

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The Company is principally engaged in copper mining, milling, smelting and refining as well as processing of copper and futures business. Key products include copper cathode, processed copper cathode, gold, silver, sulphuric acid, pyrite concentrates and copper rod and wire products, etc..

### 1. Discussion and analysis of operations and operation achievements (the relevant figures were extracted from the financial statements prepared in accordance with the PRC GAAP)

Notwithstanding the sudden outbreak of Severe Acute Respiratory Syndrome ("SARS"), the national economy of the PRC still achieved a growth rate of 8.2% in the first half of the year. The rapid growing economy continued to stimulate the domestic consumption demand and production supply of copper.

In the first half of the year, domestic production volume of refined copper increased by 10.5% over the corresponding period in last year to 850,000 tonnes. After consumption of copper became the first in the world last year, the consumption rate of copper continued to grow faster than the growth rate for the domestic production of copper in view of the continuous rapid development of domestic industries including car and electricity. At the same time, there was tight global supply of refined copper during the year as a result of the reduction of production volume by the global copper producers in recent years. To a certain extent, this situation restricted the growth rate of global production volume of refined copper. As a result, there was a shortage in supply of copper in global market during the year and there was obvious decrease in the inventories level of copper. By the end of the reporting period, the inventories level of London Metals Exchange ("LME") was 666,000 tonnes, representing a decrease of inventories level by 190,000 tonnes over those at the end of 2002.

Due to the improvement in the conditions of supply and demand in copper market, the weaker US dollars and the expectation of recovery in global economy, there was a stable rebound in the global price of copper. In the first half of the year, the average prices of three-month copper futures on LME and Shanghai Futures Exchange were US 76.6 cents per pound and RMB16,845 per tonne respectively, representing an increase of 3.9% and 7.2% respectively as compared with the corresponding period in last year.

As the domestic economic growth and global copper market were recovering, the Company's production and operation was not affected by the occurrence of SARS. During the reporting period, the Company's production was smooth; sales were booming; construction projects were under smooth progress; and there was significant growth in operating results.

During the reporting period, the Company recorded principal operating income of RMB2,389,073,000, representing an increase of 53.0% over the corresponding period in previous year; net profit of RMB203,606,000, representing an increase of 181.7% as compared with the same period of last year; and earnings per share amounted to RMB0.0764.

#### (1) Production volume

The following table reflects the total output of the Company for the reporting period:

	For the six months ended 30 June		Increase (decrease)	Increase (decrease) in %
	2003	2002	(decrease)	
Copper cathode (tonne)	116,094	70,966	45,128	63.6
Processing copper (tonne)	41,751	35,042	6,709	19.1
Total	157,845	106,008	51,837	48.9
Gold (kg)	3,705	3,215	490	15.2
Silver (kg)	88,025	55,520	32,505	58.5
Sulphuric acid (tonne)	511,889	281,882	230,007	81.6
Pyrite concentrates (tonne)	500,335	387,449	112,886	29.1

# MANAGEMENT DISCUSSION AND ANALYSIS

- (2) Business or products accounting for more than 10% of the principal business during the reporting period

	Turnover (note 2) RMB'000	Principal operating costs (note 3) RMB'000	Gross profit (note 4) %	Percentage increment (reduction) of turnover as compared with the previous year %	Percentage increment (reduction) of principal operating cost as compared with the previous year %	Percentage increment (reduction) of gross profit margin as compared with the previous year %
Non-ferrous metals	1,786,200	1,638,745	8.3	57.3	69.7	(6.7)
Precious metals	433,528	209,260	51.7	29.5	40.3	(3.7)
Chemical products	169,345	105,039	38.0	85.1	(29.7)	101.2
Total	2,389,073	1,953,044	18.3	53.0	54.5	(0.8)
Including: Connected transactions (note 1)	130,928	79,727	39.1	(39.5)	(41.3)	28.2

Notes:

**1. Pricing policy for connected transactions**

The determination of the price is principally based on market price in accordance with the market-oriented principle or, if there is no such market price, based on the order of priority of the State price, industry price and actual cost together with tax to determine the price for connected transactions.

**2. Sales income from principal operations**

During the reporting period, the Company's turnover increased by RMB827,398,000 (or increased by 53.0%) over the corresponding period in last year. The increase was mainly attributable to the following reasons: (1) the increase in sales volume led to an increase of turnover by approximately RMB495,253,000 (or an increase by 31.7%); and (2) the increase in sales prices of various products led to an increase of approximately RMB332,145,000 (or an increase by 21.3%).

**3. Principal operating costs**

During the reporting period, the Company's principal operating costs increased by RMB688,635,000 (or increased by 54.5%). This was mainly because: (1) increase in sales volume led to an increase of principal operating costs by RMB425,057,000 (or an increase by 33.6%); and (2) increase in unit sales cost resulting from the factors such as the increase in prices of raw materials purchased from external suppliers and the rise in the costs for self-produced copper as a result of the larger stripping ratio led to an increase of principal operating costs by RMB263,578,000 (or an increase by 20.8%).

**4. Gross profit margin**

During the reporting period, gross profit margin of the Company was 18.3% with no significant variation as compared with the corresponding period in last year. At the same time, there were no significant changes in the Company's principal operations and its composition as compared with the same period in previous year.

- (3) Analysis of principal businesses by geographical market segments

	Turnover RMB'000	Increase (decrease) in turnover from last year %
Mainland China and Hong Kong	2,205,973	46.1
Taiwan area	116,097	347.2
Korea	40,462	100.0
India	25,019	6.6
Other areas	1,522	(0.1)
	<u>2,389,073</u>	<u>53.0</u>

# MANAGEMENT DISCUSSION AND ANALYSIS

## (4) Analysis of profit for the period

	For the six months ended 30 June 2003		2002		Increase (decrease) in the total profit
	RMB'000	Percentage to the total profit	RMB'000	Percentage to the total profit	
		%		%	
Profit from principal operations	418,354	179.5	279,730	320.3	(140.8)
Profit from other operations	21,074	9.0	8,408	9.6	(0.6)
Expenses for the period	198,727	85.3	189,230	216.7	(131.4)
Investment income	0	0.0	1,724	2.0	(2.0)
Non-operating income/ expenses	7,650	3.3	13,292	15.2	(11.9)
Total profit	233,051	100.0	87,340	100.0	—

The significant variation of the Company's profit for the reporting period was mainly due to the increase in sales volume and increase in selling prices which led to significant increase in gross profit and the corresponding increase in the denominator of total profit. As a result, there were significant changes in the composition of various items including the principal operating profit and the expenses for the period in terms of proportion to total profit.

The increase in the expenses for the period was mainly because the expansion of production capacity increased the capital requirements of the Company and there was a slight increase in financial expenses for the period as compared with the corresponding period in previous year. On the other hand, the increase in sales volume also led to the corresponding increase in selling expenses.

- (5) During the reporting period, the Company did not have other operations which had significant impact on the Company's net profit.

## 2. Analysis of financial position of the Company for the reporting period

### (1) Total assets/shareholders' interests/gearing ratio

As at the end of the reporting period, the Company's total assets amounted to RMB9,415,150,000, representing an increase of RMB592,012,000 (or an increase of 6.7%) from RMB8,823,138,000 as at the end of the previous year. The increase was mainly due to the increase in the inventories level including products in progress and semi-products and the increase of receivable and payments in advance resulting from the continuous investment in Guixi Phase III project and the increase in production capacity.

As at the end of the reporting period, shareholders' interests amounted to RMB4,865,988,000, representing an increase by RMB203,605,000 (or an increase of 4.4%) from RMB4,662,383,000 as at the end of the previous year. The increase was mainly attributable to the net profit derived by the Company during the reporting period.

As at the end of the reporting period, the Company's gearing ratio was 47.7%, representing an increase by 1.2% from 46.5% as at the end of the previous year.

## (2) Cash flows

At the end of the reporting period, the Company had balances of cash and cash equivalents amounting to RMB296,210,000. During the reporting period, the net increase of RMB38,711,000 in the Company's balances of cash and cash equivalents representing an increase of RMB408,379,000 as compared with the net decrease of RMB369,668,000 during the corresponding period in previous year.

During the reporting period, net cash inflows from operating activities of the Company amounted to RMB16,024,000, representing a decrease by RMB384,595,000 from the corresponding period in last year. The reduction was mainly attributable to various factors such as the increase in inventories level of products in progress and semi-products resulting from the increase in production capacity, increase in payment in advance and the increase in accounts receivable were still at their credit periods at the end of the reporting period.

Net cash outflows from investment activities of the Company amounted to RMB290,073,000, representing a reduction of investment by RMB485,305,000 from the corresponding period in previous year.

Net cash flows from financing activities amounted to RMB312,759,000, representing an increase by RMB307,669,000 from the corresponding period in previous year.

## 3. Investment of funds other than proceeds

### (1) Technological renovation project of Guixi Smelter Phase III

At the end of the reporting period, the Company's technological renovation project of Guixi Smelter Phase III was basically completed and gradually commenced trial production. The annual production capacity of 300,000 tonnes of copper cathode had been attained. It is expected that another important ancillary technological renovation project of tilting furnace with annual production capacity of 100,000 tonnes of copper will commence trial run at the end of third quarter of 2003.

During the reporting period, the completed investment for Guixi Smelter Phase III amounted to RMB138,031,000. At the end of the reporting period, the aggregate completed investment for the project reached RMB920,276,000.

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

The progress of the copper processing project with annual production capacity of 150,000 tonnes of copper rod of the Company's subsidiary Jiangxi Tongye Copper Products Company Limited was smooth.

The total investment in fixed assets of the project was RMB161,510,000. During the reporting period, the completed investment for the project amounted to RMB7,304,000. At the end of the reporting period, the aggregate completed investment for the project reached RMB106,121,000. Currently, the Company is striving to complete the installation of equipment. It is expected that the trial production will commence in September 2003.

To ensure that there are sufficient capital resources for production and operation, additional working capital, where necessary, will be injected by the two joint venture parties in accordance with the original proportion of their investments.

### (3) Technological renovation project for automatic small gold ingot casting facility

During the reporting period, the technology renovation project for automatic small gold ingot casting facility with the Company's investment of RMB3,444,000 was basically completed and trial production commenced on 11 July 2003. The project filled in the gap of gold ingot casting technology in the PRC and provided the necessary product and technology supports for the Company's target of wider product variety for trading in the gold market.

# MANAGEMENT DISCUSSION AND ANALYSIS

- (4) After the completion of the acquisition of the exploration right and relevant assets of Jiangxi Fujiawu Copper Co., Ltd., the Fujiawu Copper Mine exploitation project is in steady progress in accordance with the plan. During the reporting period, the completed investment for the project amounted to RMB5,733,000. At the end of the reporting period, the aggregate completed investment for the project reached RMB176,360,000.

## PROSPECTS FOR THE SECOND HALF OF THE YEAR

Following the accelerating recovery of global economy and the new stage of rapid growth for the PRC economy, the domestic and overseas consumption demand for copper will further increase. Further decline in the amount of inventories, it is expected that the prices of copper will be better than those at the beginning of the year.

As a result of the significant increase in net profit for the first half of the year and there will not be a significant decrease in selling price of various products or other special factors in the third quarter of the year as compared with the first half of the year, the Company expects that the cumulative net profit for the period from the beginning of the year to the end of next reporting period may increase by more than 50% over the corresponding period in previous year.

In the second half of the year, the Company will focus on the following works:

The Company will ensure the proper application of production techniques and smooth operation of new equipment after Guixi Smelter Phase III project gradually commences production so that the annual production capacity of 400,000 tonnes of copper can be attained smoothly by the end of the year.

The Company will properly strive to carry out the registration of copper cathode produced by it with the new ISA production techniques adopted by Guixi Smelter Phase III project in LME and the application for registration of the Company's gold and silver products in the London Gold and Silver Market Association (LBMA).

The Company will expand the channels for supply of raw materials. The Company will adopt various methods in order to attain bigger share in the domestic and overseas markets for the supply of raw materials.

The Company will fully utilise the model of integrating hypothetical economy and real economy to increase its gross profit after the expansion of the Company's production capacity.

The Company will ensure that the project with annual production capacity of 150,000 tonnes of copper rod operated by the Company's subsidiary can be smoothly completed and commence production. The Company will actively explore the market for sales of copper.