

MANAGEMENT DISCUSSION AND ANALYSIS

(1) Scope of business of the Company

The Company is the largest integrated copper manufacturer in the People's Republic of China (the "PRC"). The principal activities of the Company include copper mining, milling, smelting, refining, production of copper cathode and such by-products as pyrite concentrates, sulphuric acid, gold and silver. The Company also provides smelting and refining processing services under toll arrangement. The subsidiaries of the Company are mainly engaged in the sales of sulphuric acid. This year the Company has become the holding company of Jiangxi Copper Products Co. Ltd. which is to start construction.

(2) Review of Operation

1. Discussion and analysis of operations and operation achievements

(i) Production Volume

Notwithstanding installation and butt-joint undertaken to the principal project of the Guixi Smelter Phase III technological renovation and suspension of operation for overhaul of the furnaces (which is conducted twice every three years) during the reporting period, production volume has been affected to a certain extent, the Company resumed blister copper production through meticulous arrangements after the smelting system and the refining system had suspended operations for 60 days and 20 days respectively. As a result, the actual production volumes of the Company's major products were more than that as expected by the Board of Directors early this year and was basically at the same level or slightly lower than that for the corresponding period of the previous year. During the first half of the year, improvement was recorded in numerous economic technological indexes such as copper milling recovery rate, smelting recovery rate and electricity consumption rate, as compared with last year.

The following table reflects the total output of the Company for the six months ended 30 June 2002:

Items	Output			
	2002	2001	Increase (decrease)	Increase (decrease) in %
Copper cathode (tonne)	70,966	102,832	(31,866)	(31.0)
Processing copper (tonne)	35,042	8,707	26,335	302.5
Total	106,008	111,539	(5,531)	(5.0)
Gold (kg)	3,215	3,408	(193)	(5.7)
Silver (kg)	55,520	57,496	(1,976)	(3.4)
Sulphuric acid (tonne)	281,882	408,829	(126,947)	(31.0)
Pyrite concentrates (tonne)	387,449	380,604	6,845	1.8

(ii) Operating Results

For the six months ended 30 June 2002, turnover of the Company calculated under IAS amounted to RMB1,561,675,000, decreased by RMB299,022,000 (or 16.1%) from RMB1,860,697,000 for the corresponding period last year; gross profit of RMB279,730,000 was recorded, representing a decline of RMB28,324,000 (or 9.2%) from RMB308,054,000 for the corresponding period of last year; profit for the period amounted to RMB72,780,000, decreased by RMB58,776,000 (or 44.7%).

In accordance with PRC GAAP, net profit calculated under PRC GAAP amounted to RMB72,280,000, decreased by RMB59,276,000 from RMB131,556,000 (or 45.1%) for the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

(iii) Discussion and Analysis of Operating Results

(the relevant figures are extracted from the condensed interim financial statements prepared under IAS)

Turnover

For the reporting period, the Company recorded turnover of RMB1,561,675,000, decreased by RMB299,022,000 (or 16.1%) from the corresponding period of the previous year, which is principally attributable to the following reasons:

- (i) Sales volume of processing copper surged by 26,335 tonnes, resulting in an increase in turnover by approximately RMB86,037,000 and the sales of copper cathode of the Company decreased by 23,768 tonnes leading to a decline in turnover by approximately RMB349,200,000. Turnover decreased by a total of approximately RMB263,163,000;
- (ii) The combined effect of reductions in copper prices and other products causing a drop in turnover by approximately RMB93,155,000;
- (iii) Changes in sales and structure of other products resulted in a surge in turnover by approximately RMB57,296,000.

An analysis of the Company's turnover for the reporting period, by products, is as follows:

	Turnover RMB'000 (unaudited)	Percentage of turnover %	Cost of Sales and services RMB'000 (unaudited)	Gross profit %
Non-ferrous metals	1,135,372	72.7	1,050,319	7.5
Precious metals	334,825	21.4	148,316	55.7
Chemical products	91,478	5.9	83,310	8.9
Total	<u>1,561,675</u>	100	<u>1,281,945</u>	17.9

Profit for the period

In the reporting period, the Company realised profit of RMB72,780,000, reduced by RMB58,776,000 (or 44.7%), which is mainly resulted from the followings:

- (i) Changes in sales volume and sales structure which led to an increase in profit of the Company by approximately RMB2,490,000.

The following table reflects the sales volumes of the Company for the six months ended 30 June 2002:

Items	Sales Volumes			
	2002	2001	Increase (decrease) %	Increase (decrease) %
Copper cathode (tonne)	72,128	95,896	(23,768)	(24.8)
Processing copper (tonne)	35,042	8,707	26,335	302.5
Total	107,170	104,603	2,567	2.5
Gold (kg)	3,215	3,408	(193)	(5.7)
Silver (kg)	55,520	61,864	(6,344)	(10.3)
Sulphuric acid (tonne)	288,002	388,982	(100,980)	(26.0)
Pyrite concentrates (tonne)	576,950	371,564	205,386	55.3

MANAGEMENT DISCUSSION AND ANALYSIS

- (ii) Due to global economic instability, copper prices and tolling fee plunged when compared with the corresponding period of the previous year. However, the significant increases in gold and silver prices had eased the impact of reductions in copper prices to a certain extent. This price factor led to a decrease in the Company's profit by approximately RMB93,155,000 for the period.

Despite the rebounding trends of global copper prices has persisted since November 2001 and that the prices rallied slowly during the first half of the year, copper prices in the domestic and international markets stood at low levels when compared to the corresponding period last year. The price of copper on the London Metals Exchange (LME) and the Shanghai Futures Exchange (SHFE) had decreased by approximately 7.0% and 9.5% respectively when compared with the corresponding period of the previous year (see the charts below).

During the reporting period, the average selling price of copper cathode was RMB15,522/tonne (inclusive of tax), which was RMB102/tonne higher than the average monthly settling price of copper on SHFE for the first half of the year, but decreased by RMB1,668/tonne (or about 9.7%) when compared with the average selling price of the Company during the corresponding period of the previous year.

The following table reflects the average selling prices for the Company's products for the six months ended 30 June 2002:

Items	Average selling price (Excluding tax)			
	2002	2001	Increase (decrease)	Increase (decrease) %
Copper cathode (RMB/tonne)	13,267	14,692	(1,425)	(9.7)
Processing copper (RMB/tonne)	2,635	3,267	(632)	(19.3)
Gold (RMB/kg)	79,283	72,238	7,045	9.8
Silver (RMB/kg)	1,177	1,023	154	15.1
Sulphuric acid (RMB/tonne)	199	193	6	3.1
Pyrite concentrates (RMB/tonne)	56	58	(2)	(3.4)

- (iii) The Company endeavoured to strengthen cost control during the reporting period, unit cost of copper cathode dropped by 7.1% from the corresponding period last year. The decline in unit costs of sales for products of the Company led to an increase in profit by approximately RMB63,130,000.
- (iv) Expenses (i.e. administrative fee, financial and distribution costs) for the reporting period had increased when compared to that of the corresponding period of the previous year resulting in a drop in profit for the reporting period by approximately RMB6,406,000.
- (v) During the reporting period, the tax bureau has not yet finalised and confirmed the amount of tax benefit, which is calculated to be 40% of the investment amount of plant and equipment manufactured in the PRC. Provision for income tax calculated at the rate of 16.5% of taxable profit has been made, leading to a decline in profit by approximately RMB14,986,000.
- (vi) Other items led to a decrease in profit for the period by approximately RMB9,849,000.

2. Discussion and analysis of financial situation

(i) Changes in Assets and shareholders' interest

As at 30 June 2002, the total assets of the Company amounted to RMB8,602,772,000, representing an increase of RMB132,011,000 (or 1.6%) from RMB 8,470,761,000 as at the end of last year. The increase was mainly attributable to an increase in investment of Guixi Phase III Project and acquisition of Wushan Copper Mine in the reporting period.

As at 30 June 2002, the capital and reserves of the Group amounted to RMB4,645,580,000, representing a decrease of RMB60,422,000 (or 1.3%) from RMB 4,706,002,000 as at the end of last year. The decrease was attributable to a realization of profits for this period and RMB133,202,000 of dividend payable from to the reserve of last year.

As at 30 June 2002, the total liabilities to total assets ratio of the Company was 45.3%, representing a slight increase of 0.9 percentage from 44.4% of the total liabilities to total assets ratio as at the end of last year.

(ii) Change in operating capital

As at 30 June 2002, operating capital of the Company was RMB9,590,000, representing a decrease of RMB758,392,000 compared to that of the end of last year. The current ratio declined from 1.41:1 as at the end of last year to 1:1 as at the end of the reporting period.

The decrease in operating capital was attributable to (1) most of proceeds recognised as current assets at the end of last year were utilised to finance investment in the reporting period (Please refer to “1. Investment from proceeds under (3) “Investment” for details); (2) an increase in loans due within one year; (3) the Company plans to arrange for the reasonable use of short term loans in an attempt to reduce interest expenses; and (4) the increase was attributable to a distribution of dividend amounting to RMB133,202,000 in the reporting period. Such dividend was paid to all of the shareholders on 5 July 2002.

(iii) Cash flow

For the six months ended 30 June 2002, cash inflow from operations of the Company amounted to RMB399,909,000; net cash outflow from investment activities amounted to RMB774,666,000; net cash inflow from financial activities amounted to approximately RMB5,089,000; cash and cash equivalents reduced by RMB369,668,000, because of the utilisation of funds to finance investment of Guixi Smelter Phase III Project and acquisition of Wushan Copper Mine in the reporting period.

(iv) Financial Management

During the reporting period, with its good reputation, the Company was able to make timely use of the modern financial instruments and expand its financing activities of notes, thereby reducing finance costs.

During the reporting period, the Company reduced inventories of ancillary materials and spare parts by approximately RMB80,000,000 through stock-taking to make the best use of assets. Consequently, cash flow increased and efficiencies of working capital were enhanced.

3. Investment

1. Use of proceeds on investment

As at 21 December 2001, with the approval of China Securities Regulatory Commission, the Company issued 230,000,000 A shares to domestic investors and raised net proceeds of approximately RMB494,850,000 and obtained the interest from freezing of funds in the sum of approximately RMB10,940,000.

During the reporting period, the Company has paid RMB457,760,000 out of the proceeds for the following projects, while the remaining balance of RMB48,030,000 will be used to finance the development project in respect of the copper mine at Fujiawu District.

(1) Acquisition of Wushan Copper Mine project

During the reporting period, the Company paid approximately RMB193,807,000 in cash out of the proceeds and assumed a debt of RMB82,877,600 for the acquisition of assets of Wushan Copper Mine amounted to RMB276,684,600 (including the mining right thereof amounted to RMB20,261,600).

During the reporting period, Wushan Copper Mine produced copper concentrates containing 4,507 tonnes of copper, 72kg of gold and 5,989kg of silver, representing the respective increase of 12.6% and 8.7%, and a decrease of 3.7% over the corresponding period last year.

(2) Technological renovation project of Guixi Smelter Phase III

During the reporting period, the aggregate completed investment of Guixi Smelter Phase III amounted to RMB461,360,000, of which approximately RMB260,050,000 was financed from the proceeds. At present, part of the principal works, namely the technological renovation and installation of flash furnace and sulphuric acid system has already been completed smoothly.

(3) Technological renovation project of Fujiawu open copper mine

At the end of the reporting period, the aggregate investment amounted to approximately RMB72,640,000 for the development of the project, of which RMB3,900,000 was financed from the proceeds.

The use of proceeds in investment projects as mentioned above is in line with those disclosed in the prospectus on the issue of A shares by the Company.

2. Investment by funds other than proceeds

(1) Construction project of Dexing Copper Mine with a daily processing capacity of 90,000 tonnes

The estimated total investment of the project was approximately RMB1,200,000,000. At the end of the reporting period, the aggregate completed investment reached 91%. In particular, the actual completed investment for the first half of the year amounted to RMB142,730,000, and it was expected that the construction project will be completed by the end of the year. During the first half of the year, the average daily processing capacity of Dexing Copper Mine had basically reached 95,000 tonnes.

(2) Copper rods and wires project with an annual production capacity of 150,000 tonnes

On 11 March 2002, the Company and Jiangxi Copper Company entered into a joint venture agreement and jointly established Jiangxi Copper Products Company Limited with an annual production capacity of 150,000 tonnes of oxygen-free copper rods and wires. The Company invested a sum of RMB900,000,000 in cash and owned 60% shares of the joint venture. Jiangxi Copper Company invested a sum of RMB600,000,000 in cash and owned 40% shares of the joint venture. The project will apply continuous casting and rolling production technologies and introduce foreign advanced production facilities.

At the end of the reporting period, amount of investment contribution was entirely settled and the pre-phase preparation work had basically completed. The contract for introduction of facilities was entered into and construction was expected to commence in September 2002. It was estimated that the project will be completed and production be commenced by the end of 2003.

4. The operational plan for the second half of the year

Looking forward to of the second half of the year, it is expected that the copper market can hardly rebound with economic recovery and be bottomed out from the low level of copper price, amid corporate scandals in the US capital market and uncertainties in global economic growth. It was expected that both international and domestic copper price would still fluctuate in the low range for the second half of the year. Accordingly, pressure from copper price will continue to interfere on the operations of the Company throughout the second half of the year. In this respect, the Company will adopt the following measures to prevent and address the risk of copper price:

1. Reinforce management in production, enhance operational efficiency, reduce costs and expenses, complete all production plans and missions for the year.
2. Strive to construct the technological renovation project of Guixi Smelter Phase III, tighten control on construction cycle, quality and budget of works, so as to ensure the completion of principal project by the end of the year. In order to achieve the production plan of 300,000 tonnes for the next year, the Company will actively improve the production management and make provisions for raw materials.
3. Further enhance sales of gold and silver by-products which have higher profit margin.
4. Endeavoured to improve marketing efforts, utilise hedging instruments to maximise benefits.
5. Strengthen the procurement, inventories and financial management information system, further decrease the inventories of ancillary materials and spare parts, reduce procurement cost, enhance use of funds, fully utilise new financial instruments, expand financing activities of notes and reduce finance costs, make repayments for short-term loans as much as possible, increase the existing banking facilities of long-term borrowing so that current ratio will be improved.
6. Further study the development strategy of the Company, enhance added value of products and the overall quality of the Company.