

REPORT OF THE DIRECTORS

The Board of Directors hereby presents the Report of Board of Directors and audited financial statements of the Company and its subsidiaries (“the Group”) for the year ended 31 December 2001.

DAILY WORK OF THE BOARD OF DIRECTORS

- **During the year the Board held six meetings**

On 16 March 2001, a Board of Directors’ meeting was held. This meeting considered and approve the following resolution: 2000 Annual Report and audited financial statements; 2000 Profit Appropriation Plan and Final Dividend Distribution Plan to be submitted to 2000 Annual General Meeting for approval; Resignation of Mr. Wang Yunjie, independent non-executive director, and nomination of Mr. Liu Xinxi as candidate for independent non-executive director subject to approval of 2000 Annual General Meeting; Resignation of Mr. Zhang Shuijiang from the position of Deputy General Manager; number of members of Independent Audit Committee increased to 4 and appointment of Mr. Huang Dongfeng as Secretary to the Independent Audit Committee; holding of 2000 Annual General Meeting.

On 11 April 2001, the Board of Directors opined in written form that the Company’s new issuance of A Shares is in accordance with provisions of “Regulation regarding issuance of new shares” of listed companies and “Notice to manage the issuance work of new shares for listed companies”.

On 16 May 2001, the Board of Directors approved a resolution in written form regarding the resignation of Mr. He Changming from the position of General Manager and the appointments of Mr. Li Yihuang and Mr. Liu Yuwei as General Manager and Deputy General Manager of the Company respectively were approved.

On 27 August 2001, a Board of Directors’ meeting was held at which the following resolutions were considered and approved: 2001 Interim Report and unaudited financial statements; resignation of Madam Qi Huaiying, the Company’s director and Deputy General Manager, from the position of Deputy General Manager and re-assessment of estimated useful lives of property, plant and equipment.

On 31 August 2001, the Board of Directors considered and approved a resolution in written form regarding the entering into a processing agreement with Jiangxi Copper Company (“JCC”).

On 21 November 2001, the Board of Directors considered and approved a resolution in written form regarding the appointment of Mr. Liu Jianghao as the Company’s Chief Engineer.

- **Execution of Resolutions passed at General Meetings by the Board of Directors**

During the year, the Board of Directors of the Company fully exercised rights authorised by the General Meeting and performed their duties in accordance with the Company’s Articles of Associations and the Company Law. All of the resolutions passed at the General Meeting were carried out.

THE INDUSTRY AND THE COMPANY’S POSITION

The Company is the largest integrated copper manufacturer in the People’s Republic of China (the “PRC”) which consolidates mining, milling and smelting. The Company owns two largest open copper mines - Dexing Copper Mine and Yongping Copper Mine. Its copper reserves rank No.1 in the copper industry of China. It has the largest and modern smelter with annual production capacity of 200,000 tons. The technological renovation project Phase III of Guixi Smelter is in progress. Upon completion, the annual production capacity can reach 350,000 - 400,000 tons, which will enable the Company to become one of the largest copper enterprises in the world.

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PRINCIPAL ACTIVITIES

The Company is principally engaged in copper mining, milling, smelting and refining, producing copper cathode and by-products including copper concentrates, sulphuric acid, gold and silver. The Company also engages in smelting and refining the material provided by the customers. The Company's subsidiary is engaged in sales of sulphuric acid.

RESULTS AND APPROPRIATIONS

Details of the results of the Group and appropriations of the Company for the year prepared under IAS and PRC GAAP are set out respectively in the consolidated income statement on page 33 and the statement of income and profits appropriation on page 64 and the accompanying notes to the financial statements.

SHARE CAPITAL

The details of movements during the year in the registered and issued share capital of the Company are set out in note 27 to the financial statements prepared under IAS and in note 33 to the financial statements prepared under PRC GAAP.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 28 to the financial statements prepared under IAS and in notes 34 to 36 to the financial statements prepared under PRC GAAP.

BORROWINGS AND INTEREST CAPITALISED

Details of borrowings of the Group and the Company at the balance sheet date are set out in notes 26 and 29 to the financial statements prepared under the IAS and in notes 29 to 31 to the financial statements prepared under PRC GAAP. Interest capitalised by the Group during the year in respect of construction in progress amounted to approximately RMB17,300,000, details of which are set out in note 8 to the financial statements prepared under IAS and in note 41 to the financial statements prepared under PRC GAAP.

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DIRECTORS AND SUPERVISORS

The directors and supervisors of the Company during the year and up to the date of this report were as follows:

Executive directors:

He Changming, Chairman
Qi Huaiying
Du Xinmin
Wang Chiwei
Gao Jianmin
Cui Guisheng
Yuan Zeping (appointed on 19 January 2001)
Zhang Shuijian (resigned on 19 January 2001)

Independent non-executive directors:

Long Tao
Sun Chuanyao
Shi Zhongliang
Liu Xinxi (appointed on 17 May 2001)
Wang Yunjie (resigned on 17 May 2001)

Supervisors:

Wang Zhenkun
Zhu Jingyan
Yang Qimin
Liu Sigen
Yang Mingjie (appointed on 15 March 2001)
Cai Jihua (resigned on 15 March 2001)

All directors have entered into service contracts with the Company up to the date of the annual general meeting of the Company to be held in the year 2003.

In accordance with the provisions of the Company's Articles of Association, the term of office of the Chairman and all other directors shall be three years commencing from the date of appointment or re-election and renewable upon re-appointment or re-election. In accordance with the provisions of the Companies Law in the PRC, the term of office of supervisors shall also be three years and renewable upon re-appointment or re-election.

None of the directors or supervisors has a service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

During the year, none of the directors, supervisors or chief executives held any interest in shares of the Company, or any of its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance of Hong Kong ("SDI Ordinance"), and none of the directors, supervisors or chief executives, or their spouses or children under the age of 18, had any right to subscribe for shares of the Company, or had exercised any such right.

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NUMBER OF SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

There were 130,247 shareholders recorded in the register of shareholders of the Company as at 31 December 2001.

According to the register of substantial shareholders, maintained under Section 16(1) of the SDI Ordinance, as at 31 December 2001, the following shareholders had an interest representing 10% or more of the Company's issued share capital:

Name	Number of shares	% of issued share capital held
Jiangxi Copper Company	1,275,556,200 Domestic Shares	47.881%
International Copper Industry (China) Investment Limited ("International Copper") (note)	500,000,000 H Shares	18.768%

Note: By virtue of their respective interests in International Copper, Silver Grant International Industries Limited, China Minmetals H.K. (Holdings) Limited, International Copper Industry Investment (BVI) Limited, Nonferrous Metals International (BVI) Limited and Nonferrous Metals International Limited are deemed to be interested in the H Shares held by International Copper under the SDI Ordinance.

PROCEEDS FROM ISSUE OF A SHARES

The gross proceeds from issue of A Shares amounted as RMB522,100,000 were received on 28 December 2001 and the net proceeds after deducting the share issue expenses amounted to approximately RMB494,850,000. Up to 31 December 2001, the said proceeds have not been utilised.

USE OF FUNDS OTHER THAN PROCEEDS

- During the year, the Company has invested RMB157.48 million in the technical renovation project of the Guixi Smelter Phase III (See the section headed "Operating Strategy" in the Chairman's Statement).
- During the year, the investment in the Dexing Copper Mine with a daily processing capacity of 90,000 tons amounted to RMB225.70 million (See the section headed "Operating Strategy" in the Chairman's Statement).
- During the year, the preliminary investment in Fujiawu Copper Mine amounted to RMB65 million (See the section headed "Operating Strategy" in the Chairman's Statement).

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group expended an aggregate of RMB648,900,000 on property, plant and equipment, which mainly comprised the construction for the expansion of Guixi Phase III and the upgrade and increase of the mining capacity at the Dexing Mine. Details of these and other movements in the property, plant and equipment of the Group and the Company during the year are set out in note 15 to the financial statements prepared under IAS and in notes 16 and 17 to the financial statements prepared under PRC GAAP.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or its holding company or its subsidiary, a party to any arrangements to enable the directors, supervisors or chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or its holding company or its subsidiary, was a party and in which a director or supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

The group has certain agreements with JCC including a miscellaneous supplies contract, a sale agreement, an industrial services agreement, real property leases and a miscellaneous services agreement. Under these agreements (including supplements thereto), the Group will, inter alia, purchase copper concentrates, scrap copper and auxiliary industrial products from, sell copper cathode, sulphuric acid, waste, filter residue and black cement copper to, provide water and electricity to, obtain various industrial, social and support services from and lease property and land use rights from JCC and its affiliates. In addition, the Group entered into a processing agreement with JCC dated 3 September 2001 whereby the Company was appointed on an exclusive basis to process copper concentrates, blister copper and scrap copper imported by JCC into copper cathode and to arrange for the sales and distribution of such copper cathode in the PRC. Details of the processing arrangement are set out in the circular of the Company dated 24 September 2001. The processing agreement was approved by the shareholders at an extraordinary general meeting held on 23 October 2001. Details of these transactions are set out in note 31 to the financial statements prepared under IAS and in note 48 to the financial statements prepared under PRC GAAP.

During the year, the Group entered into an agreement with JCC to acquire the the operating assets, related liabilities and mining right of the Wushan Copper Mine. Details of the above transactions are set out in note 31 to the financial statements prepared under IAS and in note 48 to the financing statements prepared under PRC GAAP.

The Group also entered into certain transactions with 江西鑫新實業股份有限公司 and 湖北三鑫金銅股份有限公司 (both of which are promoters of the Company). Details of these transactions are also set out in note 31 to the financial statements prepared under IAS and in note 48 to the financing statements prepared under PRC GAAP.

The independent non-executive directors of the Company have reviewed the above transactions and confirmed that:

- (i) the transactions have been entered into in the usual and ordinary course of business of the Group;
- (ii) the transactions have been entered into either on normal commercial terms or on terms no less favourable than terms available to or from independent third parties; and
- (iii) the transactions have been entered into on terms that are fair and reasonable so far as the shareholders of the Company are concerned.

In addition, at 31 December 2001, the following agreements which were entered into by the Company with JCC in May 1997 as part of the reorganisation in preparation for the listing of the Company's H Shares were still outstanding:

- (A) An option agreement that JCC has given to the Company options to purchase from JCC any mines, smelters or refineries operated by it now or in the future, and any exploration and mining rights and assets held by JCC now and in the future. No option has been exercised by the Company pursuant to this option agreement up to the date of this report.
- (B) A conditional sale and purchase agreement that the Company may acquire the Chengmen Shan Mine from JCC at a price to be based upon a valuation conducted by an independent appraiser recognised under PRC laws and subsequently to be confirmed by the State Assets Administration Bureau. The agreement has not become unconditional up to the date of this report.

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MAJOR SUPPLIERS AND CUSTOMERS

Aggregate purchases attributable to the Group's five largest suppliers accounted for 27.8% of total purchases for the year.

The Group's largest customer accounted for 13.9% of the total turnover for the year. Aggregate turnover attributable to the Group's five largest customers accounted for 37.5% of the total turnover for the year. At 31 December 2001, JCC has beneficial interests in one of the Group's five largest customers. All transactions between the Group and the customers concerned were carried out on normal commercial terms.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

There was no purchase, sale, redemption or cancellation of the Company's listed shares by the Company during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association.

SIGNIFICANT SUBSEQUENT EVENTS

Details of the significant subsequent events are set out in note 37 to the financial statements prepared under IAS and in note 51 to the financial statements prepared under PRC GAAP.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2001 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

AUDITORS

Messrs. Deloitte Touche Tohmatsu Shanghai CPA and Messrs. Deloitte Touche Tohmatsu have acted as the auditors of the Company for the PRC and international reporting purposes respectively. A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu Shanghai CPA and Messrs. Deloitte Touche Tohmatsu.

On behalf of the Board

Qi Huaiying
DIRECTOR

Hong Kong, 11 April 2002