

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended 31 December 2007, audited profit before taxation increased by RMB1,106.0 million or 45.1% from RMB2,454.3 million for the year ended 31 December 2006 to RMB3,560.3 million for the year ended 31 December 2007. For the year ended 31 December 2007, profit attributable to the equity holders of the Company was RMB2,240.8 million, representing an increase of RMB725.5 million or 47.9% from RMB1,515.3 million for the year ended 31 December 2006.

The comparative analysis for the years ended 31 December 2007 and 31 December 2006 is as follows:

OPERATING RESULTS

Turnover increased by RMB2,071.6 million or 54.1%, from RMB3,826.2 million for the year ended 31 December 2006 to RMB5,897.8 million for the year ended 31 December 2007. The table below sets out the turnover, sales volume and average selling price in 2007 and 2006:

	For the year ended 31 December							
	2007				2006			
	Sales volume (tonne)	Average selling price (RMB/tonne)	Turnover (RMB million)	Percentage in turnover (%)	Sales volume (tonne)	Average selling price (RMB/tonne)	Turnover (RMB million)	Percentage in turnover (%)
Molybdenum Ore	137,543	43.6	6.0	0.1	780,959	44.6	34.8	0.9
Molybdenum concentrate(45% Mo)	5,362	165,311.9	886.4	15.0	5,569	166,026.9	924.6	24.2
Molybdenum oxide (51% Mo)	4,483	225,540.4	1,011.1	17.1	4,911	192,727.5	946.5	24.7
Ferromolybdenum (60% Mo)	13,134	249,212.0	3,273.2	55.6	6,428	229,791.5	1,477.1	38.6
Other products	—	—	721.1	12.2	—	—	443.2	11.6
Total	—	—	5,897.8	100.00	—	—	3,826.2	100.0

Note:

It is not meaningful to aggregate the sales volume and average selling price of other products, as the category "Other products" cover various products manufactured by the Group.

Turnover increased mainly due to: (1) a renovation and upgrade project of 5,000 tonnes per day at the No. 3 Ore Processing Branch completed on July 2007 leading to increased flotation capacity; (2) the utilization rate of capacity and production volume increased gradually since the commencement of production at No. 2 Ore Processing Branch in April 2006; (3) increased sales proportion of ferromolybdenum and processing products decreased that of molybdenum concentrates and molybdenum oxides, which raised the per unit selling price of our products.



MANAGEMENT'S DISCUSSION AND ANALYSIS

COST

	For the year ended 31 December					
	2007			2006		
	Cost of operation (RMB million)	Gross Profit (RMB million)	Profit margin (%)	Cost of operation (RMB million)	Gross Profit (RMB million)	Profit margin (%)
Total	2,277.9	3,619.9	61.4	1,218.8	2,607.4	68.1

As at 31 December 2007, cost of sales of the Group was RMB2,277.9 million representing an increase of 86.9% from the RMB1,218.8 million in the same period last year. The main reasons behind the increase in the cost of sales were (1) the Company's expansion of the production of molybdenum concentrates, molybdenum oxide and ferromolybdenum; (2) the tariff levied on ferromolybdenum and molybdenum. A 10% export tariff on molybdenum oxide was levied since 1 November 2006 which increased from 10% to 15% commencing from 1 June 2007 and a 10% export tariff on ferromolybdenum was levied starting from 1 November 2006; (3) increased ratio of procurement of products at market price from parties other than the Group by its trading subsidiaries, Dachuan High Tech Company; (4) amortization of the mining rights for Sandaozhuang Mine; and (5) increased expenses on mine safety.

GROSS PROFIT AND PROFIT MARGIN

As at 31 December 2007, the Group realized a gross profit of RMB3,619.9 million, representing an increase of RMB1,012.5 million or 38.8% as compared with 2,607.4 million in the same period last year. The significant increase was mainly attributable to increased sales volume of various products of the Group during the year. As at the year ended 31 December 2007, the profit margin of the Group was 61.4%, representing a decrease of 6.7% as compared with 68.1% in the same period last year. The main reasons were: (1) the tariff levied on ferromolybdenum and molybdenum oxide. An export tariff of 10% on molybdenum oxides was levied starting from 1 November 2006, and was adjusted upward from 10% to 15% since 1 June 2007, while an export tariff of 10% on ferromolybdenum was levied starting from 1 November 2006; (2) increased ratio of procurement of products at market price from parties other than the Group by its trading subsidiaries, Dachuan and High Tech Company; (3) amortization of the mining rights for Sandaozhuang Mine; and (4) increased expenses on mine safety.

OTHER INCOME

As at 31 December 2007, other income and gains of the Group amounted to RMB446.3 million, representing an increase of RMB420.8 million or 1650.2% over RMB25.5 million for the corresponding period last year. Such an increase was mainly due to: (1) a bank interest income of RMB213.1 million arising from the oversubscription of new shares in the first half of 2007; (2) an interest income of RMB120.0 million generated from proceeds from its listing; (3) an income of RMB82.5 million arising from an investment in financial assets using short-term capital surplus.

SELLING AND DISTRIBUTION COST

As at 31 December 2007, the selling and distribution costs of the Group amounted to RMB21.3 million, representing an increase of RMB0.9 million or 4.4% over RMB20.4 million in the same period last year. Such increase was mainly due to increased scale of sales.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SHARE OF RESULTS OF ASSOCIATES

As at 31 December 2007, the results of associated companies attributable to the Group amounted to RMB12.8 million, representing an increase of RMB5.8 million or 82.9% from RMB7.0 million in 2006. This is mainly due to the increased production volume and sales volume of Yulu. In addition, the equity interest attributable to the Group in Yulu increased to 50% from 40% in 2007, pursuant to the shareholders' resolution of Yulu on 26 March 2008.

ADMINISTRATIVE EXPENSES

As at 31 December 2007, the administrative expenses of the Group was RMB208.6 million, representing an increase of RMB113.0 million or 118.2% from RMB95.6 million in the same period last year, mainly due to: (1) an increase in related expenses of the initial public offering; (2) stamp duty arising from the increase in registered capital for financing the listing; (3) the upward adjustment of the salaries of staff; (4) increased provisions for bad debts; (5) payment of price adjustment fund for molybdenum products.

OTHER EXPENSES

As at 31 December 2007, other expenses of the Group amounted to RMB268.9 million, representing an increase of RMB247.5 million or 1156.5% from RMB21.4 million in the same period last year. Such increase was mainly due to the fact that because the statutory functional currency of the Group is Renminbi, therefore the rapid appreciation in Renminbi during the year resulted in an exchange loss of RMB200.5 million. The exchange loss was because the listing proceeds were denominated in Hong Kong dollars and the settlement of exchange arising from overseas sales of the Group incurred an exchange loss of RMB29.8 million.

FINANCE COSTS

At at 31 December 2007, the finance costs of the Group amounted to RMB19.9 million, representing a decrease of RMB28.4 million or 58.8% from RMB48.3 million in the same period last year. Such decrease was mainly due to repayment of most of the bank loans according to the use of proceeds.

TAXATION

As at 31 December 2007, the income tax expenses of the Group amounted to RMB1,053.3 million, representing an increase of RMB313.5 million or 42.4% from RMB739.8 million in the same period last year. Such increase was mainly due to increased operating profit in the year.

MINORITY INTEREST

As at 31 December 2007, the minority interests of the Group amounted to RMB266.1 million, representing an increase of RMB66.9 million or 33.6% from RMB199.2 million in the same period last year. Such increase was mainly due to the consolidation of non-wholly owned subsidiaries of the Company, namely Luanchuan County Sanqiang Molybdenum & Tungsten Co., Ltd., Luanchuan Jiuyang Mining Co. Ltd and Luanchuan County Dadongpo Tungsten & Molybdenum Co., Ltd. in the Group in January, February and March 2006, respectively.

EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

For the year ended 31 December 2007, the net profit attributable to shareholders of the Company amounted to RMB2,240.8 million, representing an increase of RMB725.5 million or 47.9% from RMB1,515.3 million in 2006. Such increase was mainly due to an increase in the operating profit during the year.



MANAGEMENT'S DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2007, the total assets of the Company amounted to approximately RMB11,867.3 million, comprising non-current assets of approximately RMB3,755.9 million and current assets of approximately RMB8,111.4 million. The cash and cash equivalents of the Company amounted to approximately RMB6,290.0 million, while interest-bearing bank loans amounted approximately to RMB150.0 million. The Company had already utilized part of the proceeds from the listing and cash generated from operations to settle the liabilities. At present, the Company continues to maintain healthy operational and financial positions.

DEBT TO TOTAL ASSETS RATIO

The debt to total assets ratio of the Group dropped from 52.7% as of 31 December 2006 to 9.8% as of 31 December 2007. Debt to total assets ratio is equivalent to total liabilities divided by total assets. Such decrease in ratio was mainly due to: (1) the net proceeds from listing of H Shares of the Group on the Main Board of The Stock Exchange of Hong Kong Limited, which resulted in an increase in total assets of the Group; (2) the increase in production capacity of the Group, which led to increased operating surplus and therefore a lowered liabilities to assets ratio.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATE

The Company conducts operations mainly in the PRC. As the production capacity of the Group increased and the market expanded, exports sold to different countries through the Group or the subsidiary in Hong Kong surged during the year. We mainly settled transactions of export sales in US dollars. Due to periodicity in calculating the amount of export income, the currency risks of the Group were primarily generated from the sales of products in foreign currencies. Furthermore, the listing proceeds of the Group's listing of shares on the main board of the Hong Kong market in 2007 amounted to approximately HKD8.1 billion. According to PRC law, the Group was not permitted to exchange all proceeds into Renminbi at once therefore this portion of proceeds was also exposed to exchange rate risks. Capital of the Group in foreign currencies which were not exchanged into Renminbi amounted to approximately HKD2.3 billion as at 31 December 2007.

Currently, the Group has no formal hedging policies in place. Apart from appropriate adjustment to the sales strategies and strengthening the financial management of the Group's export business, the Group may consider entering into foreign currency exchange contracts or derivatives to hedge against the Group's currency risks.

EXPOSURE TO THE PRICE FLUCTUATION OF MOLYBDENUM PRODUCTS

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

EXPOSURE TO INTEREST RATE

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

EMPLOYEES

As at 31 December 2007, the Group had approximately 5,454 full time employees, classified as follows by functions and departments:

Department	Employees	Proportion
Management & Administration	767	14.06%
Quality control, research and development	380	6.97%
Production	3,678	67.44%
Repair and maintenance, safety inspection and environmental protection	629	11.53%
Total	5,454	100%

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

USE OF PROCEEDS

As at 31 December 2007, the Company applied an aggregate of approximately RMB2,481 million of the proceeds raised from our initial public offering in April 2007, mainly as follows:

- approximately RMB781 million in repaying various short-term bank borrowings and interest;
- approximately RMB826 million in repaying current liabilities, topping up general working capital;
- approximately RMB361 million to prepay the remaining consideration in respect of the mining rights of Sandaozhuang Mine;
- approximately RMB152 million to construct auxiliary facilities of ores;
- approximately RMB14 million for technological renovation of No.3 Ore Processing Branch;
- approximately RMB69 million for expansion of Mining Branch, Sanqiang Company and construction of tungsten recycling plant;
- approximately RMB78 million to construct Luoyang Yongning Gold & Lead Refining Co., Ltd. and acquisition project of precious metals; and
- approximately RMB200 million to construct a smelting plant of molybdenum with a capacity of 40,000 tonnes/year.