

## To shareholders,

Thanks for your trust and support towards the Company. I am pleased to report that during the financial year ended 31 December 2003, the Company achieved principal operating revenue of RMB5,420,890,000, representing an increase of 62.9% over last year; net profit increased by 198.1% over last year to RMB505,240,000; earnings per share recorded RMB0.19, representing 3.0 times of that of last year.



Chairman : **Mr. He Changming**

## Review on Results

Since its listing, the Company has been carrying out its development guideline of "Greater, Stronger, Better", by which the Company keeps on upgrading technologies and tapping its potential to improve production capacity. Consequently, the Company's current actual production of copper cathode increased by 2.5 times to 343,000 tonnes from 137,000 tonnes as of its listing in 1997, with a further increase to more than 400,000 tonnes in 2004. Meanwhile current actual production of gold increased by 2.1 times to 10,129 kg from about 4,886 kg as of its listing year 1997, with an estimation of 12,000 kg in 2004. Current production of silver increased by 3.8 times to 220,115 kg from about 58,018 kg as of its listing in 1997, with a further increase to 280,000 kg for 2004. As such, the significant increase in selling prices of copper, gold and silver products benefited the Company a great deal in the year, resulting in a leap in the Company's principal operating revenue.

In addition, for years the Company has been applying leading technologies to improve conventional mining techniques so as to increase efficiency. Continuously increasing output of copper mine ensured the Company a relatively higher rate of self-supplying of raw materials. Therefore, the Company effectively warded off exposure to long-term drop of copper price, while achieved stable growths in economic benefits although the current processing fee of copper in the world is on the lowest historical level.

The Company's specialized management and strict cost control system has played an active role in reducing cost, while its prudent principle in finance management contributed to a reduction in exposure to financial risks, which, in turn, secured a good financial position.

## Review on Copper Market

During the year, the recovery of the world economy leading to an increase in world copper consumption. On the other hand, there was an undersupply in copper raw material, and growth in global output of refined copper fell behind growth in its consumption. According to preliminary statistic data from International Copper Study Group (ICSG), global output of refined copper in 2003 increased by 1%, while its consumption increased by 2.3%. The apparent global supply-demand equilibrium of copper showed a shortage of 310,000 tonnes in output, whereas in 2002 there was an oversupply of approximately 200,000 tonnes.

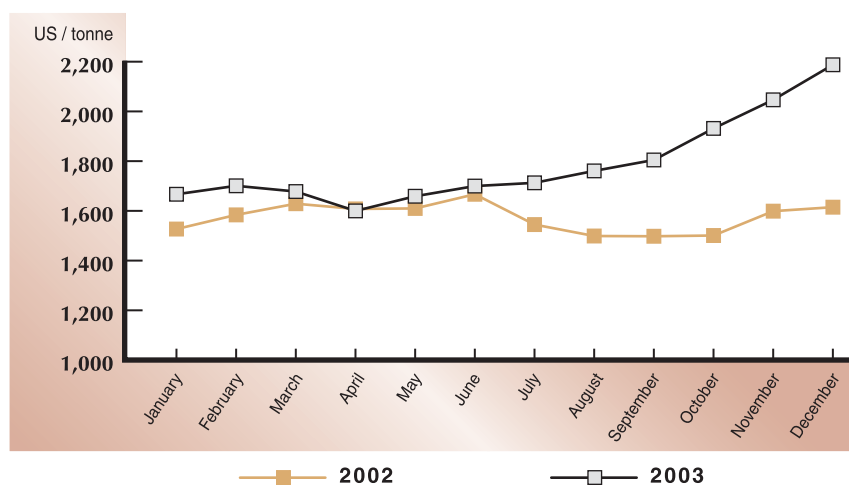
With a high growth rate of 9.1% for economy in China in 2003, the fast growing China economy boosted the domestic strong demand for copper. It is estimated that domestic copper consumption for the year amounted to approximately 2,900,000-3,000,000 tonnes, representing an increase of approximately 17% over last year. However, China only produced approximately 1,770,000 tonnes of copper, representing an increase of 12%. Accordingly, the huge gap in domestic copper supply resulted in the fact that China imported 1,357,000 tonnes of refined copper during the year, representing an increase of 14.9% over last year.

# Chairman's Statement

Incentives from improvement in the quality of copper and decrease in inventory brought a continual upturn of copper price. In particular, the 4th quarter of the year witnessed an accelerating increase in the global copper price. For 2003, the 3-month copper close price quoted in London Metal Exchange recorded an annual average of US\$1,787 per tonne, representing an increase of US\$213 per tonne or 13.6% over last year; the 3-month copper close price (tax included) quoted in Shanghai Metal Exchange recorded an annual average of RMB17,858 per tonne (equivalent to approximately US\$1,843 per tonne, tax excluded), representing an increase of RMB2,273 per tonne or 14.6% over last year.

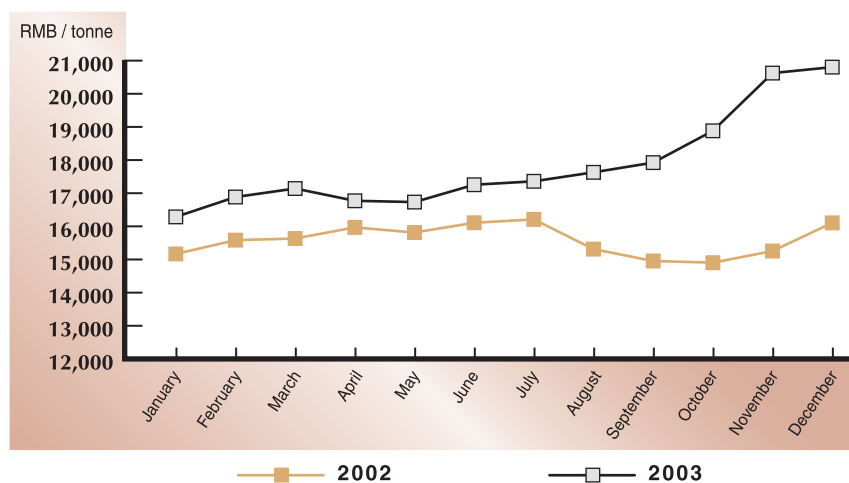
The Following table shows the trends of average closing prices of three-month copper futures in the London Metals Exchange ("LME")

Comparison between the average closing prices of three-month copper futures in the LME for 2002 and 2003



The following table shows the trends of average closing prices of three-month copper futures in the Shanghai Metals Exchange ("SHFE")

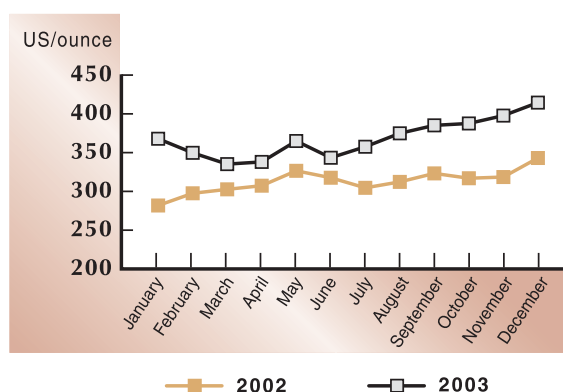
Comparison between the average closing prices of three-month copper futures in the SHFE for 2002 and 2003



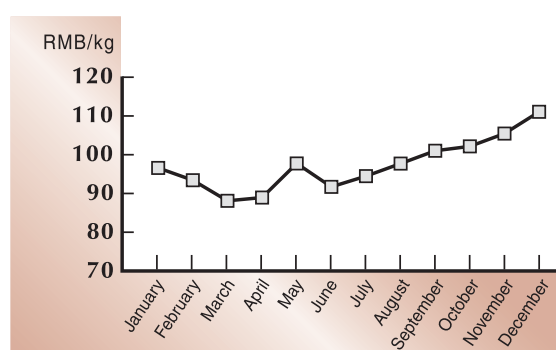
During the year, the depreciation of US dollars and the growth in world economy boosted the consumption of gold. While the prices of copper were on the rise, the prices of gold and silver also demonstrated an upward trend in domestic and overseas market. Gold price kept rising, hitting a new high during recent 8 years and eventually maintaining at about US\$400 per ounce. Benefiting from establishment of Shanghai Gold Exchange in October 2002 and the trading therein, domestic gold price basically kept abreast of growth with international gold price.

The graph on the left is a comparison between closing gold spot prices of COMEX on the New York gold market for 2002 and 2003. The graph on the right shows the closing gold spot prices on the Shanghai Gold Exchange in 2003.

Comparison between the trends of closing gold spot prices of COMEX for 2002 and 2003



Trends of closing gold spot prices on the Shanghai Gold Exchange in 2003



## Business Review

### Production and operation results recorded a significant increase, with output, principal operating revenue and profits topping the highest historical level

During the year, the Company's production of copper cathode (inclusive of processing) was 343,000 tonnes, gold at 10,129 kg, silver at 220,115 kg, sulphuric acid at 979,000 tonnes, and pyrite concentrates at 932,000 tonnes, representing an increase of 48.1%, 25.4%, 81.9%, 34.3% and 5.6% from the previous year respectively. During the year, 146,500 tonnes of copper, 5,476 kg of gold and 54,616 kg of silver contained in copper concentrates were produced, representing an increase of 2.2%, 7.0% and 13.9% from the previous year respectively.

With the rising copper price in the year, depreciation of US dollars stimulated an increase in domestic and overseas gold and silver prices, while fast growing domestic economy and growth in fertilizer industry brought an upturn to prices of chemical raw materials. To conclude, the Company recorded a significant increase in both output and sales volume in the year, which together with rise in selling prices of its products as a whole, delivered the Company a remarkable growth in operating results for the year. Net profit amounted to RMB505,240,000, topping the best historical level.



Guixi Smelter — the largest smelter with state-of-the-art technology in the PRC



The largest transport cart for ores in the PRC

### The project of Guixi Smelter Phase III was completed and put into operation, thereby strengthening the Company's position as China's largest production base of copper, gold and silver

Thanks to unremitting efforts of the Company's staff members in two years, key technology renovation project of Guixi Smelter Phase III was accomplished and put into production at the end of the year. Thus, the Company is able to maintain its position of not only China's largest production base of copper but also China's largest production base of concomitant gold and silver.

JCPC, a subsidiary controlled by the Company, also completed and put into operation its project for processing 150,000 tonnes of copper rod and wire. Currently, most equipment and technological processes have passed successive tests and qualified copper rod and wire have been produced. Establishment of the project symbolised that the Company has further extended its business fields from copper mining, milling and smelting to copper processing, representing an upgrade in its product chains with a value-added contribution to the Company's products.

### The Company put more efforts in resource development so as to improve its resource reserve

To meet demands for copper, gold and silver resources arising from production capacity expansion of Guixi Smelter Phase III, the Company is putting more efforts in resource development.

Fujiawu Copper Mine is accelerating its pace of development, so as to continue the ore supplied by Milling Plant of Dexing Copper Mine as soon as possible. The Company has cumulatively invested RMB143,820,000 on the acquisition and development of Fujiawu Copper Mine. Currently, a road between ore districts of Fujiawu and Dexing copper plant has been built, laying a foundation for large scale development of the said mine.

In September 2003, the Company accomplished its acquisition of Kangtong. With an ability to obtain all production of Blister Copper and gold and silver content from this Company, the acquisition also provided the Company a platform to enter the Southwest market with a relatively rich resource reserve in China.

During the year, the Company kept on proactively seeking domestic and overseas opportunities for cooperation on development of copper, gold and silver resources, and took efforts to seek existing acquisition objects of copper, gold and silver resources. Among them, the geologic investigation in Shiwu ore district, an exploration jointly conducted by Jiangxi Non-ferrous Metal Geology Investigation Bureau and the Company each contributing 50% of investment, has achieved certain progress.

## The Company advanced development of key technologies and achieved new outcome by technical innovation

The Company persists in key technology development and investment on a long-term basis, aiming to improve efficiency as well as lower or control production cost. Following its listing in 1997, the Company introduced a series of technologies such as "Mining, Planning and Designing Software" and "GPS Truch Dispatching System" and the Company also successfully introduced a 4H smelting technology, namely, the technology of "high material input, high density of oxygen, high grade of copper matte and high heat intensity". Meanwhile, Copper Electrolysis System of Guixi Smelter Phase III completed in the year adopted a leading Isa electrolysis technology of stainless steel permanent cathode plates. In addition, by introducing technology for treatment of acidic water of Dexing Copper Mine, the Company realized a preliminary environmental goal of converting sewage in the ore district into clean water.

## Prospects

### Operation Environment

Looking ahead, basic factors such as a continued reduction in inventory in the world, a devaluation of the US dollar, a strong demand for copper driven by global economic growth, insufficient supply of copper resources, an increase in shipping costs and the fast-growing manufacturing industry in the PRC have given support to a continued increase in global copper prices. In addition, from the movements in copper prices since October 2003, it can be seen that global copper prices had got rid of the long-term bear market after bottoming out for many years and are currently moving on the upside. Therefore, it is expected that global copper prices will remain at relatively high levels over the next few years. Global copper prices moving within a high level range are very favourable to the Company since it has a high percentage of self-sufficiency rate of raw materials.

The insufficient supply of copper mine resources worldwide has led to relatively low smelting processing costs. However, it is expected that boosted by a continued rise in copper prices, copper mine producers will progressively increase their production or resume their copper mine capacities, which had been closed previously. As a result, the supply of copper concentrates will be eased and smelting processing costs worldwide might see a rebound.

The agreement on processing of imported copper entered into between the Company and JCC on 3 September 2001 had expired on 31 December 2003. In 2004, upon approval by the relevant authorities of the State, JCC will continue to be entitled to the policy of refund of value-added tax on imported copper raw materials for processing into copper cathode from 2004 to 2005. However, as at the date of this report, JCC has not been granted the actual quota and refund percentage by the relevant authorities. Therefore, the Company has not entered into any processing agreement with JCC on the importation of copper raw materials from 2004 to 2005. If JCC is entitled to the quota and refund policies, the Company will continue to enter into the exclusive processing and distribution agreements with JCC in accordance with the connected transaction procedure and at reasonable and fair prices.

## Business Strategies

We will make every effort to achieve the following in 2004 and the next few years:

1. Ensure the smooth operation of the production process and new facilities after the project of Guixi Smelter Phase III commences production. Ensure that the objectives of producing 400,000 tonnes of copper cathode (strive for achieving 420,000 tonnes), 12 tonnes of gold and 280 tonnes of silver (strive for achieving 300 tonnes) can be achieved in 2004. In addition, based on current capacity, the capacity of producing copper, gold and silver will be further expanded to 450,000 tonnes, 15 tonnes and 360 tonnes respectively through technological renovation in 2005. In 2007, the Company will further increase the above production capacities by improving internal efficiency.
2. While accelerating the exploitation of the Company's existing copper resources, the Fujiawu Copper Mine project, further enhance efforts in exploring resource and exploitation both domestically and abroad. In particular, achieve a percentage of self-sufficiency of copper and gold raw materials of above 50 per cent.
3. Ensure the smooth operation of the subsidiary's 150,000 tonnes low-oxygen copper rod project. Plan to produce more than 120,000 tonnes of copper rods in 2004 and achieve full production capacity by the end of the year.
4. While overcoming the tight supply of power and an increase in energy prices, the Company will continue to make efforts to control production costs and expenditure so as strive to significant improvements in efficiency and profit in 2004.
5. Further enhance hedging while copper prices are rising and further increase and maintain corporate economic efficiency at a relatively high level for long term.

In conclusion, with further increases in the Company's resource supply capabilities, production and management standard operation level, together with the full rebound of product prices such as copper, gold, silver, sulphuric acid and pyrite concentrates and the distinct advantage of processing costs, the Company will have excellent development prospects with its potential fully reflected in competition. The Company's Board of Directors will bring its advantages of scale of economy, a relatively high percentage of self-supply of copper, gold and silver resources and relatively stable costs into full play to strive to enable shareholders to fully enjoy the benefits brought by the Company's rapid development.

By order of the Board

**He Changming**

*Chairman*

Hong Kong, 11 March 2004