

# Management Discussion and Analysis

The following is the discussion and analysis of the Company's 2003 annual results. The financial data mentioned in such discussion and analysis is mainly extracted from the Company's financial statements prepared under PRC GAAP and regulations. The investors are advised to pay attention to the Company's audited financial statements for the years 2003 and 2002 prepared under PRC GAAP and regulations when reading this discussion and analysis.

In 2003, the Company experienced impact of SARS in the first half year, and in the second half year, a supply shortage and increasing prices of raw materials and energy as well as a global decrease in processing fee for copper smelting. Despite such unfavourable factors, the management of the Company focused on its production and business goals to implement an active expanding strategy and prudent financial policy. Accordingly, the Company recorded satisfied results including completion of Guixi Smelter Phase III and 150,000 tonnes of Copper Wire Rod projects, acquisition of Kangtong, and a significant increase in its production, sales volume, principal operating revenue and net profit, which lays a foundation for the Company's further development and its growing strength.

## Achieving production targets of products

In 2003, the Company recorded a sharp increase in the output quantity of its products. A comparison between the output quantity of the Company's main products in 2003 and the comparative figures in 2002:

	2003	2002	Increase	Increase %
Copper cathode (inclusive of processing copper)(tonne)	<b>343,088</b>	231,613	111,475	48.1
Of which: Processing copper (tonne)	<b>111,237</b>	93,094	18,143	19.5
Gold (kg)	<b>10,129</b>	8,079	2,050	25.4
Silver (kg)	<b>220,115</b>	120,980	99,135	81.9
Sulphuric acid (tonne)	<b>979,151</b>	729,293	249,858	34.3
Pyrite concentrates (tonne)	<b>932,462</b>	882,615	49,847	5.6

## Principal operating revenue and its composition

For the year, the Company's principal operating revenue amounted to RMB5,420,890,000 representing an increase of RMB2,093,820,000 (or 62.9%) over last year. This is mainly attributable to an increase in sales prices and sales volume of its products. Of which, the increase in sales volume contributed RMB1,441,300,000 (or 43.3%) to principal operating revenue; and the increase in sales prices contributed RMB652,520,000 (or 19.6%) to principal operating revenue.

A comparison between principal operating revenue and its composition in 2003 and 2002 is set out as follows:

	2003		2002		Increase/ (decrease)	
	Sales revenue RMB'000	Percentage of total sales revenue %	Sales revenue RMB'000	Percentage of total sales revenue %	Sales revenue RMB'000	%
Copper cathode	3,509,715	64.7	1,827,731	54.9	1,681,984	92.0
Processing copper	338,394	6.2	252,350	7.6	86,044	34.1
Gold and silver	1,217,492	22.5	803,388	24.2	414,104	51.5
Others (scrap copper anode/ sulphuric acid/ pyrite concentrates, etc.)	355,290	6.6	443,604	13.3	(88,314)	(19.9)
	<b>5,420,891</b>	<b>100</b>	<b>3,327,073</b>	<b>100</b>	<b>2,093,818</b>	<b>62.9</b>

A comparison of sales prices (inclusive of tax) of the Company's major products in 2003 and 2002 is set out as follows:

	2003	2002	Increase	Increase %
Copper cathode (RMB/tonne)	17,681	15,554	2,127	13.7
Processing copper (RMB/tonne)	3,556	3,205	351	11.0
Gold (RMB/kg)	98,502	82,107	16,395	20.0
Silver (RMB/kg)	1,230	1,212	18	1.5
Sulphuric acid (RMB/tonne)	293	223	70	31.4
Pyrite concentrates (RMB/tonne)	75	63	12	19.0

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A comparison of sales volume of the Company's major products in 2003 and 2002 is set out as follows:

	2003	2002	Increase	Increase %
Copper cathode (tonne)	<b>232,251</b>	137,642	94,609	68.7
Processing copper (tonne)	<b>111,237</b>	92,149	19,088	20.7
Gold (kg)	<b>10,056</b>	8,000	2,056	25.7
Silver (kg)	<b>220,103</b>	120,980	99,123	81.9
Sulphuric acid (tonne)	<b>993,059</b>	753,410	239,649	31.8
Pyrite concentrates (tonne)	<b>1,331,094</b>	1,122,967	208,127	18.5

### Principal operating revenue by geographical territories

A comparison between principal operating revenue by geographical territories and its composition in 2003 and 2002 is set out as follows:

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	Increase (decrease) %
Mainland China	<b>4,852,104</b>	3,096,039	56.7
India	<b>25,019</b>	90,945	(72.5)
Hong Kong	<b>162,600</b>	43,410	274.6
Taiwan	<b>291,095</b>	33,456	770.1
Australia	—	26,934	(100)
Korea	<b>69,525</b>	20,688	236.1
Other areas	<b>20,548</b>	15,601	31.7
	<b>5,420,891</b>	3,327,073	62.9

## Gross profit of major products by industries

	Principal business revenue RMB'000	Principal Business cost RMB'000	Gross profit margin %	Increase (decrease) in principal business revenue from previous year (%)	Increase (decrease) in principal business cost from previous year (%)	Increase (decrease) in gross profit margin from previous year (%) (note)
Non-ferrous metals	3,847,721	3,446,128	10.4	69.2	60.3	4.9
Precious metals	1,217,490	675,100	44.6	44.5	77.4	(10.2)
Chemical products	355,680	187,422	47.3	69.4	3.6	33.5
<b>Total</b>	<b>5,420,891</b>	<b>4,308,648</b>	<b>20.5</b>	<b>62.9</b>	<b>58.9</b>	<b>2.0</b>
Including: connected transactions	678,996	528,277	22.2	90.1	85.5	1.9

### Pricing policy for connected transactions

Pricing policy for the Company's connected transactions is mainly on a market price basis in accordance with commercial principles. If there is no market price available, the price shall be determined subject to the following sequence: (1) If there is a price prescribed by the PRC State pricing authorities ("State-prescribed Price") then adopt State-prescribed Price; (2) If there is no price prescribed by PRC State Pricing authority, but a price prescribed by the PRC industry authorities ("Industry-prescribed Price") is available then adopt Industry-prescribed Price; (3) If there is neither State-prescribed Price nor Industry-prescribed Price, then adopt a price being actual costs plus tax.

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Explanations on necessity and ongoing nature of connected transaction

The Company ensures integrity and independence of its assets, organisation, personnel, business and finance. However, by taking full use of respective production facilities and advantages in technologies and resources, i.e., by resource sharing and advantage complementation, the Company can benefit from one party's supplying or selling products to the other party, thereby realising reduction in repetitive investment and costs. Furthermore, as the Company is a comprehensive mining company engaged in mining, milling and smelting and established under reorganisation in 1997 with quality assets divested from operating assets of Jiangxi Copper Company, the former State-owned enterprise (currently known as Jiangxi Copper Corporation), it is still necessary that social services and services in connection with production, property and land required by the Company be duly provided by its connected party. As such, the ongoing connected transactions are indispensable and necessary from the date of the Company's establishment.

The Company has been strictly complying with regulations governing connected transactions for all of its connected transactions, which are subject to the auditor's and independent directors' review to follow an arm's length, fair and open principle, so as to prevent the minority shareholders' interests from being damaged.

Note: Due to an increase in selling prices and sales volume of products, the Company's principal operating gross profit margin increased by 2 percentage points over last year, including:

- (1) An increase of 4.9 percentage points in sales gross profit margin of non-ferrous products. This is mainly attributable to an increase of 13.7% and 11.0% in selling prices and processing fee of copper cathode respectively over last year, resulting in an increased gross profit margin after offsetting the rise in cost of outsourced copper raw materials.
- (2) Although the Company recorded a significant increase in output, sales volume and prices of its precious metals, the average sales gross profit margin of precious metals was deducted by 10.2 percentage points due to a decreased percentage of precious metal output in the Company's own mine with a higher gross margin. Nevertheless, the Company managed to increase its gross profit by outsourcing gold and silver raw materials to produce precious metals.
- (3) Due to a number of factors including increased market selling prices and sales volume as well as a decrease in production costs, gross profit margin of the Company's chemical products saw an increase of 33.5% during the year.

## Discussion on and analysis of operating results

### Principal operating profit

For the year, the Company's principal operating profit amounted to RMB1,076,450,000, representing an increase of RMB461,550,000 (or 75.1%) over last year. This is mainly attributable to:

- (1) an increase in sales volume contributing approximately 43.3% to principal operating profit as well as an increase of 47.1% in principal operating cost of the Company. The final figure after offsetting both items demonstrated that the Company's principal operating profit recorded an increase of RMB179,500,000 (or 29.2%) due to the increase in sales volume.
- (2) Rises in product selling prices contributed an increase of 19.6% in the Company's principal operating revenue. However, due to an increase in volume and prices of copper, gold and silver raw materials outsourced by the Company and increased prices of other energy sources in the year, the Company's principal operating cost also increased by approximately 9.3%. After offsetting the increase in selling prices by the increase in principal operating cost, the Company recorded an increase of RMB 282,050,000 (or 45.9%) in its principal operating profit.

### Other operating profit

Other operating profit recorded a decrease, mainly attributable to great difficulties in the operation of hedging arising from continued rapid rises in copper prices in the 4th quarter. As a result, the Company recorded a loss of RMB61,510,000 (2002: a gain of RMB17,480,000) for the year for settlement of forward contracts before their maturity dates.

### Period expense

An increase in period expense was mainly attributable to the necessary increase in selling expense such as transportation fee arising from the increased sales volume. Management expense and finance cost recorded a mild but limited increase. This was mainly due to the benefits from the Company's control system for administration costs and its management on financial resources in a scientific manner.

A comparison of expenses in 2003 and 2002 is as follows

	2003		2002	
	RMB'000	Percentage of operating revenue %	RMB'000	Percentage of operating revenue %
Management expenses	239,681	4.4	235,145	7.1
Operating expenses	61,977	1.1	40,488	1.2
Financial expenses	164,288	3.0	154,802	4.7
Total	465,946	8.5	430,435	13.0

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## Net profit

For the year, the Company's net profit amounted to RMB505,240,000, representing an increase of RMB335,740,000 (or an increase of 198.1%) over last year. This was mainly attributable to a significant increase in principal operating profit after offsetting the increase in period expense.

Changes in operating results and profit constituents in 2003 and 2002 are as follows

	2003		2002		Percentage of total profit increase (decrease) %
	RMB'000	Percentage of total profit	RMB'000	Percentage of total profit	
Principal operating profit	1,076,453	200.2	614,907	354.8	(154.6)
Other operating profit	(39,346)	(7.3)	26,022	15.0	(22.3)
Period expense	465,947	86.7	430,435	248.3	(161.6)
Income from investment	(1,750)	(0.3)	2,836	1.6	(1.9)
Net non-operating revenue and expenditure	31,762	5.9	39,994	23.1	(17.2)
Total profit	537,648	100.0	173,337	100.0	—

## Financial status

Movements in asset and liability items:

	2003 RMB'000	2002 RMB'000	Increase (decrease) RMB'000	Increase (decrease) %
Total assets	10,169,255	8,823,138	1,346,117	15.3
Total liabilities	4,769,206	4,020,130	749,076	18.6
Including: long-term liability	2,561,281	2,390,151	171,130	7.2
Minority interests	148,423	60,704	87,719	144.5
Shareholders' equity	5,251,626	4,742,304	509,322	10.7

As at the end of the year, the Company's total assets prepared under PRC GAAP and regulations are RMB10,169,260,000, representing an increase of RMB1,346,120,000 (or an increase of 15.3%) over last year. This was mainly attributable to investment in the Guixi Smelter Phase III Expansion Project and a significant increase in raw material stock required by production following the project's completion and operation, and the combination of Kangtong's financial statements.

As at the end of the year, the Company's total liabilities amounted to RMB4,769,210,000, representing an increase of RMB749,080,000 (or an increase of 18.6%) over last year. This was mainly attributable to an increase in the Company's commercial loans arising from a strong demand for initial working capital as a result of operation of Guixi Smelter Phase III and the combination of Kangtong's financial statements.

As at the end of the year, the Company's minority interests amounted to RMB148,420,000, representing an increase of RMB87,720,000 (or an increase of 144.5%) over last year. This was mainly attributable to a capital increase of JCPC, a non-wholly owned subsidiary included in the Company's combined financial statements, and an additional subsidiary of Kangtong.

As at the end of the year, the Company's shareholders' equity amounted to RMB5,251,630,000, representing an increase of RMB509,320,000 (or an increase of 10.7%) over last year. This was mainly attributable to the increase in realized profit during the year and the fact that interest allowance of RMB84,000,000, being the financial subsidy to Guixi Smelter Phase III, was transferred to capital reserve in the year under the relevant provisions.

As at the end of the year, the Company's overall gearing ratio was 46.9%.

## Receivables and credit risk

The credit risk of the Company mainly involved receivables. However, sufficient bad debt provision was made in the light of the Company's past experience and the economic situation.

In addition, the Company did not have any major credit concentration risk since it has spread the risk to a large number of clients.

## Working capital and capital resources

As at the end of the year, the balance of the Company's working capital was RMB984,020,000 and the current ratio was 1.45:1.

As at the end of the year, the Company's bank loans totalled RMB3,860,160,000, of which loans of approximately RMB1,340,050,000 are payable within one year; loans of approximately RMB605,400,000 are payable within one to two years; loans of approximately RMB1,637,710,000 are payable within two to five years and loans of approximately RMB277,000,000 are payable after five years. The interest rates of all the bank loans ranged from 2.1% to 6.0% (2002: 3.0% to 6.2%). In addition, notes payable by the Company within one year amounted to approximately RMB182,860,000.

During the year, the net cash inflow from the Company's operating activities during the year amounted to RMB345,240,000, representing a decrease of RMB427,890,000 (or a decrease of 55.3%) from the previous year. This was mainly attributable to the fact that funds occupied by raw materials and relevant reserve increased significantly in the year for the trial production of Guixi Smelter Phase III expansion project in the 4th quarter of 2003, as the Company had to make an initial investment in raw materials and stocks according to the expanded capacity of 400,000 tonnes of copper cathode. However, as the corresponding annual output of such 400,000 tonnes of copper cathode has to be realized in 2004, the corresponding cash inflow will be reflected in 2004.

For the year, the Company's net cash outflow arising from investment activities amounted to RMB625,890,000, representing a decrease of RMB572,310,000 (or a decrease of 47.8%) from last year. This was mainly attributable to the fact that most of the Company's large investments, including the infrastructure of Guixi Smelter Phase III and the acquisition of Wushan Mine, had been arranged in 2002. Therefore, capital expenditure for 2003 recorded a decrease from last year.

For the year, the Company's net cash inflow arising from financing activities amounted to RMB329,290,000, representing an increase of RMB327,780,000 over last year. The significant increase was mainly attributable to an increased demand for working capital as a result of the Company's expanded production capacity.

As at the end of the year, the Company held approximately RMB306,140,000 in cash and cash equivalents, representing an increase of RMB48,640,000 (or an increase of 18.9%) from RMB257,500,000 as at the end of the previous year.