

MANAGEMENT DISCUSSION AND ANALYSIS

The following is the discussion and analysis of the Company's 2001 annual results. The investors are advised to read this discussion and analysis in conjunction with the Company's audited financial statements for 2001 and the financial statements for 2000 and their notes.

BUSINESS

The following statement reflects the total output quantity of the Company's products in 2001:

Products	2001	2000	Increase (decrease)	Increase (decrease)
Copper cathode (ton)	226,263	194,225	321,038	16.5%
Of which: processing copper (ton)	98,673	24,810	73,863	297.7%
Gold (kg)	6,723	5,361	1,362	25.4%
Silver (kg)	115,043	68,019	47,024	69.1%
Sulphuric acid (ton)	823,103	760,948	62,155	8.2%
Pyrite concentrates (ton)	728,133	674,347	53,786	8.0%

The following statement reflects the sales quantity of the Company's products in 2001:

Products	2001	2000	Increase (decrease)	Increase (decrease)
Copper cathode (ton)	229,536	189,660	39,876	21.0%
Of which: processing copper (ton)	98,673	24,810	73,863	297.7%
Gold (kg)	6,722	5,292	1,430	27.0%
Silver (kg)	117,830	63,642	54,188	85.1%
Sulphuric acid (ton)	829,764	797,700	32,064	4.0%
Pyrite concentrates (ton)	751,956	624,972	126,984	20.3%

The following statement reflects the changes in the average sales price (inclusive of tax) of the Company:

Products	2001	2000	Increase (decrease)	Increase (decrease)
Copper cathode (RMB/ton)	16,592	18,136	(1,544)	(8.5%)
of which: processing copper (RMB/ton)	3,447	4,016	(569)	(14.2%)
Gold (RMB/kg)	72,438	77,371	(4,933)	(6.4%)
Silver (RMB/kg)	1,036	1,153	(118)	(10.2%)
Sulphuric acid (RMB/ton)	242	193	49	25.3%
Pyrite concentrates (RMB/ton)	66	70	(4)	(5.7%)

The following statement reflects the composition of main operating turnover of the Company according to products

	2001 RMB'000	2000 RMB'000
Copper cathode	1,855,765	2,555,328
Gold	492,241	409,442
Others	357,097	474,578
Processing tolling	290,690	85,164
	<u>2,995,793</u>	<u>3,524,512</u>

The following statement reflects the composition of main operating turnover of the Company according to sales region

	2001 RMB'000	2000 RMB'000
PRC	2,925,824	3,010,191
South Korea	—	341,289
Other regions	69,969	173,032
	<u>2,995,793</u>	<u>3,524,512</u>

DISCUSSION AND ANALYSES OF OPERATING RESULTS

During the year, the production capacity of the Company including processed copper increased by 16.5% over the previous year. The sales of self-produced copper had declined, the volume of processed copper increased together with a drop in the prices of copper resulting in a decrease in main operating turnover by RMB528,720,000 (or 15.0%) from the previous year to RMB2,995,790,000, the Company still realised a gross profit, complied according to IAS, amounted to RMB653,280,000, representing an increase of RMB132,860,000 (or 25.5%) over the previous year.

During the year, the profit before tax was 312,600,000 under IAS, representing an increase of RMB203,730,000 (or 187.1%) over the previous year. Under PRC GAAP, the net profit was RMB301,430,000, representing an increase of RMB192,770,000 (or 177.40%).

Major change in the profit and loss account calculated under the IAS are as follows:

	2001 RMB'000	2000 RMB'000	Increase (decrease) RMB'000	Increase (decrease) %
Turnover	2,995,793	3,524,512	(528,719)	(15.0)
Gross profit	653,284	520,426	132,858	25.5
Profit before tax	312,597	108,865	203,732	187.1

The net profit calculated under the IAS was RMB10,940,000 over that calculated under the PRC GAAP due to the divergency in the way of representation in the accounts regarding interest income from the proceeds of the Company's issuance of A Shares between the two accounting standards.

The reasons and discussions for the increase in profit before tax calculated under the International Accounting Standards were as follows:

- (1) Increase in sales volume resulting in gross profit surged by RMB132,860,000. Of which, the sales of copper cathode (including processing copper) had increased, which contributed to the increase in gross profit by RMB51,660,000. The rise in sales of gold and silver contributed to the increase in gross profit by RMB82,430,000.
- (2) Reduction in the selling prices of products, resulting in a decline in gross profit by RMB235,810,000. Of which, the selling prices of copper cathode dropped by 8.5%, profit declined by RMB172,740,000, and tolling fee for copper cathode reduced by 14.2%, resulting in a decrease in gross profit by RMB48,020,000.

The selling price of copper cathode was RMB16,592/ton which was approximately 2.3% over the price in SHFE. This is mainly attributable to a greater sales volume of copper cathode in the first half of the year than in the latter half of the year and that the prices of copper of the Company were higher in the first half of the year than in the second half of the year.

- (3) Decline in unit cost of good sold leading to an increase in gross profit by RMB237,700,000. The main reason for the decline is that the copper cathode of the Company is basically produced from copper in concentrate which is produced by the Company, resulting in a decrease in costs by 8%. Imported copper in concentrate is for processing and the increase in production volume copper cathode led to a reduction in fixed unit costs and unit processing cost dropped by about 21.3%. The sales costs of other by-products also declined at different degrees.
- (4) Decrease in costs for the period resulting in a rise in profit before tax by RMB43,240,000.
 - (i) During the year, the expenses for management of the Company amounted to RMB161,490,000, which had decreased by RMB60,090,000, or 27.1% over the previous year. The reasons for the decreases were the adoption by the Company of the effective measures in chasing up the collection of the accounts receivables for which provision for bad debts had been made in previous years and achieved certain effect. The provision for bad debts for the year decreased by RMB23,960,000 and collected accounts receivable in the sum of RMB28,140,000 which had been recognized as loss of doubtful debts for previous years.

MANAGEMENT DISCUSSION AND ANALYSIS

- (ii) Sales expenses for the year was RMB31,580,000, which had decreased by RMB3,980,000 (or 11.2%). The decrease was mainly attributable to a significant decline in exports of copper from last year. The export fees included in operating expenses had decreased accordingly.
 - (iii) Finance costs amounted to RMB163,070,000, which had increased by RMB20,830,000 (or 14.6%). The increase was mainly attributable to a corresponding rise in finance costs as a result of the delivery of the fixed assets acquired or constructed by the Company.
- (5) During the year, other operating income amounted to RMB46,100,000, which had increased by RMB32,790,000 over last year, of which RMB10,940,000 was interest income from the proceeds of the issuance of A Shares.

FINANCIAL STATUS

During the year, the total assets calculated under the PRC GAAP amounted to RMB8,460 million, total liabilities amounted to 3,890 million and net assets were RMB4,570 million. The net assets of the Company calculated under the IAS was RMB133 million more over that calculated under PRC GAAP due to the divergency in treatment of distribution of final dividend in cash of the Company between the two accounting standards.

The discussion and analysis of the financial status of the Company for the year prepared under IAS are as follows:

	2001 RMB'000	2000 RMB'000	Increase (decrease) RMB'000	Increase (decrease) %
Total assets	8,470,761	7,752,833	717,928	9.3
Total liabilities	3,764,065	3,829,071	(65,006)	(1.7)
Of which: long-term liabilities	1,881,831	2,032,701	(150,870)	(7.4)
Minority interests	694	640	54	8.4
Shareholder's equity	<u>4,706,002</u>	<u>3,923,122</u>	782,880	19.96

Notes: (1) The principal reasons for the increase of total assets are the purchase and construction of fixed assets in the year, increase of cash after the A Shares issue, and increase of raw material reserves by some 9,078 tons.

(2) The principal reasons for increase of shareholders interests are the additional issue of 230 million A Shares and realization of capital appreciation from production and operation in the year.

OPERATING CAPITAL AND SOURCES OF CAPITAL

At the end of the year, the net current assets of the Company amounted to RMB767,980,000, and the current ratio was 1.41 of which bank balance and cash deposit were RMB683,330,000, representing an increase of RMB314,520,000 over the previous year. The principal reason for the increase was that the funds raised from the A Shares issue in the year were all deposited at the bank.

At the end of the year, the borrowings from banks totalled RMB2,998.59 million, of which those due within one year amounted to approximately RMB1,161.67 million, those due within one to two years amounted to approximately RMB795.81 million, those due within two to five years amounted to approximately RMB521.40 million, and those due in more than five years amounted to approximately RMB519.71 million. The interest rate for all borrowings from banks ranged from 4.5% to 6.2%(2000: 5.6% to 8.5%).

During the year, the net operating cash inflow was RMB639,850,000; the net cash inflow from financing activities was RMB293,640,000; the net cash outflow in investing activities was RMB618,530,000, the total cash inflow amounted to RMB314,960,000.

The Company has all along adhered to the principle of prudent financial planning and steady operation, stresses the control of financial risks and safe operation of funds, and does not provide any credit guarantee and money lending to any other company (including holding company) or group other than the Company itself. It has all along maintained good reputation in commercial banks, which implies its strong capacity for continuous financing.

Steady financial policy, good bank creditability, ample operating cash flow and strict fund control and safety system have established reliable financial guarantee system for healthy and steady development of the Company.

INFLUENCES OF CHINA'S WTO ACCESSION ON THE COMPANY

Before China entered the WTO, the tariff for import of copper raw material under general trade was zero, and the tariff for export of refined copper was a low rate of 2%; before China entered the WTO, the import and export quotas for copper products under general trade were cancelled; the domestic copper price movement was closely pegged to that of the international copper price. Therefore, the tax reduction policy and the policy of opening the copper market after China's WTO accession will not have any unfavorable influence on the Company.



To strengthen the cooperation with foreign enterprises on technological businesses

PREFERENTIAL TAXATION POLICY

As a foreign-investment enterprise, the Company has enjoyed the income tax preferential policy of “exemption for two years and 50% reduction for three years” starting from 1997. The implementation expired at the end of 2001.

From 2002 to 2004, the income tax rate for the Company will be 16.5% according to the No. 172 [1999] document issued by the State Administration of Taxation and the approval of the No. 122 [2001] document by the Jiangxi Provincial State Taxation Administration.

The remaining portion of tax benefit of RMB55,630,000 with respect to PRC produced plant and equipment for production use which has not been utilised in 2000 had been fully utilised to set off the amount of increase in enterprise income tax for 2001. The amount of investment in the purchase of PRC produced plant and equipment for production use in 2001 amounted to RMB13,040,000, of which RMB1,400,000 had been utilised to set off the amount of increase in enterprise income tax for the current year of 2001 and the balance of RMB11,640,000 can be carried forward for future years.

DETAILS OF EMPLOYEES

As at 31 December 2001, the total number of employees of the Company is 11,189, of which 8,609 are production personnel, 858 are technicians, 1,273 are management personnel and 449 are other supporting personnel.

The educational level of the employees is as follows: the employees possessing post-secondary or above of graduates qualifications account for approximately 14.9% of the total number of employees; received polytechnic and senior secondary school education for approximately 49.8%; received junior secondary or below education for approximately 35.3%.

None of the employees was retired in the year.