

# MANAGEMENT DISCUSSION AND ANALYSIS

## SCOPE OF PRINCIPAL BUSINESS

The Company is principally engaged in copper mining, milling, smelting and refining as well as processing of copper products and futures business. The principal products of the Company include copper cathode and its processing, gold, silver, sulphuric acid, pyrite concentrates and copper rods and wires.

## BUSINESS REVIEW

Due to the devaluation of US dollars, a strong demand for copper driven by global economic growth, the strikes taking place at copper mines, the strong domestic demand for copper, a substantial decline in the inventories level of copper in the world and the country's macro-economic control in effect, domestic and overseas copper prices experienced significant fluctuations during the reporting period which were rarely seen in recent years, though in general maintained an upward trend. From January to June of this year, the average prices of three-month copper futures quoted in London Metal Exchange and Shanghai Futures Exchange were US\$2,699 per tonne and RMB25,706 per tonne (inclusive of tax) respectively, representing a sharp rise of about 62% and 53% respectively as compared with the corresponding period last year. In addition, the devaluation of US dollars also stimulated an increase in the prices of gold and silver both domestically and abroad.

During the reporting period, the average selling price of the Company's copper cathode to external parties was RMB25,474 per tonne (inclusive of tax), representing an increase of approximately 50% over the same period last year. However, due to the tight global supply of raw materials, smelting processing fees remained low. During the reporting period, processing fees of copper cathode was approximately RMB2,620 per tonne (inclusive of tax), representing a decrease of approximately 25.7% from the same period last year. The average selling prices of gold and silver were approximately RMB109,053 per kg and RMB1,832 per kg (inclusive of tax) respectively, representing an increase of approximately 18% and 29% from the same period last year respectively, whereas the cumulative average selling prices and sales volumes of sulphuric acid and pyrite concentrates showed varying degrees of increments when compared with the same period last year.

During the reporting period, while enjoying the encouraging situation in which prices of copper, gold and silver products were increasing, the Company encountered a number of problems, including the rising prices of raw materials caused by tight global supply, as well as those arising from the rapid development of China's economy, such as power and energy shortages and soaring prices. Although these problems imposed pressure on the Company's operations, the Company anticipated such circumstances and has taken a series of measures to alleviate such pressure:

- By fully exploiting the Company's distinct advantages of production management and technology, ensuring that Guixi Smelter Phase III, which had completed and commenced production by the end of 2003, was in smooth operation and achieved its production target in the reporting period, and that the Company accomplished its sales target accordingly. During the reporting period, the Company had cumulatively sold 111,565 tonnes of copper cathode and processed 22,199 tonnes of copper cathode for external parties, and sold 54,244 tonnes of copper cathode to its subsidiary Jiangxi Copper Products Company Limited, totalling 188,008 tonnes, representing an increase of approximately 20% over the same period last year, while the cumulative sales volumes of gold and silver amounted to 4,801 kg and 94,043 kg respectively, representing an increase of approximately 36% and 7% respectively in comparison to the same period last year. The Company's subsidiary sold 62,929 tonnes of copper rods and wires during the reporting period.
- In view of the intensifying undersupply of copper raw materials and fierce competition in the domestic and international markets, the Company has accelerated the implementation of its strategic plans of exploiting and investing in copper materials both domestically and abroad.

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- a) On 16 June 2004, the Company accomplished its acquisition of Shanxi Diaoquan Silver and Copper Mining Co., Ltd. (山西省刁泉銀銅礦業有限公司) in Shanxi Province with an investment of RMB35 million, building up a platform for the Company to enter the copper raw materials market in Northwestern China.
- b) The Company played an active role in widening and deepening their contacts with foreign raw material suppliers and developers of copper, gold and silver and made arrangements for the long-term supply of raw materials proactively and achieved concrete effects.
- c) During the reporting period, the Company optimized and consolidated all aspects of its copper raw materials procurement so as to enhance service quality and provide more effective credit guarantee for suppliers, thus fostering the Company's competitive edge in the procurement of such materials.
- d) Apart from enhancing the exploitation of and investment in external resources, the Company stepped up its efforts in exploiting internal ones, among which Fujiawu Copper Mine, upon completing the preliminary preparation work, formally commenced construction in the reporting period. Being a continuation of Dexing Copper Mine, the project will add approximately 22,180 tonnes of copper concentrates per annum to the Company's aggregate supply upon completion of construction. The total investment of the project is estimated to be RMB860 million.

Notwithstanding the tightening supply of copper raw materials in the domestic and world global during the reporting period, the Company has managed to secure an adequate supply of such materials to meet its expanded production capacity.

- Facing the huge fluctuations in copper prices during the reporting period, the Company had analyzed the copper market and further increased in hedging when such prices were rising and settled the forward contracts when copper prices were declining in the second quarter resulted in a gain of RMB182,723,000, representing an increase of RMB171,972,000 than that realized in the same period last year.
- In addition to fostering its communication with electricity suppliers to solicit their support, the Company reinforced production dispatching and rationalized production plans. Such efforts succeeded in improving the intense situation arising from power shortages, and in ensuring the smooth operation of production facilities.

As a result of the effective measures mentioned above, the Company recorded a revenue from principal operations of RMB4,848,910,000 during the reporting period, representing an increase of about 103% over the same period last year; net profit (prepared in accordance with PRC GAAP) amounted to RMB626,418,000 representing an increase of approximately 208% over the same period last year; earnings per share amounted to RMB0.235, representing an increase of RMB0.159 per share over the same period last year, whereas net cash inflows from operating activities amounted to RMB689,557,000, representing an increase of approximately RMB673,533,000 over the same period last year.

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## 1. Discussion and analysis on principal operations and profits

The financial data mentioned below is based on the Company's financial statements prepared under PRC GAAP.

(1) *Businesses or products accounting for more than 10% of the principal operations during the reporting period*

	Principal operating revenue RMB'000	Principal operating costs RMB'000	Gross profit %	Increment of principal operating revenue as compared with the same period last year %	Increment of principal operating cost as compared with the same period last year %	Increment (reduction) of gross profit ratio as compared with the same period last year %
Non-ferrous metals industry						
Sales and processing of copper cathode	2,478,761	2,205,960	11.0	38.8	34.6	2.7
Sales and processing of copper rods and wires	1,453,373	1,225,597	15.7	N/A	N/A	N/A
Precious metals products	654,700	431,585	34.1	51.0	106.2	(17.7)
Sub-total	4,586,834	3,863,142	15.8	106.6	109.0	(1.0)
Chemical and other products	262,076	162,529	38.0	54.8	54.7	0.0
Total	4,848,910	4,025,671	17.0	103.0	106.1	(1.3)
Including:						
Connected transactions	132,869	121,928	8.2	1.5	52.9	(30.9)

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## 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.

### Note:

1. *The income from principal operations of the Company significantly increased 103.0% as compared with the same period last year, mainly because of the increase in the sales prices of various products and the expansion of production and operating scale of the company during the reporting period. Besides, the subsidiary of the Company, Jiangxi Copper Products Company Limited commenced the operational business of copper rods and wires after its completion of construction. Therefore, the increase in revenue from principal operations, amounted to RMB1,453,373,000, was contributed by the subsidiary.*
  2. *The cost of the principal operations of the Company increased 106.1%, which is mainly due to the increase in the proportion of the purchase of raw materials and the increase in the prices of raw materials such as copper raw materials, electricity, steel products and power resources etc.*
  3. *During the reporting period, the gross profit ratio of the principal operations of the Company decreased 1.3% as compared with the same period last year.*
  4. *During the reporting period, the Company reclassified the situations of the industries as reflected in the above table.*
- (2) *There were no major changes in the Company's principal operations and its structure during the reporting period as compared with the same period last year.*
- (3) *Analysis of the Company's principal operations during the reporting period by geographical location*

	Principal operating revenue RMB'000	Increase (decrease) in principal operating revenue as compared with the same period last year (%)
Mainland China and Hong Kong	4,701,330	113.1
Taiwan area	56,263	(51.5)
Korea	89,786	(121.9)
Other areas	1,531	0.6
	4,848,910	103.0

- (4) *During the reporting period, other operations which had significant impact on the Company's net profit.*

The Company hedged against copper cathode in times of relatively higher price for purpose of inflation-proof, and closed out when the price of copper cathode was declining in the second quarter, which recorded a profit of RMB182,723,000, accounting for 29% of the Company's net profit.

## 2. Discussions and analysis of financial position of the Company for the reporting period

The financial data mentioned below is based on the Company's consolidated financial statements prepared under IFRS for the reporting period.

- Total assets/shareholders' interests/gearing ratio

As at the end of the reporting period, the Company's total assets amounted to RMB10,502,142,000, representing an increase of RMB404,488,000 (or an increase of 4%) from RMB10,097,654,000 as at the end of the previous year. The increase was due to the total assets consolidated with the total assets of Shanxi Diaoquan Silver and Copper Mining Co., Ltd. (山西省刁泉銀銅礦業有限公司) as acquired by the Company on 16 June 2004 during the reporting period.

As at the end of the reporting period, the shareholders' equity amounted to RMB5,477,359,000, representing an increase of RMB309,733,000 (or an increase of 6%) from RMB5,167,626,000 as at the end of the previous year. The increase was mainly attributable to the increased net profit after deduction of the distribution of dividend to shareholders during the reporting period.

As at the end of the reporting period, the Company's gearing ratio was 46.0%, representing a decrease by 1.4 percentage point from 47.4% as at the end of the previous year.

- Cash flow

As the end of the reporting period, the Company had balances of cash and cash equivalents amounted to RMB412,432,000.

During the reporting period, net cash inflow from operating activities of the Company amounted to RMB700,800,000, representing an increase of RMB685,611,000 from the corresponding period in last year. The increase in operating cash flow was mainly due to the Company's significant growth of profit during the reporting period.

Net cash outflow from investment activities of the Company amounted to RMB257,824,000, representing a reduction of investment by RMB31,414,000 from the corresponding period in previous year.

Net cash flow from financing activities amounted to RMB336,682,000, representing a decrease by RMB649,442,000 from the corresponding period in previous year. The decrease in the net cash flow from finance activities was mainly due to the relatively sufficient inflow of operating cash of the Company during the reporting period and at the same time the cash dividend paid by the Company during the reporting period had increased as compared with the corresponding period last year.

## PROSPECTS FOR THE SECOND HALF OF THE YEAR

In spite of macro-economic control, China's economy will continue to experience rapid growth although the economy is undergoing structural changes. Domestic copper consumption is expected to maintain certain growth with an expansion of electricity investment in the country. Concurrently, driven by global economic growth and supported by a sharp reduction in the inventories level and the supply gap in copper concentrates in 2004, global copper prices will remain at a high level.

With a rise in the profitability of copper mining, most of the copper mine producers will increase or resume production of their copper mines. As such, the tight supply of copper raw materials will be progressively eased in the second half of the year with a gradual decline in the prices of such materials, thereby ensuring growth opportunities for the Company.

1. While continuing to strengthen production and operational management and boosting the Company's copper mines production capabilities, the Company shall strive to reduce energy and power consumption and control production costs effectively so that the production and operational goals for this year can be fully achieved.
2. Keep abreast of changes and trends in the domestic copper market to plan ahead for hedging.
3. Speed up the construction and development of Fujiawu Copper Mine.
4. Endeavour to explore external resources and tighten control over the Company's existing resources. At the same time, enhance in-depth resource exploration of the Company's existing copper mines and exploitation in the vicinity of such mines to improve copper resources reserves.
5. Carry out the Company's strategic research on copper processing projects with emphasis on "a high starting point, new technologies and high value-added". Search for opportunities to further develop the copper processing business, and expand the operating scale of the Company to enable shareholders to enjoy a higher level of return.