd (洛陽中華會計師事務所有限責任公司) |
| Jiuyang Mining (欒川縣九揚礦業有限公司) | N/A *(Note 4)* | N/A *(Note 4)* | Luoyang Zhonghua Accountancy Co., Ltd (洛陽中華會計師事務所有限責任公司) |
| Dadongpo (欒川縣大東坡鎢鉬礦業有限公司) | N/A *(Note 4)* | N/A *(Note 4)* | Luoyang Zhonghua Accountancy Co., Ltd (洛陽中華會計師事務所有限責任公司) |
| Mudu Hotel (洛陽鉬都國際飯店有限公司) | N/A *(Note 5)* | N/A *(Note 5)* | Luoyang Zhonghua Accountancy Co., Ltd (洛陽中華會計師事務所有限責任公司) |
| Kunyu Mining (洛陽坤宇礦業有限公司) | N/A *(Note 5)* | N/A *(Note 5)* | Luoyang Zhonghua Accountancy Co., Ltd (洛陽中華會計師事務所有限責任公司) |
| Yiyuan *(Note 7)* (上海伊源鎢鉬有限公司) | N/A *(Note 8)* | N/A *(Note 8)* | N/A *(Note 8)* |
| **Associates** | | | |
| Luoyang Yulu Mining Co., Ltd. (洛陽豫鷺礦業有限責任公司) | Fujian Huanxin Accountancy Co., Ltd (福建華興有限責任會計師事務所) | Fujian Huanxin Accountancy Co., Ltd (福建華興有限責任會計師事務所) | Fujian Huanxin Accountancy Co., Ltd (福建華興有限責任會計師事務所) |
| Shanghai Yuhua Molybdenum Co., Ltd. (上海宇華鉬業公司) | N/A *(Note 1)* | Henan Wanlong Xingye Accountancy Co., Ltd. (河南萬隆興業會計師事務所有限公司) | Henan Xingye Qingyuan Accountancy Co., Ltd. (河南興業清源會計師事務所有限公司) |

*Notes:*

1. These entities were established in 2005.

2. The subsidiary has been dissolved and transformed into a branch of the Company in 2006.

3. No standalone statutory financial statements are prepared because the entities are subsidiaries of the Company and the Company has prepared consolidated financial statements comprising all these entities. Having taken legal advice, the Directors consider those subsidiaries had passed annual inspection by Industry and Commerce Bureau under relevant rules and regulations. As such, the non-preparation of the standalone audited financial statements did not have impact on the legal continuation of operation of those subsidiaries.

4. These entities were acquired in 2006.

5. These entities were established in 2006.

6. This entity was disposed of in 2006.

7. This entity was dissolved in March 2007.

8. No statutory financial statements have been prepared as it is inactive during the Relevant Periods.

For the purpose of this report, the directors of the Company have prepared the financial statements of the Group and the Company for the Relevant Periods in accordance with International Financial Reporting Standards ("IFRS") (the "Underlying Financial Statements") issued by the International Accounting Standard Board. We have audited the Underlying Financial Statements of the Group and of the Company in accordance with the Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

For the purpose of this report, we have examined the Underlying Financial Statements of the Group and of the Company for the Relevant Periods in accordance with the Auditing Guideline 3.340 "Prospectus and the Reporting Accountants" as recommended by the HKICPA.

The Financial Information of the Group and of the Company for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements, on the basis set out in Note 1 to the Financial Information. No adjustments are considered necessary to adjust the Underlying Financial Statements for the Relevant Periods for the preparation of the Financial Information.

The directors of the Company are responsible for preparing the Underlying Financial Statements and also for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an opinion on the Financial Information, and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group and the Company as at 31 December 2004, 2005, 2006 and of the consolidated results and cash flows of the Group for the Relevant Periods.

## A. FINANCIAL INFORMATION

### Consolidated income statements

| | Notes | Year ended 31 December 2004 RMB'000 | 2005 RMB'000 | 2006 RMB'000 |
|---|---|---|---|---|
| Turnover | 6 | 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 | 7 | 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 | 8 | (132,190) | (15,000) | — |
| Other expenses | 9 | (75,704) | (35,873) | (19,835) |
| Finance costs | 10 | (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 | 11 | (165,880) | (482,509) | (739,821) |
| Profit for the year | 12 | 281,318 | 1,157,327 | 1,714,465 |
| 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 | 14 | 75,000 | 519,957 | 760,110 |
| Earnings per share — Basic | 15 | RMB0.08 | RMB0.33 | RMB0.43 |

## Consolidated balance sheets

| | | At 31 December | | |
|---|---|---|---|---|
| | | 2004 | 2005 | 2006 |
| | Notes | RMB'000 | RMB'000 | RMB'000 |
| Non-current assets | | | | |
| Property, plant and equipment | 16 | 519,850 | 1,144,259 | 2,004,462 |
| Land use right — non-current portion | 17 | 137,627 | 191,443 | 211,037 |
| Mining rights | 18 | — | — | 392,413 |
| Deposits paid for acquisition of property, plant and equipment | | 61,050 | — | 8,000 |
| Interests in associates | 20 | 25,349 | 38,047 | 45,095 |
| Available-for-sale investments | 21 | 2,100 | 2,300 | 2,300 |
| Deferred tax assets | 22 | 18,625 | 30,450 | 16,868 |
| | | 764,601 | 1,406,499 | 2,680,175 |
| Current assets | | | | |
| Inventories | 23 | 55,769 | 163,899 | 220,680 |
| Trade and other receivables | 24 | 151,609 | 271,210 | 680,974 |
| Loan receivables | 25 | 50,000 | 110,000 | — |
| Amount due from an associate | 27 | — | 1,999 | 2,630 |
| Amount due from a shareholder | 28 | 34,556 | — | — |
| Land use right — current portion | 17 | 3,560 | 4,789 | 5,271 |
| Held-for-trading investments | 29 | 515 | 60,515 | 101,493 |
| Pledged bank deposits | 30 | — | 18,067 | 6,909 |
| Bank balances and cash | 31 | 140,391 | 357,557 | 827,447 |
| | | 436,400 | 988,036 | 1,845,404 |
| Current liabilities | | | | |
| Trade and other payables | 32 | (289,099) | (381,273) | (800,421) |
| Dividend payables | 33 | — | (22,217) | (193,156) |
| Tax payable | | (189,015) | (292,183) | (300,059) |
| Bank borrowings — due within one year | 35 | (257,430) | (518,190) | (555,250) |
| | | (735,544) | (1,213,863) | (1,848,886) |
| Net current liabilities | | (299,144) | (225,827) | (3,482) |
| Total assets less current liabilities | | 465,457 | 1,180,672 | 2,676,693 |
| Non-current liabilities | | | | |
| Bank borrowings — due after one year | 35 | — | (80,000) | (490,000) |
| Provision | 36 | (31,800) | (33,390) | (35,060) |
| Long term payable | 37 | (20,268) | (16,523) | (12,777) |
| | | (52,068) | (129,913) | (537,837) |
| | | 413,389 | 1,050,759 | 2,138,856 |
| Capital and reserves | | | | |
| Paid-in capital | 38 | 280,020 | 280,020 | 736,842 |
| Reserves | | 133,229 | 770,599 | 1,122,646 |
| Attributable to equity holders of the Company | | 413,249 | 1,050,619 | 1,859,488 |
| Minority interests | | 140 | 140 | 279,368 |
| Total equity | | 413,389 | 1,050,759 | 2,138,856 |

## Balance sheets of the Company

| | Notes | At 31 December 2004 RMB'000 | 2005 RMB'000 | 2006 RMB'000 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | 16 | 393,948 | 929,972 | 1,681,607 |
| Land use right — non-current portion | 17 | 103,058 | 110,858 | 149,868 |
| Mining rights | 18 | — | — | 392,413 |
| Deposits paid for acquisition on property, plant and equipment | | 61,050 | — | — |
| Investments in subsidiaries | 19 | 95,811 | 108,441 | 292,608 |
| Investments in associates | 20 | 20,000 | 21,650 | 21,650 |
| Available-for-sale investments | 21 | — | 200 | 200 |
| Deferred tax assets | 22 | 10,016 | 17,048 | 3,109 |
| | | 683,883 | 1,188,169 | 2,541,455 |
| **Current assets** | | | | |
| Inventories | 23 | 47,972 | 110,907 | 152,408 |
| Trade and other receivables | 24 | 128,630 | 223,457 | 534,474 |
| Loan receivables | 25 | 50,000 | 110,000 | — |
| Amounts due from subsidiaries | 26 | 149,724 | 349,019 | 271,184 |
| Amount due from an associate | 27 | — | 1,999 | 2,630 |
| Amount due from a shareholder | 28 | 34,556 | — | — |
| Land use right — current portion | 17 | 2,839 | 3,057 | 3,987 |
| Held-for-trading investments | 29 | 10 | 60,010 | 101,493 |
| Pledged bank deposits | 30 | — | 18,067 | 6,909 |
| Bank balances and cash | 31 | 118,029 | 323,070 | 427,882 |
| | | 531,760 | 1,199,586 | 1,500,967 |
| **Current liabilities** | | | | |
| Trade and other payables | 32 | (222,543) | (315,575) | (723,542) |
| Dividend payables | 33 | — | (22,217) | (193,156) |
| Amounts due to subsidiaries | 34 | (183,550) | (467,069) | (169,253) |
| Tax payable | | (136,320) | (177,318) | (183,217) |
| Bank borrowings — due within one year | 35 | (242,430) | (508,190) | (545,250) |
| | | (784,843) | (1,490,369) | (1,814,418) |
| Net current liabilities | | (253,083) | (290,783) | (313,451) |
| Total assets less current liabilities | | 430,800 | 897,386 | 2,228,004 |
| **Non-current liabilities** | | | | |
| Bank borrowings — due after one year | 35 | — | (80,000) | (490,000) |
| Provision | 36 | (31,800) | (33,390) | (35,060) |
| Long term payable | 37 | (20,268) | (16,523) | (12,777) |
| | | (52,068) | (129,913) | (537,837) |
| | | 378,732 | 767,473 | 1,690,167 |
| **Capital and reserves** | | | | |
| Paid-in capital | 38 | 280,020 | 280,020 | 736,842 |
| Reserves | 39 | 98,712 | 487,453 | 953,325 |
| Total equity | | 378,732 | 767,473 | 1,690,167 |

## Consolidated cash flow statement

| | Year ended 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| Operating activities | | | |
| Profit before taxation | 447,198 | 1,639,836 | 2,454,286 |
| Adjustments for: | | | |
| Interest income | (3,534) | (5,610) | (13,401) |
| Interest expenses | 15,410 | 14,312 | 48,275 |
| Depreciation for property, plant and equipment | 20,193 | 30,589 | 71,700 |
| Amortization of land use rights | 1,643 | 3,596 | 3,993 |
| Amortization of mining rights | — | — | 9,073 |
| Loss on disposal of property, plant and equipment | 22,247 | 25,976 | 11,254 |
| Share of results of associates | (2,263) | (11,048) | (7,048) |
| Reversal of allowance for doubtful debts | (1,652) | (1,318) | (784) |
| Discount on acquisition of a subsidiary | — | — | (5,102) |
| Goodwill written off on acquisition of subsidiaries | — | — | 3,439 |
| Gain on winding up of a subsidiary | — | — | (289) |
| Fair value change on held-for-trading investments | — | — | (488) |
| Impairment loss recognized on property, plant and equipment | 32,851 | — | — |
| Operating cash flows before movements in working capital | 532,093 | 1,696,333 | 2,574,908 |
| Decrease (increase) in inventories | 12,881 | (108,130) | (3,590) |
| Increase in trade and other receivables | (83,567) | (118,283) | (457,140) |
| (Decrease) increase in trade and other payables | (44,896) | 37,754 | (90,757) |
| Decrease in amount due to an associate | (4,600) | — | — |
| Increase in amount due from associates | — | (1,999) | (631) |
| Increase (decrease) in long term payable | 20,268 | (3,745) | (3,746) |
| Cash generated from operations | 432,179 | 1,501,930 | 2,019,044 |
| PRC Income Tax paid | (14,874) | (391,166) | (720,468) |
| Net cash from operating activities | 417,305 | 1,110,764 | 1,298,576 |

| | Note | Year ended 31 December 2004 RMB'000 | 2005 RMB'000 | 2006 RMB'000 |
|---|---|---|---|---|
| Investing activities | | | | |
| Interest received | | 3,534 | 5,610 | 13,401 |
| Purchases of property, plant and equipment | | (147,873) | (560,545) | (738,437) |
| Deposit paid for property, plant and equipment | | (61,050) | — | (8,000) |
| Purchases of land use right | | (64,789) | (57,554) | (27,976) |
| Purchase of mining right | | — | — | (41,149) |
| Purchase of available-for-sale investments | | (2,100) | (200) | — |
| Purchase of held-for-trading investments | | — | (60,000) | (40,490) |
| Proceeds from disposal of property, plant and equipment | | 45,512 | 325 | 16,552 |
| Proceeds from disposal of land use right | | — | 2,820 | — |
| Investment in an associate | | — | (1,650) | — |
| Acquisition of subsidiaries | 40 | — | — | 9,368 |
| Disposal of a subsidiary | 41 | — | — | 9,887 |
| Proceeds from disposal of held-for-trading investments | | 20 | — | — |
| (Increase) decrease in loan receivables | | (49,950) | (60,000) | 101,000 |
| Increase in pledged bank deposits | | — | (18,067) | 11,158 |
| Net cash used in investing activities | | (276,696) | (749,261) | (694,686) |
| Financing activities | | | | |
| Interest paid | | (19,252) | (21,913) | (46,605) |
| Issue of shares | | — | — | 53,716 |
| Dividends paid to shareholders of subsidiaries | | (75,000) | (497,740) | (589,171) |
| New bank borrowings raised | | 285,320 | 587,450 | 1,743,050 |
| Repayment of bank borrowings | | (408,099) | (246,690) | (1,297,990) |
| Capital injection | | 137,210 | — | — |
| Capital contribution from a shareholder | | 41,012 | — | — |
| Capital contribution from minority shareholders | | — | — | 3,000 |
| Payment of income tax upon capital contribution from a shareholder | | (13,535) | — | — |
| (Increase) decrease in amount due from a shareholder | | (34,556) | 34,556 | — |
| Net cash used in financing activities | | (86,900) | (144,337) | (134,000) |
| Increase in cash and cash equivalents | | 53,709 | 217,166 | 469,890 |
| Cash and cash equivalents at 1 January | | 86,682 | 140,391 | 357,557 |
| Cash and cash equivalents at the end of the year | | 140,391 | 357,557 | 827,447 |
| Analysis of the balances of cash and cash equivalents | | | | |
| Bank balances and cash | | 140,391 | 357,557 | 827,447 |

## Consolidated statement of changes in equity

| | Attributable to equity holders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Paid-in capital** | **Capital reserve** | **Statutory surplus reserve** | **Statutory public welfare fund** | **Accumulated (losses) profits** | **Attributable to equity holders of parent entity** | **Minority interests** | **Total** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| | | *(Note 39)* | *(Note 39)* | *(Note 39)* | | | | |
| At 1 January 2004 | 251,000 | 15,962 | 7,193 | — | (216,140) | 58,015 | 190 | 58,205 |
| Capital injection | 137,210 | — | — | — | — | 137,210 | — | 137,210 |
| Distribution to a shareholder and capital reduction *(Note 38)* | (108,190) | — | — | — | — | (108,190) | — | (108,190) |
| Contribution from a shareholder *(Note 38(b))* | — | 92,369 | — | — | — | 92,369 | — | 92,369 |
| Capital contribution from a shareholder *(Note b)* | — | 41,012 | — | — | — | 41,012 | — | 41,012 |
| Payment of income tax upon capital contribution from a shareholder *(Note b)* | — | (13,535) | — | — | — | (13,535) | — | (13,535) |
| Contribution from minority shareholder of a subsidiary *(Note c)* | — | 5,079 | — | — | — | 5,079 | (5,079) | — |
| Profit for the year | — | — | — | — | 276,289 | 276,289 | 5,029 | 281,318 |
| Set-off of accumulated losses against capital reserve *(Note d)* | — | (92,369) | — | — | 92,369 | — | — | — |
| Transfer *(Note a)* | — | 71,724 | — | — | (71,724) | — | — | — |
| Dividends | — | — | — | — | (75,000) | (75,000) | — | (75,000) |
| At 31 December 2004 and at 1 January 2005 | 280,020 | 120,242 | 7,193 | — | 5,794 | 413,249 | 140 | 413,389 |
| Profit for the year | — | — | — | — | 1,157,327 | 1,157,327 | — | 1,157,327 |
| Dividends | — | — | — | — | (519,957) | (519,957) | — | (519,957) |
| Appropriation to reserves | — | — | 16,028 | 8,014 | (24,042) | — | — | — |
| Transfer *(Note a)* | — | 110,413 | — | — | (110,413) | — | — | — |
| At 31 December 2005 and 1 January 2006 | 280,020 | 230,655 | 23,221 | 8,014 | 508,709 | 1,050,619 | 140 | 1,050,759 |
| Issue of shares *(note 38)* | 36,842 | 16,874 | — | — | — | 53,716 | — | 53,716 |
| Conversion to a joint stock limited company *(note 38)* | 419,980 | (223,766) | (196,214) | — | — | — | — | — |
| Profit for the year | — | — | — | — | 1,515,263 | 1,515,263 | 199,202 | 1,714,465 |
| Dividends | — | — | — | — | (760,110) | (760,110) | — | (760,110) |
| Appropriation to reserves | — | — | 280,105 | (8,014) | (272,091) | — | — | — |
| Transfer *(Note a)* | — | 187,371 | — | — | (187,371) | — | — | — |
| Acquisition of subsidiaries | — | — | — | — | — | — | 77,315 | 77,315 |
| Winding up of a subsidiary | — | — | — | — | — | — | (289) | (289) |
| Capital injection from a minority shareholder | — | — | — | — | — | — | 3,000 | 3,000 |
| At 31 December 2006 | 736,842 | 211,134 | 107,112 | — | 804,400 | 1,859,488 | 279,368 | 2,138,856 |

*Note a:* Pursuant to regulations in the PRC relating to the mining industry, the Group is 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. The utilization of the amount in the capital reserve account will be subjected to the rules in the PRC Companies Law and is not available for distribution to shareholders.

*Note b:* Amount represented additional cash contribution from Cathay Fortune Corporation ("CFC") in addition to the capital contribution upon the group restructuring in 2004. It represented cash paid by CFC to the Group as a compensation for the Group's expenses as a result of the restructuring. Accordingly, it is treated as deemed capital contribution. Such cash contribution is taxable in accordance with PRC Tax Law and an income tax of approximately RMB13,535,000 has been paid.

*Note c:* The Company originally held 77.8% equity interest in a subsidiary — Taibaoshan and the remaining 22.2% equity interest was held by the PRC government. Pursuant to a notice Luan Cai Guo Zi [2004] No. 6 <<Approval of Registration of Equity Interest of Taiboshan>> (欒財國資[2004]6號《關於對太寶山礦業有限公司註冊資本中產權確認的批復》) issued by the Ministry of Finance in 2004, the remaining 22.2% equity interest was transferred to the Company at nil consideration.

*Note d:* As disclosed in Note 38(b), the repayment of paid-in capital was waived by the PRC government as a compensation to the Group as a result of the restructuring in 2004. In accordance with the relevant PRC rules and regulations, such contribution was applied to set off accumulated losses brought forward.

## Notes to the financial information

### 1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Group finances its operations by short- and long-term bank borrowings and shareholders' equity. It had net current liabilities as at 31 December 2004, 2005 and 2006 with certain short-term bank borrowings which could be renewed on an annual basis at the discretion of the Company within limit approved by banks. The borrowing costs of such arrangement are lower comparing to long-term financing. The directors are of the opinion that, taking into account the presently available banking facilities and internal financial resources of the Group and the estimated net proceeds of the Hong Kong Public Offering and the International Placing, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months commencing from the date of this report. Hence, the Financial Information have been prepared on a going concern basis.

The consolidated Financial Information are presented in Renminbi ("RMB") which is the same as the functional currency of the Company.

### 2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has adopted all of new and revised Standards and Interpretations (hereinafter collectively referred to as "new IFRSs") issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are effective for accounting periods beginning on or after 1 January 2005, 1 December 2005 and 1 January 2006 in the preparation of the Financial Information throughout the Relevant Periods.

At the date of this report, the following standards, amendment and interpretations were in issue but not yet effective for the Relevant Periods:

| | |
|---|---|
| IAS 1 (Amendment) | Capital disclosures[1] |
| IFRS 7 | Financial instruments: Disclosures[1] |
| IFRS 8 | Operating Segments[2] |
| IFRIC 7 | Applying the restatement approach under IAS 29 Financial Reporting in Hyperinflationary Economies[3] |
| IFRIC 8 | Scope of IFRS 2[4] |
| IFRIC 9 | Reassessment of embedded derivatives[5] |
| IFRIC 10 | Interim financial reporting and impairment[6] |
| IFRIC 11 | IFRS 2: Group and treasury share transactions[7] |
| IFRIC 12 | Service Concession Arrangements[8] |

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

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

[3] Effective for annual periods beginning on or after 1 March 2006.

[4] Effective for annual periods beginning on or after 1 May 2006.

[5] Effective for annual periods beginning on or after 1 June 2006.

[6] Effective for annual periods beginning on or after 1 November 2006.

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis, except for certain financial instruments that have been measured at fair value, and in accordance with the following principal accounting policies which conform with International Financial Reporting Standards.

### Basis of consolidation

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

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

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

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

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

### Business combination

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the Group's interest in the fair values of the identifiable net assets, liabilities and contingent liabilities on the date of acquisition is recognized as goodwill. Any excess of the Group's interest in the net fair values of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition on the date of acquisition (i.e. discount on acquisition), after reassessment, is credited to profit and loss in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognized.

**Goodwill**

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

Capitalized goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

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

On subsequent disposal of a subsidiary, an associate, the attributable amount of goodwill capitalized is included in the determination of the amount of profit or loss on disposal.

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

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

**Investments in subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

**Interests in associates**

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the Financial Information using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognizing its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

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

**Investments in associates**

Investments in associates are included in the Company's balance sheet at cost, less any identified impairment loss. The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year.

**Revenue recognition**

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

Sales of goods are recognized when goods are delivered and title has passed. Revenue is recognized at the fair value of the consideration received or receivable.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

**Foreign currencies**

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period.

**Retirement benefits schemes**

The Group participates in retirement plans administered by the provincial government pursuant to which the Group pays a fixed percentage of the salaries and wages of its qualifying staff and employees as a contribution to the plan. The contribution payable in respect of the year to the retirement plans is charged to the income statement.

**Borrowing costs**

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

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

**Taxation**

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

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

Deferred tax is recognized on 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 which 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.

**Property, plant and equipment**

*Construction in progress*

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

*Other property, plant and equipment*

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

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

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

| | |
|---|---|
| Buildings and mining structure | 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 arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognized.

**Land use rights**

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

**Mining rights**

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

**Impairment of tangible assets**

At each balance sheet date, the 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, but so that the increased carrying amount does 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.

**Financial instruments**

Financial assets and financial liabilities are recognized on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

***Financial assets***

The Group's financial assets are classified into one of the three categories, financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognized and derecognized on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss includes financial assets held for trading. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including trade and other receivables, loan receivables, amount due from an associate, amount due from a shareholder and pledged bank deposits are carried at amortized cost using the effective interest method, less any identified impairment losses. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognized in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognized in equity is removed from equity and recognized in profit or loss. Any impairment losses on available-for-sale financial assets are recognized in profit or loss. Impairment losses on available-for-sale equity investments will not reverse through profit or loss in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

***Financial liabilities and equity***

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

*Financial liabilities*

Financial liabilities including trade and other payables, dividend payables, amount due to an associate and bank borrowings are subsequently measured at amortized cost, using the effective interest method.

*Financial guarantee*

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognized initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 Revenue.

*Equity instruments*

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

*Derecognition*

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

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, canceled or expires). The difference between the carrying amount of the financial liability derecognized and the consideration paid or receivable is recognized in profit or loss.

**Inventories**

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

**Leasing**

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

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

**Provision**

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

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

**Government grants**

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

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

**Provision for restoration, rehabilitation and environmental expenditure**

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

**Allowances for doubtful debts**

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

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

**Mining rights**

Mining rights are amortized on a straight line basis over the shorter of the contractual period and their estimated useful life based on the total proven and probable reserves of mine. The directors exercise their judgment in estimating the total proven and probable reserves of mine.

## 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise of loan receivables, held-for-trading investments, bank borrowings and bank balances and cash. The Group has various other financial instruments such as trade receivables and trade payables, which arise directly from its operations.

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

**Market risk**

(i) *Commodity price risk*

The Group's commodity price risk is mainly the exposure against fluctuations of commodity price of molybdenum which is the major commodity produced and sold by the Group. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(ii) *Fair value interest rate risk*

The Group's fair value interest rate risk relates primarily to fixed-rate bank borrowings and loan receivables. The Group currently does not entered into interest rate swaps to hedge against its exposure to changes in fair values of the bank borrowings. However, the management considers the fair value interest rate risk is insignificant due to substantial bank borrowings are due within one year.

(iii) *Foreign currency risk*

The Group has certain foreign currency sales, which expose the Group to foreign currency risk. The Group currently does not have hedging policy in respect of the foreign currency risk. However, management monitors the related foreign currency risk exposure closely and will consider hedging significant foreign currency risk exposure should the need arises.

**Credit risk**

The Group trades only with recognized, creditworthy third parties. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to credit risk is not significant.

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

With respect to credit risk arising from the other financial assets of the Group which comprise cash and cash equivalents and amounts due from related companies, the Group's exposure to credit risk arising from default of counterparties is limited as the counterparties have good credit standing and the Group does not expect any significant loss for uncollected advances from these entities.

The Group has concentration of credit risk of the Group's loan receivables from a few entities and trade receivables from certain customers. In order to minimize the credit risk, the management continuously monitor the level of exposure to ensure that follow-up action and/or corrective actions are taken promptly to lower exposure or even to recover over due balances.

**Liquidity risk**

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. In the opinion of the Directors, most of the borrowings that mature within one year are able to renew on an annual basis at the discretion of the Group within limit approved by banks and the Group expects to have adequate source of funding to finance the Group and manage the liquidity position.

## 6. TURNOVER AND SEGMENT INFORMATION

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

| | Year ended 31 December | | |
|---|---|---|---|
| | **2004** | **2005** | **2006** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| Sales of goods | | | |
| — 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 |
| — molybdenum ore | 19,401 | 106,022 | 34,778 |
| — others | 22,521 | 191,727 | 443,259 |
| | 1,170,384 | 2,300,527 | 3,826,221 |

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

**Primary reporting segment — geographical segments**

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

*Income statements*

| | Year ended 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| Turnover | | | |
| PRC | 505,280 | 1,126,852 | 2,491,594 |
| Korea | 551,730 | 775,393 | 680,556 |
| U.S. | 71,319 | 302,862 | 484,020 |
| Others | 42,055 | 95,420 | 170,051 |
| | 1,170,384 | 2,300,527 | 3,826,221 |
| Segment result | | | |
| PRC | 319,700 | 861,771 | 1,684,642 |
| Korea | 349,091 | 592,990 | 460,144 |
| U.S. | 45,124 | 231,617 | 327,260 |
| Others | 26,609 | 72,973 | 114,977 |
| | 740,524 | 1,759,351 | 2,587,023 |
| Interest income | 3,534 | 5,610 | 13,401 |
| Other income (excluding interest income) | 10,078 | 7,948 | 12,101 |
| Share of results of associates | 2,263 | 11,048 | 7,048 |
| Unallocated expenses | (293,791) | (129,809) | (117,012) |
| Finance costs | (15,410) | (14,312) | (48,275) |
| 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 |

*Assets and liabilities*

| | At 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| Segment assets | | | |
| PRC | 19,530 | 105,609 | 270,724 |
| Korea | 37,388 | — | 57,841 |
| U.S. | 63,369 | 74,007 | 274,266 |
| Others | — | 48,298 | 30,628 |
| | 120,287 | 227,914 | 633,459 |
| Unallocated assets | 1,080,714 | 2,166,621 | 3,892,120 |
| Consolidated total assets | 1,201,001 | 2,394,535 | 4,525,579 |

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

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

## 7. OTHER INCOME

| | Year ended 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| Bank interest income | 3,534 | 1,944 | 7,244 |
| Fair value change on held-for-trading investments | — | — | 488 |
| Interest income on loan receivables | — | 3,666 | 4,431 |
| Interest income on debentures | — | — | 1,726 |
| Discount on acquisition of a subsidiary | — | — | 5,102 |
| Net gain on sales of scrap materials | 1,144 | 2,172 | 478 |
| Waiver of long outstanding payables *(note a)* | 5,605 | — | 2,122 |
| Government grants recognized *(note b)* | — | 3,750 | 2,020 |
| Others | 3,329 | 2,026 | 1,891 |
| | 13,612 | 13,558 | 25,502 |

*Notes:*

a. The amounts represented long-aged payables which the respective creditors are either liquidated or unable to reach by the Group for a long period of time.

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

## 8. RESTRUCTURING EXPENSES

Pursuant to several government notices in 2002, the Group had started considering the transformation to be carried out on the Group (the "Restructuring"). The Restructuring comprises a series of streamlining exercise carried out during the Relevant Periods. In 2004, pursuant to a notice of Luo Zhen [2004] No. 71 <<Approval of Transformation of the Group>> 洛政[2004]71號《關於洛陽欒川鉬業集團有限公司進行體制改革的批復》 and <<Resolution of Restructuring of the Group>> 《關於審議通過洛陽欒川鉬業集團有限責任公司改制方案的決議》, the Group had confirmed the introduction of an outside investor into the Company and carried out the following major restructuring exercises:

(i) Distribution of certain assets to the PRC government;

(ii) Disposal of certain assets of the Group;

(iii) Transformation of staff housing policy; and

(iv) Termination of employment of existing staffs with state-owned company and transformation of employment status

The Company was transformed from a wholly state-owned company to a limited liability company with partial private ownership in September 2004 when CFC subscribed for 49% of equity interest in the Company.

The Restructuring had lead to the following expenses in the Relevant Periods:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2004** | **2005** | **2006** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| Education compensation expense paid to PRC government *(note a)* | — | 15,000 | — |
| Employee Settlement Cost *(note b)* | 116,975 | — | — |
| Loss on dissolution of subsidiaries *(note c)* | 879 | — | — |
| Other restructuring cost *(note d)* | 14,336 | — | — |
| | 132,190 | 15,000 | — |

*Notes:*

(a) Pursuant to the <<Agreement of Transferring the management of state-owned schools to the Government>> 《洛陽市欒川縣國有企業辦中小學移交政府管理協議書》 signed by the Company and the People's Government of Luanchuan County 欒川縣人民政府 in August 2005, the Group paid a one-off expenses of RMB15,000,000 as a compensation to the PRC government for the termination of the Group's commitment to pay any future education expenses to schools.

(b) As a result of the Restructuring, the employment contracts between the employee and the state-owned company were terminated. New employment contracts were signed between the employees and the limited liability company with partial private ownership. As a result, a total amount of approximately RMB116,975,000 was paid as termination benefits upon the completion of the Restructuring (the "Employee Settlement Cost").

The Employee Settlement Cost mainly comprises the following terms:

(i) An one-off economic compensation is paid to the qualified contracted employees as approved by the relevant government authority. The compensation is calculated based on factors including the actual number of years of service and the average salary determined by the PRC government. These employees continued to work in the Group.

(ii) Employees reach the statutory retirement age within 5 years or have been worked for more than 30 years. They could either choose the compensation plan as per (i) above and continue to work for the Group or received an early retirement compensation and discontinue service with the Group thereafter. The early retirement compensation is calculated based on factors including the remaining number of years of service from the date of early retirement to the normal retirement date and the salary on the date of early retirement of an employee. These employees could not change their options once they choose one of the plans.

(c) During the year ended 31 December 2004, the Group dissolved certain of its subsidiaries as a result of the Restructuring. The net assets of these subsidiaries at the date of dissolution was minimal and resulted in a loss on dissolution of approximately RMB879,000 which mainly represented payment for dissolution expenses.

(d) Other restructuring cost represented directly attributable cost as a result of the Restructuring which mainly comprise of staff housing compensation expense. Pursuant to the notice of Luan Cai Guo Zi [2004] No. 4 <<Confirmation of changes of staff quarters during the restructuring>> 欒財國資[2004]4號《關於對洛陽欒川鉬業集團有限責任公司改制過程中職工住房屋改核銷的批復》 issued by the Ministry of Finance, the Group incurred a one-off expense to certain employees for termination of the Group's commitment to pay any future housing allowances and/or provision of staff quarters.

## 9. OTHER EXPENSES

| | Year ended 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| Loss on disposal of property, plant and equipment | 22,247 | 25,976 | 11,254 |
| Impairment loss on property, plant and equipment. | 32,851 | — | — |
| Penalty expenses | 2,328 | 2,112 | 900 |
| Donations | 2,553 | 3,478 | 3,225 |
| Education expenses *(note a)* | 2,404 | 1,723 | — |
| Goodwill written off from acquisition of subsidiaries *(note b)* | — | — | 3,439 |
| Others | 13,321 | 2,584 | 1,017 |
| | 75,704 | 35,873 | 19,835 |

*Notes:*

(a) As disclosed in note 8(a), the Group's commitment to pay any future education expenses to schools was terminated since August 2005.

(b) The Directors are of the view that the goodwill arising on acquisition of subsidiaries is immaterial and was written off directly at the date of acquisitions.

## 10. FINANCE COSTS

| | Year ended 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| Interests on bank borrowings wholly repayable within five years | 19,252 | 21,913 | 62,444 |
| Other interest expenses | — | 1,590 | 1,670 |
| Less: Amount included in the cost of qualifying assets | (3,842) | (9,191) | (15,839) |
| | 15,410 | 14,312 | 48,275 |

Borrowing costs included in the cost of qualifying assets on the general borrowing pool and are calculated by applying a capitalisation rate of 7.08%, 6.60% and 7.27% for the years ended 31 December 2004, 2005, 2006 respectively, to expenditure on such assets for the Relevant Periods.

## 11. TAXATION

| | Year ended 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| The charge comprises PRC Enterprise Income Tax: | | | |
| Current taxation | 173,549 | 494,334 | 722,718 |
| Deferred taxation (credit) charge | (7,669) | (11,825) | 17,103 |
| | 165,880 | 482,509 | 739,821 |

The Group, except for Luoyang High Tech, was 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 Enterprise Income Tax of 15% with the first two years' result being exempted from Enterprise Income Tax.

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

| | Year ended 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | 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 | 51,191 | 6,918 | 1,837 |
| Transfer to capital reserve deductible for tax purposes but not charge to income under IFRS (Note a) | (23,669) | (36,436) | (62,533) |
| Tax effect of income not taxable for tax purposes | (1,886) | (7,100) | (7,071) |
| Reduction of income tax in respect of Tax Benefit (Note b) | (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 |

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

*Notes:*

(a) Amount represents the tax effect of 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 pursuant to relevant PRC regulations as stated in Note (a) of the consolidated statement of changes in equity. This expense is not charged to income under IFRS.

(b) Pursuant to the government notice of Cai Shui Zi [2000] No. 49 財稅字[2000]49號, the Company is entitled to a tax benefit ("Tax Benefit"), which is calculated as 40% of the additions of PRC produced plant and equipment for production use in 2003 and 2004. The Tax Benefit 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 Benefit 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. The Company has utilized the Tax Benefit in 2004 and 2005 respectively.

## 12. PROFIT FOR THE YEAR

| | Year ended 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| Profit for the year has been arrived at after charging: | | | |
| Directors' remuneration *(note 13)* | 1,298 | 223 | 1,512 |
| Other staff's salary, bonus and allowance | 102,492 | 156,886 | 209,271 |
| Other staff's contribution to retirement benefit cost | 11,624 | 3,916 | 12,901 |
| Total staff costs | 115,414 | 161,025 | 223,684 |
| Auditors' remuneration | 533 | 658 | 970 |
| Cost of inventories recognized as an expense | 423,814 | 530,863 | 1,209,716 |
| Net foreign exchange (gains) losses | (9) | 1,494 | 1,532 |
| Depreciation and amortization of owned assets of property, plant and equipment | 20,193 | 30,589 | 71,700 |
| Amortization of land use rights | 1,643 | 3,596 | 3,993 |
| Amortization of mining rights (included in cost of sales) | — | — | 9,073 |
| Reversal of allowance for doubtful debts | (1,652) | (1,318) | (784) |
| Share of tax of associates (included in share of results of associates) | — | 4,985 | 3,575 |
| Mineral resources compensation fee *(note)* | 13,501 | 35,858 | 45,117 |

*Note:* Mineral resources compensation fee is calculated on the basis of a ratio of the sales income of mineral products during the Relevant Periods by reference to the compensation fee rate and coefficient of mining recovery rate.

## 13. DIRECTORS AND EMPLOYEES' EMOLUMENTS

| | Year ended 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| Directors' fees | — | — | 728 |
| Other emoluments for non-executive directors and independent non-executive directors | — | — | — |
| Other emoluments for executive directors | | | |
| — basic salaries and allowances | 177 | 168 | 729 |
| — performance related bonus | 1,117 | 48 | 39 |
| — retirement benefits scheme contributions | 4 | 7 | 16 |
| | 1,298 | 223 | 1,512 |

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

| | Directors' fees | Basic salaries and allowances | Retirement benefit contribution | Performance related bonus | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **For the year ended 31 December 2004** | | | | | |
| *Name of director* | | | | | |
| 段玉賢 Duan, Yuxian | — | 63 | 2 | 399 | 464 |
| 李發本 Li, Faben | — | 57 | 1 | 359 | 417 |
| 王欽喜 Wang, Qinxi | — | 57 | 1 | 359 | 417 |
| | — | 177 | 4 | 1,117 | 1,298 |

| | Directors' fees RMB'000 | Basic salaries and allowances RMB'000 | Retirement benefit contribution RMB'000 | Performance related bonus RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **For the year ended 31 December 2005** | | | | | |
| *Name of director* | | | | | |
| 段玉賢 Duan, Yuxian. . . . . . . . . . . | — | 60 | 3 | 16 | 79 |
| 趙毅 Zhao, Yi . . . . . . . . . . . . . . . | — | — | — | — | — |
| 孫克治 Sun, Kezhi . . . . . . . . . . . . | — | — | — | — | — |
| 許軍 Xu, Jun. . . . . . . . . . . . . . . . | — | — | — | — | — |
| 陳剛 Chen, Gang . . . . . . . . . . . . . | — | — | — | — | — |
| 李發本 Li, Faben . . . . . . . . . . . . . | — | 54 | 2 | 16 | 72 |
| 王欽喜 Wang, Qinxi . . . . . . . . . . . | — | 54 | 2 | 16 | 72 |
| | — | 168 | 7 | 48 | 223 |
| **For the year ended 31 December 2006** | | | | | |
| *Name of director* | | | | | |
| 段玉賢 Duan, Yuxian. . . . . . . . . . . | 260 | 271 | 6 | 13 | 550 |
| 趙毅 Zhao, Yi . . . . . . . . . . . . . . . | — | — | — | — | — |
| 孫克治 Sun, Kezhi . . . . . . . . . . . . | — | — | — | — | — |
| 許軍 Xu, Jun. . . . . . . . . . . . . . . . | — | — | — | — | — |
| 張玉峰 Zhang, Yufeng . . . . . . . . . . | — | — | — | — | — |
| 高德柱 Gao, Dezhu . . . . . . . . . . . . | — | — | — | — | — |
| 曾紹金 Zeng, Shaojin. . . . . . . . . . . | — | — | — | — | — |
| 古德生 Gu, Desheng . . . . . . . . . . . | — | — | — | — | — |
| 吳明華 Ng, Ming Wah . . . . . . . . . . | — | — | — | — | — |
| 陳剛 Chen, Gang . . . . . . . . . . . . . | — | — | — | — | — |
| 李發本 Li, Faben . . . . . . . . . . . . . | 234 | 229 | 5 | 13 | 481 |
| 王欽喜 Wang, Qinxi . . . . . . . . . . . | 234 | 229 | 5 | 13 | 481 |
| | 728 | 729 | 16 | 39 | 1,512 |

**Highest paid individuals**

The five highest paid individuals included three directors for the year ended 31 December 2004, 2005 and 2006. The emoluments of the remaining two highest paid individuals for the year ended 31 December 2004, 2005 and 2006, are as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| Employees | | | |
| — basic salaries and allowances | 291 | 281 | 458 |
| — bonus | 1,835 | 76 | 494 |
| — retirement benefits scheme contributions | 6 | 10 | 10 |
| | 2,132 | 367 | 962 |

The emoluments of each of the five highest paid individuals in the Group during the Relevant Periods were below RMB1,040,000 (equivalent to HK$1,000,000).

During the Relevant Periods, no emoluments were paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the Relevant Periods.

## 14. DIVIDENDS

| | Year ended 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| Dividends | 75,000 | 519,957 | 760,110 |

The rates of dividend and the number of shares ranking for dividend are not presented as such information is not considered meaningful for the purpose of this report.

## 15. EARNINGS PER SHARE — BASIC

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

| | Year ended 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| Profit for the year attributable to equity holders of the Company and earnings for the purpose of basic earnings per share *(RMB'000)* | 276,289 | 1,157,327 | 1,515,263 |
| Weighted average number of shares for the purpose of basic earnings per share | 3,258,183,939 | 3,500,000,000 | 3,563,085,796 |

The weighted average number of shares for the purpose of calculating basic earnings per share has been determined after taking into consideration the 700,000,000 shares issued upon the transformation of the Company into a joint stock limited company on 25 August 2006 and has been adjusted for the share split effective on the date of the prospectus (Note 38).

There are no diluted earnings per share presented for the Relevant Periods as there are no potential ordinary shares outstanding during the Relevant Periods.

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Buildings and mining structures RMB'000 | Plant and machinery RMB'000 | Furniture, fixtures and equipment RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **THE GROUP** | | | | | | |
| COST | | | | | | |
| At 1 January 2004 | 423,419 | 160,355 | 21,774 | 31,912 | 40,220 | 677,680 |
| Additions | 79,773 | 5,580 | 9,948 | 8,618 | 82,998 | 186,917 |
| Disposals | (59,189) | (11,575) | (30,848) | (13,341) | — | (114,953) |
| Transfers | 8,772 | 133 | 12,112 | — | (21,017) | — |
| At 31 December 2004 | 452,775 | 154,493 | 12,986 | 27,189 | 102,201 | 749,644 |
| Additions | 53,890 | 62,238 | 4,546 | 19,211 | 541,414 | 681,299 |
| Disposals | (69,399) | (14,612) | (1,222) | (788) | — | (86,021) |
| Transfers | 34,942 | 37,115 | 5,841 | — | (77,898) | — |
| At 31 December 2005 | 472,208 | 239,234 | 22,151 | 45,612 | 565,717 | 1,344,922 |
| Additions | 48,567 | 38,664 | 6,558 | 23,375 | 714,104 | 831,268 |
| Acquired on acquisition of subsidiaries | 53,169 | 58,752 | 454 | 4,658 | 11,413 | 128,446 |
| Disposal of a subsidiary | — | — | (5) | — | — | (5) |
| Disposals | (21,222) | (23,289) | (3,829) | (12,761) | — | (61,101) |
| Transfers | 776,329 | 158,878 | 44,245 | 258 | (979,710) | — |
| At 31 December 2006 | 1,329,051 | 472,239 | 69,574 | 61,142 | 311,524 | 2,243,530 |
| DEPRECIATION AND IMPAIRMENT | | | | | | |
| At 1 January 2004 | (98,563) | (87,251) | (14,188) | (23,942) | — | (223,944) |
| Provided for the year | (12,414) | (3,818) | (2,758) | (1,203) | — | (20,193) |
| Impairment loss recognized | (25,197) | (6,364) | (194) | (1,096) | — | (32,851) |
| Eliminated on disposals | 9,254 | 14,325 | 12,353 | 11,262 | — | 47,194 |
| At 31 December 2004 | (126,920) | (83,108) | (4,787) | (14,979) | — | (229,794) |
| Provided for the year | (14,253) | (12,759) | (1,320) | (2,257) | — | (30,589) |
| Eliminated on disposals | 44,257 | 13,625 | 1,222 | 616 | — | 59,720 |
| At 31 December 2005 | (96,916) | (82,242) | (4,885) | (16,620) | — | (200,663) |
| Provided for the year | (28,439) | (28,775) | (9,448) | (5,038) | — | (71,700) |
| Eliminated on disposals | 8,938 | 15,377 | 787 | 8,193 | — | 33,295 |
| At 31 December 2006 | (116,417) | (95,640) | (13,546) | (13,465) | — | (239,068) |
| CARRYING VALUES | | | | | | |
| At 31 December 2004 | 325,855 | 71,385 | 8,199 | 12,210 | 102,201 | 519,850 |
| At 31 December 2005 | 375,292 | 156,992 | 17,266 | 28,992 | 565,717 | 1,144,259 |
| At 31 December 2006 | 1,212,634 | 376,599 | 56,028 | 47,677 | 311,524 | 2,004,462 |

| | Buildings and mining structures RMB'000 | Plant and machinery RMB'000 | Furniture, fixtures and equipment RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **THE COMPANY** | | | | | | |
| COST | | | | | | |
| At 1 January 2004 | 250,133 | 98,791 | 11,542 | 24,523 | 36,811 | 421,800 |
| Additions | 110,289 | 14,730 | 7,346 | 8,796 | 58,217 | 199,378 |
| Disposals | (79,351) | (10,485) | (27,112) | (10,158) | — | (127,106) |
| Transfers | 8,772 | 416 | 15,173 | — | (24,361) | — |
| At 31 December 2004 | 289,843 | 103,452 | 6,949 | 23,161 | 70,667 | 494,072 |
| Additions | 36,706 | 56,119 | 3,055 | 16,991 | 486,494 | 599,365 |
| Disposals | (39,284) | (10,390) | (284) | (226) | — | (50,184) |
| Transfers | 17,809 | — | — | — | (17,809) | — |
| At 31 December 2005 | 305,074 | 149,181 | 9,720 | 39,926 | 539,352 | 1,043,253 |
| Additions | 98,772 | 53,074 | 4,821 | 19,450 | 647,436 | 823,553 |
| Disposals | (20,421) | (17,282) | (136) | (8,282) | — | (46,121) |
| Transfer | 772,595 | 162,505 | 30,264 | 258 | (965,622) | — |
| At 31 December 2006 | 1,156,020 | 347,478 | 44,669 | 51,352 | 221,166 | 1,820,685 |
| DEPRECIATION AND IMPAIRMENT | | | | | | |
| At 1 January 2004 | (27,380) | (57,779) | (7,611) | (19,258) | — | (112,028) |
| Provided for the year | (8,953) | (4,397) | (2,526) | (958) | — | (16,834) |
| Impairment loss recognized | (13,773) | (3,295) | (1,227) | (679) | — | (18,974) |
| Eliminated on disposals | 27,367 | 6,406 | 6,206 | 7,733 | — | 47,712 |
| At 31 December 2004 | (22,739) | (59,065) | (5,158) | (13,162) | — | (100,124) |
| Provided for the year | (9,558) | (6,121) | (565) | (1,754) | — | (17,998) |
| Eliminated on disposals | 4,747 | 83 | 11 | — | — | 4,841 |
| At 31 December 2005 | (27,550) | (65,103) | (5,712) | (14,916) | — | (113,281) |
| Provided for the year | (24,560) | (19,522) | (8,325) | (4,006) | — | (56,413) |
| Eliminated on disposals | 8,734 | 14,084 | 21 | 7,777 | — | 30,616 |
| At 31 December 2006 | (43,376) | (70,541) | (14,016) | (11,145) | — | (139,078) |
| CARRYING VALUES | | | | | | |
| At 31 December 2004 | 267,104 | 44,387 | 1,791 | 9,999 | 70,667 | 393,948 |
| At 31 December 2005 | 277,524 | 84,078 | 4,008 | 25,010 | 539,352 | 929,972 |
| At 31 December 2006 | 1,112,644 | 276,937 | 30,653 | 40,207 | 221,166 | 1,681,607 |

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

During the year ended 31 December 2004, the Group was informed by the PRC government that the underground mining method had to be abandoned. Accordingly, the directors conducted a review of the Group's manufacturing assets and determined that a number of those assets were impaired as a result of the intended abandonment of the underground mining method. Accordingly, impairment losses have been recognized in respect of buildings, plant and machinery, furniture, fixtures and equipment and motor vehicles. The recoverable amounts of the relevant assets have been determined on the basis of their fair value less costs to sell. The fair value of these assets are determined by reference to the current market price. The abandonment of the underground mining method was formally announced by the People's Government of Luoyang City 洛陽市人民政府 in 2005, pursuant to the notice <<Abolition of the underground mining and illegal mining method>> 《關於取締三道庄礦區地下採礦和非法採礦的緊急通知》.

Certain of the Group's plant and machinery with aggregate net book values of approximately RMB96,750,000, RMB41,666,000 and RMBnil as at 31 December 2004, 2005 and 2006 respectively are pledged against the banking facilities granted to the Group.

## 17. LAND USE RIGHTS

| | At 31 December | | |
|---|---|---|---|
| | **2004** | **2005** | **2006** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| **THE GROUP** | | | |
| CARRYING AMOUNT | | | |
| At beginning of the year | 146,414 | 141,187 | 196,232 |
| Additions | 12,237 | 61,461 | 24,069 |
| Disposals | — | (2,820) | — |
| Distribution to government *(note 38(b))* | (15,821) | — | — |
| Charged to income statement | (1,643) | (3,596) | (3,993) |
| At end of the year | 141,187 | 196,232 | 216,308 |
| **THE COMPANY** | | | |
| CARRYING AMOUNT | | | |
| At beginning of the year | 99,056 | 105,897 | 113,915 |
| Additions | 11,347 | 10,893 | 22,037 |
| Transfer from subsidiaries | 16,141 | — | 21,229 |
| Disposals | (3,881) | — | — |
| Distribution to government | (15,821) | — | — |
| Charged to income statement | (945) | (2,875) | (3,326) |
| At end of the year | 105,897 | 113,915 | 153,855 |

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

| | At 31 December | | |
|---|---|---|---|
| | **2004** | **2005** | **2006** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| **THE GROUP** | | | |
| Land use rights | 141,187 | 196,232 | 216,308 |
| Less: Portion to be charged to income statement in the coming twelve months and grouped under current assets | (3,560) | (4,789) | (5,271) |
| Amount due after one year | 137,627 | 191,443 | 211,037 |
| **THE COMPANY** | | | |
| Land use rights | 105,897 | 113,915 | 153,855 |
| Less: Portion to be charged to income statement in the coming twelve months and grouped under current assets | (2,839) | (3,057) | (3,987) |
| Amount due after one year | 103,058 | 110,858 | 149,868 |

The land use rights were acquired with the lease period of 50 years and were situated in the PRC. The land use rights are amortised over their lease periods. As at 31 December 2006, the land use rights have remaining lease periods ranging from 41 to 48 years.

## 18. MINING RIGHTS

| | RMB'000 |
|---|---|
| **THE GROUP AND THE COMPANY** | |
| COST | |
| At 1 January 2006 | — |
| Addition | 401,486 |
| At 31 December 2006 | 401,486 |
| ACCUMULATED AMORTIZATION | |
| At 1 January 2006 | — |
| Amortization | 9,073 |
| At 31 December 2006 | 9,073 |
| CARRYING VALUES | |
| At 31 December 2006 | 392,413 |

During the Relevant Periods, the Group obtained mining rights license from the PRC government free of charge prior to the purchase of the mining rights in August 2006, and hence no amortization charge thereof was recorded in the Group's consolidated income statement for the period prior to August 2006.

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

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

## 19. INVESTMENTS IN SUBSIDIARIES

| | At 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| Investments at cost: | | | |
| Capital contribution | 95,811 | 108,441 | 292,608 |

## 20. INTERESTS IN ASSOCIATES/INVESTMENTS IN ASSOCIATES

| | At 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| **THE GROUP** | | | |
| Capital contribution/unlisted investments, at cost | 20,000 | 21,650 | 21,650 |
| Share of post-acquisition profits | 5,349 | 16,397 | 23,445 |
| | 25,349 | 38,047 | 45,095 |
| **THE COMPANY** | | | |
| Capital contribution/unlisted investments, at cost | 20,000 | 21,650 | 21,650 |

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

| | At 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| Total assets | 81,263 | 124,565 | 143,450 |
| Total liabilities | (17,889) | (28,614) | (29,537) |
| Net assets | 63,374 | 95,951 | 113,913 |
| Group's share of net assets of associates | 25,349 | 38,047 | 45,095 |
| Revenue | 33,452 | 85,368 | 629,632 |
| Profit for the year | 5,658 | 27,576 | 17,963 |
| Group's share of result of associates for the year | 2,263 | 11,048 | 7,048 |

## 21. AVAILABLE-FOR-SALE INVESTMENTS

| | At 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| **THE GROUP** | | | |
| Unlisted equity securities: | | | |
| — cost | 2,100 | 2,300 | 2,300 |
| **THE COMPANY** | | | |
| Unlisted equity securities: | | | |
| — cost | — | 200 | 200 |

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

## 22. DEFERRED TAX ASSETS

The followings are the deferred tax assets recognized and movements thereon during the Relevant Periods:

| | Impairment of property, plant and equipment RMB'000 | Allowance for receivable RMB'000 | Unrealized profit *(note)* RMB'000 | Tax losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **THE GROUP** | | | | | |
| At 1 January 2004 | — | 5,066 | — | 5,890 | 10,956 |
| Credit (charge) to income statement for the year | 10,841 | (545) | 3,263 | (5,890) | 7,669 |
| At 31 December 2004 | 10,841 | 4,521 | 3,263 | — | 18,625 |
| (Charge) credit to income statement for the year | (7,770) | (435) | 20,030 | — | 11,825 |
| At 31 December 2005 | 3,071 | 4,086 | 23,293 | — | 30,450 |
| Acquisition of subsidiaries | 3,521 | — | — | — | 3,521 |
| Charge to income statement for the year | (2,134) | (259) | (14,710) | — | (17,103) |
| At 31 December 2006 | 4,458 | 3,827 | 8,583 | — | 16,868 |

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

| | Impairment of property, plant and equipment RMB'000 | Allowance for receivable RMB'000 | Unrealized profit *(note)* RMB'000 | Tax losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **THE COMPANY** | | | | | |
| At 1 January 2004 | — | 3,808 | — | 4,481 | 8,289 |
| Credit (charge) to income statement for the year | 5,530 | (1,165) | 1,843 | (4,481) | 1,727 |
| At 31 December 2004 | 5,530 | 2,643 | 1,843 | — | 10,016 |
| (Charge) credit to income statement for the year | (3,854) | 751 | 10,135 | — | 7,032 |
| At 31 December 2005 | 1,676 | 3,394 | 11,978 | — | 17,048 |
| Charge to income statement for the year | (789) | (1,172) | (11,978) | — | (13,939) |
| At 31 December 2006 | 887 | 2,222 | — | — | 3,109 |

*Note:* Amounts represented unrealized profit resulting from transactions between the internal units within the Company which are eliminated by inclusion in the carrying amount of inventories. Each internal unit is individual tax unit under PRC Tax Law.

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

## 23. INVENTORIES

| | At 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| **THE GROUP** | | | |
| Raw materials | 34,163 | 44,293 | 98,155 |
| Work in progress | 4,830 | 39,628 | 11,776 |
| Finished goods | 16,776 | 79,978 | 110,749 |
| | 55,769 | 163,899 | 220,680 |
| **THE COMPANY** | | | |
| Raw materials | 32,382 | 35,699 | 63,346 |
| Work in progress | — | — | 2,468 |
| Finished goods | 15,590 | 75,208 | 86,594 |
| | 47,972 | 110,907 | 152,408 |

## 24. TRADE AND OTHER RECEIVABLES

| | At 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| **THE GROUP** | | | |
| Trade receivables | 120,054 | 211,791 | 554,208 |
| Bill receivables | 233 | 16,123 | 79,251 |
| | 120,287 | 227,914 | 633,459 |
| Other receivables and prepayments | 31,322 | 43,296 | 47,515 |
| | 151,609 | 271,210 | 680,974 |
| **THE COMPANY** | | | |
| Trade receivables | 119,630 | 192,875 | 453,442 |
| Bill receivables | — | 7,248 | 48,717 |
| | 119,630 | 200,123 | 502,159 |
| Other receivables and prepayments | 9,000 | 23,334 | 32,315 |
| | 128,630 | 223,457 | 534,474 |

The Group normally allows credit period of no longer than 90 and 30 days to its domestic and overseas customers respectively. The aged analysis of trade receivables and bill receivables is as follows:

| | At 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| **THE GROUP** | | | |
| 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 |
| Allowance for doubtful debts | (11,391) | (10,455) | (7,535) |
| | 120,287 | 227,914 | 633,459 |
| **THE COMPANY** | | | |
| 0–90 days | 119,679 | 123,850 | 472,602 |
| 91–180 days | 2 | 73,650 | 15,680 |
| 181–365 days | 5,450 | 1,846 | 589 |
| 1–2 years | — | 5,274 | 15,209 |
| > 2 years | 220 | 4,088 | 748 |
| | 125,351 | 208,708 | 504,828 |
| Allowance for doubtful debts | (5,721) | (8,585) | (2,669) |
| | 119,630 | 200,123 | 502,159 |

The fair values of trade and other receivables at each balance sheet date approximate to the corresponding carrying amounts.

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

| | At 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| **THE GROUP AND THE COMPANY** | | | |
| United States Dollars | 13,192 | 12,826 | 362,578 |

## 25. LOAN RECEIVABLES

| | At 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| **THE GROUP** | | | |
| Yichuan Electric Power Group Corp. Baoyushan Coal Mine (伊川電力集團總公司寶雨山煤礦) *(Note 1)* | 50,000 | 20,000 | — |
| Luoyang Baima Group Co., Ltd. ("Luoyang Baima Group") (洛陽白馬集團有限責任公司) *(Note 2)* | — | 80,000 | — |
| Luoyang City Xinlongan Real Estate Co., Ltd. (洛陽市新龍安房地產置業有限公司) *(Note 1)* | — | 10,000 | — |
| | 50,000 | 110,000 | — |
| **THE COMPANY** | | | |
| Yichuan Electric Power Group Corp. Baoyushan Coal Mine (伊川電力集團總公司寶雨山煤礦) *(Note 1)* | 50,000 | 20,000 | — |
| Luoyang Baima Group *(Note 2)* | — | 80,000 | — |
| Luoyang City Xinlongan Real Estate Co., Ltd. (洛陽市新龍安房地產置業有限公司) *(Note 1)* | — | 10,000 | — |
| | 50,000 | 110,000 | — |

*Note 1:* The amounts at balance sheet date represent fixed rate loan advanced to those entities arranged through the bank. The loans were secured, bearing interest ranged from 5.74% to 7.2%, repayable on demand in the Relevant Periods. The loans were denominated in the functional currency of the relevant group entity. During the year ended 31 December 2006, all the balances were settled.

*Note 2:* As at 31 December 2005, RMB80 million represented fixed rate loan arranged through bank which carried interest at 4.96% per annum. The amount is secured by certain property, plant and equipment of Luoyang Baima Group and was repayable on demand. The RMB80 million was repaid on 20 October 2006.

Except for Luoyang Baima Group which is a related company of the Group, all other entities are independent third parties.

The fair values of loan receivables at each balance sheet date approximates to the corresponding carrying amounts.

## 26. AMOUNTS DUE FROM SUBSIDIARIES

| | At 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| Dachuan (洛陽大川鉬鎢科技有限責任公司) | 23,172 | 110,668 | 109,599 |
| Yiyuan (上海伊源鎢鉬有限公司) | 184 | 184 | — |
| Luomu Group Refining (洛陽欒川鉬業集團冶煉有限責任公司) | 4,389 | 24,786 | 41,145 |
| Luomu Group Sales and Trading (洛陽欒川鉬業集團鎢鉬銷售貿易有限責任公司) | 1,403 | 2,004 | 8,227 |
| Taibaoshan (洛陽欒川鉬業集團太寶山礦業有限責任公司) | 120,576 | 60,704 | — |
| Luoyang High Tech (洛陽高科鉬鎢材料有限公司) | — | 150,673 | 112,213 |
| | 149,724 | 349,019 | 271,184 |

Amounts mainly represent trade receivables from subsidiaries which aged within 90 days. The amounts were unsecured, interest-free and repayable on demand.

The fair value of amounts due from subsidiaries at each balance sheet date approximates to the corresponding carrying amounts.

## 27. AMOUNT DUE FROM AN ASSOCIATE

| | At 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| **THE GROUP AND THE COMPANY** | | | |
| Trade receivables from Shanghai Yuhua Molybdenum Co., Ltd. | — | 1,999 | 2,630 |

*Note:* The amount at each balance sheet date was aged within 90 days. Shanghai Yuhua Molybdenum Co., Ltd. is the associate of the Group at 31 December 2005 and 2006.

The amount was unsecured, interest-free and repayable on demand.

The fair value of amounts due from associates at each balance sheet date approximates to the corresponding carrying amounts.

## 28. AMOUNT DUE FROM A SHAREHOLDER

| | At 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| **THE GROUP AND THE COMPANY** | | | |
| Luoyang SASAC (洛陽市人民政府國有資產監督管理委員會) | 34,556 | — | — |

The amount was unsecured, interest-free and repayable on demand. The amount represented the maximum amount outstanding during the year ended 31 December 2004.

The fair value of amount due from shareholder at 31 December 2004 approximates to the corresponding carrying amounts.

## 29. HELD-FOR-TRADING INVESTMENTS

| | At 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| **THE GROUP** | | | |
| 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 |
| THE COMPANY | | | |
| Quoted debentures | — | 60,000 | 60,348 |
| Quoted unit trust | — | — | 40,140 |
| Marketable securities | — | — | 1,000 |
| Investments funds | 10 | 10 | — |
| Other debentures | — | — | 5 |
| | 10 | 60,010 | 101,493 |

**Breakdown of quoted debentures:**

| | At 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| **THE GROUP AND THE COMPANY** | | | |
| Quoted debentures: | | | |
| — 2005 Industrial and Commercial Bank of China Bonds — First Issue (2005年中國工商銀行債券第一期) *(Note 1)* | — | 10,000 | 10,000 |
| — 2005 Ji Zhang Shi Government Bonds — 9th Issue (2005年記賬式(九期)國債) *(Note 2)* | — | 50,000 | 50,348 |
| | — | 60,000 | 60,348 |

*Note 1:* The debentures were unsecured, carry interest at 3.11% per annum and will be matured on 28 August 2015.

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

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

## 30. PLEDGED BANK DEPOSITS

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

| | 31.12.2004 | 31.12.2005 | 31.12.2006 |
|---|---|---|---|
| Average interest rate | — | 0.72% | 0.72% |

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

The fair value of pledged bank deposits at each balance sheet date approximates to the corresponding carrying amounts.

## 31. BANK BALANCES AND CASH

The fair value of bank balances and cash at the respective balance sheet dates approximates to the corresponding carrying amount.

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

| | At 31 December | | |
|---|---|---|---|
| **Currency** | **2004** | **2005** | **2006** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| United States Dollars | 11,724 | 39,262 | 12,493 |

## 32. TRADE AND OTHER PAYABLES

| | At 31 December | | |
|---|---|---|---|
| | **2004** | **2005** | **2006** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| **THE GROUP** | | | |
| Trade payables *(note a)* | 69,486 | 73,865 | 93,612 |
| Other payables and accruals *(note b)* | 219,613 | 307,408 | 706,809 |
| | 289,099 | 381,273 | 800,421 |
| **THE COMPANY** | | | |
| Trade payables *(note a)* | 38,815 | 41,379 | 67,442 |
| Other payables and accruals *(note b)* | 183,728 | 274,196 | 656,100 |
| | 222,543 | 315,575 | 723,542 |

Included in trade and other payables are the trade payables and accruals as follows:

**(a) Trade payables**

The aged analysis of trade payables is as follows:

| | At 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| **THE GROUP** | | | |
| 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 |
| | 69,486 | 73,865 | 93,612 |
| **THE COMPANY** | | | |
| 0–90 days | 6,957 | 8,300 | 44,823 |
| 91–180 days | 9,886 | 9,493 | 4,779 |
| 181–365 days | 20,090 | 19,124 | 7,345 |
| 1–2 years | 1,882 | 4,462 | 10,495 |
| | 38,815 | 41,379 | 67,442 |

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs.

**(b) Other payables and accruals**

| | At 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| **THE GROUP** | | | |
| Payables in respect of mining rights *(note)* | — | — | 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 | 14,384 | 48,289 | 26,959 |
| Other tax payables | 60,692 | 24,503 | 58,330 |
| Payables in respect of Employee Settlement Cost | 19,684 | 19,145 | 4,374 |
| Others | 39,172 | 38,956 | 37,290 |
| | 219,613 | 307,408 | 706,809 |

| | At 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| **THE COMPANY** | | | |
| Payables in respect of mining rights *(note)* | — | — | 360,337 |
| Advances from customers | 5,610 | 43,936 | 11,616 |
| Accrued wages | 13,760 | 24,215 | 14,538 |
| Accrued retirement benefit cost | 8,305 | 10,009 | 1,575 |
| Other staff benefits payable | 12,264 | 4,290 | 4,865 |
| Payables in respect of purchase of property, plant and equipment and construction materials | 23,973 | 67,521 | 181,459 |
| Payables in respect of land use rights | — | 3,907 | — |
| Mineral resources compensation fees payable | 14,384 | 48,289 | 26,959 |
| Other tax payables | 53,960 | 19,189 | 19,189 |
| Payables in respect of Employee Settlement Cost | 19,684 | 19,145 | 4,374 |
| Others | 31,788 | 33,695 | 31,188 |
| | 183,728 | 274,196 | 656,100 |

*Note:* Amount represented balance payable in respect of mining rights acquired by the Group as disclosed in note 18 during the year ended 31 December 2006. Pursuant to the notice of Guo Tu Zi Yuan Tin Han [2007] No. 37 <<Installment payments of mining rights>> 國土資源廳函[2007]37號《關於三道庄鉬礦分期繳納採礦權價款有關問題的復函》issued by the Ministry of Land and Resources of the PRC ("MLR") on 30 January 2007, the Company obtained approval for settlement of the balance by installments over a period of 5 years. Such payables by installments are subject to interest expenses at a rate not less than the prevailing bank lending rate for the period.

The fair values of trade and other payables at each balance sheet date approximates to the corresponding carrying amounts.

## 33. DIVIDEND PAYABLES

**THE GROUP AND THE COMPANY**

| | At 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| Luoyang SASAC (洛陽市人民政府國有資產監督管理委員會) | — | 22,217 | 141,844 |
| CFC (鴻商產業控股集團有限公司) | — | — | 51,312 |
| | — | 22,217 | 193,156 |

Subsequent to the balance sheet date, the dividend payables were settled in full.

The fair value of dividend payables to shareholders at the respective balance sheet dates approximates to the corresponding carrying amount.

### 34. AMOUNTS DUE TO SUBSIDIARIES

| | At 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| Luomu Group Refining (洛陽欒川鉬業集團冶煉有限責任公司) | 2,195 | 5,408 | 12,569 |
| Luomu Group Sales and Trading (洛陽欒川鉬業集團鎢鉬銷售貿易有限責任公司) | 69 | 11,426 | — |
| Taibaoshan (洛陽欒川鉬業集團太寶山礦業有限責任公司) | 181,286 | 450,235 | — |
| Dadongpo (欒川縣大東坡鎢鉬礦業有限公司) | — | — | 47,846 |
| Sanqiang (欒川縣三強鉬鎢有限公司) | — | — | 50,769 |
| Jiuyang Mining (欒川縣九揚礦業有限公司) | — | — | 28,069 |
| Mudu Hotel (洛陽鉬都國際飯店有限公司) | — | — | 30,000 |
| | 183,550 | 467,069 | 169,253 |

Amounts represented trade payables to subsidiaries which aged within 90 days. The amounts were unsecured, interest free and repayable on demand. The fair value of amounts due to subsidiaries at each balance sheet date approximate to the corresponding carrying amount.

### 35. BANK BORROWINGS

| | At 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| **THE GROUP** | | | |
| Bank loans | 257,430 | 598,190 | 1,045,250 |
| Analyzed as: | | | |
| Secured | 111,690 | 64,050 | — |
| Unsecured | 145,740 | 534,140 | 1,045,250 |
| | 257,430 | 598,190 | 1,045,250 |
| The maturity profile of the above borrowings is as follows: | | | |
| On demand or within one year | 257,430 | 518,190 | 555,250 |
| More than one year but not exceeding five years | — | 80,000 | 490,000 |
| | 257,430 | 598,190 | 1,045,250 |
| Less: Amounts due within one year shown under current liabilities | 257,430 | 518,190 | 555,250 |
| | — | 80,000 | 490,000 |

| | At 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| **THE COMPANY** | | | |
| Bank loans | 242,430 | 588,190 | 1,035,250 |
| Analyzed as: | | | |
| Secured | 111,690 | 64,050 | — |
| Unsecured | 130,740 | 524,140 | 1,035,250 |
| | 242,430 | 588,190 | 1,035,250 |
| The maturity profile of the above borrowings is as follows: | | | |
| On demand or within one year | 242,430 | 508,190 | 545,250 |
| More than one year but not exceeding five years | — | 80,000 | 490,000 |
| | 242,430 | 588,190 | 1,035,250 |
| Less: Amounts due within one year shown under current liabilities | 242,430 | 508,190 | 545,250 |
| | — | 80,000 | 490,000 |

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

| | At 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| **THE GROUP AND THE COMPANY** | | | |
| Property, plant and equipment | 96,750 | 41,666 | — |
| Bank deposits | — | 18,067 | 6,909 |
| Held-for-trading investments | — | 50,000 | — |
| Land use right | — | 46,244 | — |
| | 96,750 | 155,977 | 6,909 |

As at 31 December 2004, 2005 and 2006, bank loans of RMB102,740,000, RMB380,140,000 and RMB805,250,000 were guaranteed by independent third parties. In December 2006, the Company entered into several guarantee release agreements with the banks and the respective independent third parties. In accordance with the agreements, all the guarantees by independent third parties will be released upon listing of the Company's H shares on the Main Board of the Stock Exchange.

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

| | 2004 | 2005 | 2006 |
|---|---|---|---|
| Effective interest rate: | | | |
| Fixed-rate borrowings | 5.841% to 7.965% | 5.841% to 9.486% | 3.000% to 6.800% |

The fair value of the Group's bank borrowings approximates to their carrying amount.

## 36. PROVISION

| | At 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| **THE GROUP AND THE COMPANY** | | | |
| Restoration, rehabilitation and environmental expenses | 31,800 | 33,390 | 35,060 |
| Movement during Relevant Periods: | | | |
| At beginning of the year | — | 31,800 | 33,390 |
| Capitalized in property, plant and equipment | 31,800 | — | — |
| Charged to income statement | — | 1,590 | 1,670 |
| At end of the year | 31,800 | 33,390 | 35,060 |

In accordance with relevant PRC rules and regulations, the Group is obliged to accrue the cost for land reclamation and mine closures for the Group's existing mines starting from 1 January 2004. The provision for restoration, rehabilitation and environmental costs has been determined by the directors based on their best estimates.

## 37. LONG TERM PAYABLE

The amount represents the balance of early retirement cost payable by the Group as disclosed in note 8(b)(ii) to the financial information.

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

## 38. PAID-IN CAPITAL

| | RMB'000 |
|---|---|
| At 1 January 2004 | 251,000 |
| Capital injection *(Note a)* | 137,210 |
| Distribution to shareholder *(Note b)* | (15,821) |
| Capital reduction *(Note b)* | (92,369) |
| At 31 December 2004 and 31 December 2005 | 280,020 |
| Conversion to a joint stock limited company *(Note c)* | 419,980 |
| Issue of share *(Note d)* | 36,842 |
| At 31 December 2006 | 736,842 |

Details of the changes of the paid-in capital of the Company during the track record period and subsequent to the balance sheet date are set out below and respective notes.

The Company was established in the PRC on 22 December 1999 as a wholly state-owned company under the Company Law of the PRC. The registered and paid-in capital of the Company upon establishment was RMB251,000,000.

On 31 August 2004, the registered capital of the Company was then changed to RMB280,020,000.

In September 2006, the Company issued 36,842,105 shares with a nominal value of RMB1.00 each to Luoyang Huamu Investment Co., Ltd. ("Luoyang Huamu"). In September 2006, Luoyang Huamu transferred 26,157,895 shares to LMG and 10,684,210 shares to CFC. After the transaction, LMG and CFC held 52% and 48% of the Company's paid-in capital.

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

*Notes:*

(a) As part of the Restructuring, CFC subscribed for 49% of equity interest in the Company for the consideration of approximately RMB137,210,000 in September 2004.

(b) The Restructuring also resulted in the repayment of paid-in capital of RMB92,369,000 and distribution of certain land use rights of the Group to its shareholder. The relevant distribution consisted of land use rights with carrying amount of RMB15,821,000 *(note 17)*.

Pursuant to Luanchuan County People's Government [2004] No. 70 <<Restructuring of the Company>> 欒川縣人民政府欒政[2004]70號《欒川縣人民政府關於洛陽欒川鉬業集團有限公司改制有關問題的決定》and the notice issued by the Luoyang SASAC, the repayment of paid-in capital was waived by the PRC government as a compensation to the Group as a result of the Restructuring. Therefore, the amount was treated as contribution from the shareholder and recorded in capital reserve. As a result of the Restructuring, the Company was transformed from a wholly state-owned company into a limited liability company with partial private ownership.

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

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

## 39. RESERVES

### THE GROUP

Capital reserve as at 1 January 2004 comprised i) the difference in revaluation of certain of the Group's assets upon the establishment of the Company on 22 December 1999 through the merger of two enterprises. Pursuant to relevant PRC rules and regulations, a valuation of certain of the Group's assets was carried out during its establishment and a revaluation deficit of RMB33,936,000 was recorded in its accounting records prepared under PRC GAAP; ii) the balance of RMB13,832,000 represented certain assets and cash contributed from the shareholder prior to 31 December 2003. Since these additional assets and cash injection were not registered paid-in capital of the Company, such amount was credited to capital reserve account pursuant to the relevant PRC rules and regulations; and iii) the remaining balance represented the non-distributable reserve as described in Note (a) of the consolidated statement of changes in equity.

Statutory surplus reserve represents the appropriation of 10% of profit after taxation calculated in accordance with the PRC accounting standards and regulations and the Articles of Association of the Company and its subsidiaries. The appropriation may cease to apply if the balance of the statutory surplus reserve has reached 50% of the Company's and its subsidiaries' registered capital. In addition, the Company's Articles of Association also allows the Company to transfer certain amount of profit after taxation and after appropriations to the statutory surplus reserve and statutory public welfare fund, subject to shareholders' approval, to discretionary surplus reserve. No transfer to discretionary surplus reserve has been made during the Relevant Periods. According to the Company's Articles of Association, statutory surplus reserve and discretionary surplus reserve can be used to make up prior year losses, to expand production operation or to increase share capital.

Statutory public welfare fund represents the appropriation of profit after taxation according to the requirements of the Company's Articles of Association and the Companies Law in the PRC. According to the requirements, the Company transfers 5% to 10% of profit after taxation calculated in accordance with PRC accounting standards and regulations. The fund can only be utilized for capital expenditure on employees' collective welfare facilities and cannot be used in staff welfare expenses. Such employee welfare facilities are owned by the Group. The statutory public welfare fund is not distributable to shareholders other than in liquidation. Pursuant to a notice in respect of the (Financial treatments under new Company Law)「關於《公司法》施行後有關企業財務處理問題的通知」issued by the Minister of Finance, there will be no accrual of statutory public welfare fund in 2006. The remaining balance of statutory public welfare fund is transferred to statutory surplus reserve.

According to the requirements of the Company's Articles of Association and the Companies Law in the PRC, no appropriation would be made to the statutory surplus reserve and statutory public welfare fund if the Company had accumulated losses brought forward. Accordingly, the Company did not make any appropriation to these reserves for the year ended 31 December 2004.

| | Capital reserve | Statutory surplus reserve | Statutory public welfare fund | Accumulated (losses) profits | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **THE COMPANY** | | | | | |
| At 1 January 2004 | 15,962 | 7,193 | — | (182,377) | (159,222) |
| Contribution from a shareholder | 92,369 | — | — | — | 92,369 |
| Capital contribution from a shareholder | 41,012 | — | — | — | 41,012 |
| Payment of income tax upon capital contribution from a shareholder | (13,535) | — | — | — | (13,535) |
| Contribution from minority shareholder of a subsidiary | 5,079 | — | — | — | 5,079 |
| Profit for the year | — | — | — | 208,009 | 208,009 |
| Set-off of accumulated losses against capital reserve | (92,369) | — | — | 92,369 | — |
| Transfer | 71,724 | — | — | (71,724) | — |
| Dividends | — | — | — | (75,000) | (75,000) |
| At 31 December 2004 and at 1 January 2005 | 120,242 | 7,193 | — | (28,723) | 98,712 |
| Profit for the year | — | — | — | 908,698 | 908,698 |
| Dividends | — | — | — | (519,957) | (519,957) |
| Appropriation to reserves | — | 16,028 | 8,014 | (24,042) | — |
| Transfer | 110,413 | — | — | (110,413) | — |
| At 31 December 2005 and 1 January 2006 | 230,655 | 23,221 | 8,014 | 225,563 | 487,453 |
| Issue of shares | 16,874 | — | — | — | 16,874 |
| Conversion to a joint stock limited company | (223,766) | (196,214) | — | — | (419,980) |
| Profit for the year | — | — | — | 1,629,088 | 1,629,088 |
| Dividends | — | — | — | (760,110) | (760,110) |
| Appropriation to reserves | — | 280,105 | (8,014) | (272,091) | — |
| Transfer | 187,371 | — | — | (187,371) | — |
| At 31 December 2006 | 211,134 | 107,112 | — | 635,079 | 953,325 |

## 40. ACQUISITION OF SUBSIDIARIES

During the year ended 31 December 2006, the Group acquired 51% interest in Sanqiang, Dadongpo and Jiuyang Mining by subscribing new shares in these companies. The acquisition has been accounted for using the purchase method of accounting.

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

| | Sanqiang | Dadongpo | Jiuyang Mining | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Date of acquisition | 20 January 2006 | 21 February 2006 | 6 March 2006 | |
| Net assets acquired: | | | | |
| Property, plant and equipment | 52,304 | 52,004 | 24,138 | 128,446 |
| Inventories | 19,775 | 27,787 | 5,629 | 53,191 |
| Trade and other receivables | 32,723 | — | — | 32,723 |
| Deferred tax assets | 1,519 | 578 | 1,424 | 3,521 |
| Bank balances and cash | 34,583 | 42,196 | 11,396 | 88,175 |
| Trade and other payable | (69,817) | (57,989) | (12,839) | (140,645) |
| Bank loan | — | (2,000) | — | (2,000) |
| Tax payable | (5,602) | — | (24) | (5,626) |
| | 65,485 | 62,576 | 29,724 | 157,785 |
| Minority interests | (32,088) | (30,662) | (14,565) | (77,315) |
| | 33,397 | 31,914 | 15,159 | 80,470 |
| Discount arising on acquisition recognized in the consolidated income statement | (5,102) | — | — | (5,102) |
| Goodwill arising on acquisition | — | 1,570 | 1,869 | 3,439 |
| | 28,295 | 33,484 | 17,028 | 78,807 |
| Satisfied by: | | | | |
| Cash | 28,295 | 33,484 | 17,028 | 78,807 |
| Net cash inflow arising on acquisition: | | | | |
| Cash consideration paid | 28,295 | 33,484 | 17,028 | 78,807 |
| Cash and cash equivalents acquired | (34,583) | (42,196) | (11,396) | (88,175) |
| | (6,288) | (8,712) | 5,632 | (9,368) |

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

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

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

## 41. DISPOSAL OF A SUBSIDIARY

On 16 October 2006, the Group disposed its entire interest in Luoyang Baima Textile to LMG. The net assets at the date of disposal were as follows:

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

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

## 42. RELATED PARTY TRANSACTIONS

Save as disclosed above, during the Relevant Periods, the Group has the following significant transactions with related companies:

**(i) Transaction with Luoyang Baima Group (note):**

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

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

*Note:* One of the directors of the Company is also the director of Luoyang Baima Group.

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

| | Year ended 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| **Nature of transactions** | | | |
| Sales of goods | — | 20,512 | 466,435 |

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

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

In the opinion of the directors of the Company, the Group operates in an economic environment currently predominated by enterprises directly or indirectly owned or controlled by the PRC government (hereinafter collectively referred to as "State-Owned Enterprises"). During the Relevant Periods, the Group had material transactions with some of these State-Owned Enterprises in its ordinary and usual course of business. In establishing its pricing strategies and approval process for its products and services, the Group does not differentiate whether the counter-party is a State-Owned Enterprises or not.

For the purpose of this report, the Group has identified the nature and quantified the amounts of its material transactions with State-Owned Enterprises during the Relevant Periods and material balances therewith at the respective balance sheet dates as follows:

(a) *Material transactions*

| | Year ended 31 December | | |
|---|---|---|---|
| | **2004** | **2005** | **2006** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| Nature of transactions: | | | |
| Sales of goods | 1,536 | 132,561 | 532,564 |
| Payment for: | | | |
| Purchase of raw materials | 7,236 | 9,995 | 112,120 |
| Purchase of electricity and fuels | 65,989 | 67,273 | 143,674 |
| Acquisition of: | | | |
| Property, plant and equipment | 21,986 | 61,072 | 67,568 |
| School donation and compensation expenses | 2,404 | 16,723 | — |
| Interest income | 938 | 1,854 | 5,123 |
| Interest expenses | 18,691 | 15,690 | 31,250 |

(b) *Material balances*

| | Year ended 31 December | | |
|---|---|---|---|
| | **2004** | **2005** | **2006** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| Trade and other receivables | 5,485 | 33,780 | 76,024 |
| Trade and other payables | 3,591 | 1,684 | 7,268 |
| Bank balances | 57,534 | 136,001 | 410,669 |
| Bank borrowings | 203,430 | 274,190 | 435,250 |

Movement on bank borrowings:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| At beginning of the year | 286,640 | 203,430 | 274,190 |
| Additions | 156,590 | 281,450 | 685,050 |
| Repayments | (239,800) | (210,690) | (523,990) |
| At end of the year | 203,430 | 274,190 | 435,250 |

(iv) *Compensation of key management personnel*

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

| | Year ended 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| Short-term benefits | 432 | 444 | 1,414 |
| Retirement benefits scheme contribution | 9 | 16 | 29 |
| Performance related bonus | 2,502 | 121 | 1,443 |
| | 2,943 | 581 | 2,886 |

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

(v) *Others*

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

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

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

## 43. CAPITAL COMMITMENTS

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

| | At 31 December | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 |
| Commitments for the acquisition of property, plant and equipment contracted for but not provided in the financial statements | 272,824 | 26,109 | 92,087 |

### 44. RETIREMENT BENEFITS PLAN

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

The contributions paid/payable to the scheme by the Group at rate specified in the rules of the scheme included in staff costs are disclosed in note 12.

### 45. CONTINGENT LIABILITIES

At the balance sheet dates, the Group and the Company had the following undiscounted maximum amount of potential future payments under guarantees;

| | At 31 December | | |
|---|---|---|---|
| | **2004** | **2005** | **2006** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| Guarantees given to banks in respect of banking facilities utilized by independent third parties | 17,000 | 424,000 | — |

The fair value of the financial guarantee contracts at the date of inception is insignificant.

All the guarantees have been released in December 2006.

### 46. SUBSEQUENT EVENTS

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

(ii) Pursuant to the resolutions of the shareholders passed at the general meeting on 19 October 2006, the directors have proposed that the distributable profits as at 31 December 2006 and the distributable profits for the period from 1 January 2007 to the date immediately preceding the date of its listing on the Stock Exchange be entirely distributable to LMG and CFC (the "Special Dividend"). And pursuant to a general resolution passed on 25 March 2007, the Company declared part of the Special Dividend out of the distributable profits as at 31 December 2006 totaling RMB720,000,000 to LMG and CFC. The dividend was fully paid in April 2007 and was financed by the Group's internal resources. The rest of the Special Dividend i.e., the amount of the dividend representing the balance of the distributable profits as at 31 December 2006 and the distributable profits for the period from 1 January 2007 up to the day immediately preceding the listing date, will be declared and paid after listing. (see "Financial Information — Dividend Policy" of the Prospectus).

## B. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable to the Company's directors by the Company or any of its subsidiaries during the Relevant Periods.

Under the arrangements presently in force, the aggregate remuneration of the Company's directors for the year ending 31 December 2007 will be approximately RMB2,990,000.

## C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to December 31, 2006.

Yours faithfully,

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong