

Chairman's Statement

To shareholders,

Thanks for your trust and support towards the Company. I am pleased to report that the business results of the year is the best one since the establishment of the Company in January 1997. During the financial year ended 31 December 2004, the Company achieved principal operating revenue of RMB10,627,270,000, representing an increase of 96.04% over last year. In accordance with the PRC GAAP, net profit (after including extraordinary items such as the retirement of fixed assets) increased by 126.33% over last year to RMB1,143,500,000; earnings per share recorded RMB0.43. In accordance with IFRS, net profit increased by 119.33% over last year to RMB1,108,140,000; earnings per share recorded RMB0.42. Net operating cash inflow amounted to RMB920,950,000, representing an increase of 166.75% over last year.



Review on Copper Market

During the reporting period, due to the booming global economy and the growth rate of 9.5% for economy in China, the consumption of global copper recorded a rapid growth, resulting in the continuously dropping copper inventory with a shortage of supply. Copper inventory at London Metal Exchange (LME) reduced from 433,000 tonnes at the beginning of the year to 49,000 tonnes. The relevant report recently released by the International Copper Study Group (ICSG) also indicated that the global undersupply of copper from January to November 2004 amounted to approximately 832,000 tonnes.

As to the domestic copper market, the divergence between supply and demand of copper during the reporting period is rather apparent. The fast-growing electricity and electronic industries and real estate boosted the domestic demand for copper, while China continued to be the largest consumer of copper in the world. Despite the 2,035,000 tonnes of domestic copper output, which increased by 15%, the 1,200,000 tonnes of imported refined copper and the dumping of reserved copper by the State's Reserves Bureau, the copper inventory at Shanghai Futures Exchange still declined from 110,000 tonnes at the beginning of the year to 40,000 tonnes at the end of the year.

Due to such fundamental influence together with the depreciation of US dollars and buy orders of funds, the domestic and global copper prices experienced spiral rises along violent fluctuations during the reporting period. The global copper price hit a new high of US\$3,175 per tonne in the recent 16 years. The 3-month copper closing price (tax inclusive) quoted in Shanghai Futures Exchange recorded an annual average of RMB26,420 per tonne, representing a substantial increase of RMB8,563 per tonne or 48% compared to last year; while the closing price of this month (tax inclusive) recorded an annual average of RMB27,236 per tonne, representing an increase of RMB9,382 per tonne or 53% compared to last year.

In addition, owing to the depreciation of US dollars and the increasing oil price, the domestic and global gold and silver prices maintained their increasing momentum during the reporting period.

Business Review

With the increased product selling price, the Company also suffered from the increasing prices of domestic means of production such as energy and steel products, the serious power shortage, the transportation bottleneck and substantial fluctuations of copper price, as well as the low level of processing fees in copper smelting market. Facing the pressure on the production and operation costs, the Company took the following initiatives during the reporting period:



1. The Company pressed ahead the full production of Guixi Smelter after its Phase III expansion, resulting in a significantly increase in production volume of the Company's major products.
2. Facing the drastic fluctuations in domestic and global copper prices, the Company duly adjusted its copper futures hedging strategy based on its strengthened market research and close study on copper price movement, and took full use of its qualification for overseas futures hedging activities to get better selling prices of its copper, gold and silver products.
3. In response to the tightened supply market of copper raw materials and the increasing material prices, the Company further promoted its resource expansion strategy to increase the resource reserves. The Company expanded its share in the copper raw materials market in North-western China by investing in Shanxi Diaoquan Silver and Copper Mining Company Limited in June 2004. Furthermore, during the reporting period, under Gan Cai Zi [2004] Circular No.0817 issued by Jiangxi Provincial Land Resources Administration, the Company acquired the mining right at deep and peripheral zones of Fujiawu copper mine from Jiangxi provincial government, at a consideration of RMB71,050,000 (RMB21,060,000 has been paid during the reporting period in accordance with the document mentioned above). At present, after investigation, the mining right of Fujiawu Copper comprise 1,109,000 tonnes of proven copper metal reserves, 1,041,800 tonnes of pre-minable reserves and 179,700 tonnes of resource; 85,000 tonnes of moly metal reserves, 80,700 tonnes of pre-minable reserves and 6,300 tonnes of resource. Till now, the Company has owned all mining right at the entire zone of Fujiawu Copper Mine. Meanwhile, during the reporting period, the Company speeded up the development of Fujiawu Copper Mine.
4. Elaborating its competitive advantages in brand and strength, the Company optimized each marketing workflow on the basis of creditability, which helped to improve the quality and efficiency of marketing services to meet customers' needs, and secured the demand for raw materials by its surging output of copper, gold and silver as well as the reasonable delivery. During the reporting period, the Company purchased copper concentrate, blister copper and scrap copper with 146,000 tonnes, 96,000 tonnes and 21,000 tonnes of copper content (including the raw materials for toll treatment) respectively from outside market.
5. Under supports and aids from Jiangxi provincial government and the relevant authorities, the Company made reasonable production schedules to overcome shortage in power supply and transportation capability, thus to ensure the full utilization of its smelting and mining capacity. During the reporting period, the Company self-produced 147,000 tonnes of copper, 5.5 tonnes of gold and 56 tonnes of silver contained in copper concentrate.



6. By establishing a sales operation mechanism and network to explore the market of copper rods, Jiangxi Copper Products Company Limited, the Company's subsidiary, sold out 140,000 tonnes of copper rods manufactured in the year following its operation during the reporting period, with net profit of RMB33,180,000.

7. Facing the critical challenge of increasing prices of the means of production including energy, power, transportation, rubber and steel products, the Company spared all efforts in internal management on energy saving and consumption minimization, so as to cut down controllable costs and expenses and to further its quality management advantages. During the reporting period, the "Guiye" branded cathode copper produced by the Company was honoured as a famous brand of the PRC, and another product silver was registered in London Bullion Market Association. Currently, registration of copper cathode produced by ISA process in London is also in progress.
8. Based on the analysis of policies and the actual condition of the Company, the Company will begin to enjoy the taxation preferential policies applicable for enterprises with foreign investment in Central-west China from 2005 to 2007 upon expiry of its income tax holiday for 2004 applicable for enterprises with leading technologies under supports of the State and Jiangxi provincial government and in accordance with Gan Guo Sui Han [2004] Circular No.349 dated 13 September 2004 issued by Jiangxi Provincial State Taxation Bureau. Accordingly, the Company will be entitled to a reduced corporate income tax rate at 15%.

Prospect

The expected growth of global economy in 2005 and the fast-growing economy of China under macroeconomic control will lead to an increasing global demand for copper. However, as the utilisation rate of the existing global smelting production capacity has been considerably high, it is foreseen that there would be no substantial increase in newly established production capacity within a short period of time. As a result, the global inventory of copper may sustain low, leading to continuing high copper price in the future. In addition, owing to the expanded production of copper mines as stimulated by the high copper price since 2004, the global copper market is witnessing the rising processing fees. The Company will utilize this opportunity in the improving market environment to make an effort to boost the Company's operating results to a new height. For this purpose, the Company will take efforts in 2005 as follows:

1. improving materials procurement and product sales to promote tendering product sales for better spot prices, and keeping informed of the premium of spot prices in the copper market to improve hedging activities of its copper futures.
2. optimising cost structure under an innovative management mode to reduce consumption (especially, to control the increase in material consumption); setting up a staff-linked cost management mechanism to improve results and staff income, so as to secure a higher capital return.
3. carrying out further technological renovations for mining techniques with an aim at an improved copper milling recovery, and rationalising smelting production schedules to maintain and even increase the production volume achieved in 2004 despite the annual overhaul to Guixi Smelter's facilities in 2005.
4. promoting the Company's issuance of convertible bonds to raise fund on a timely basis, accomplishing the acquisition of Chengmenshan Copper Mine as soon as practical, speeding up development of Fujiawu Copper Mine, achieving the expansion of copper milling capacity of Wushan Copper Mine to 5,000 tonnes per day as soon as practical, and improving the self-supplying rate of materials of copper, gold and silver for the Company.
5. proactively carrying out studies on and preliminary preparations for further production expansion, laying a foundation for a higher production capacity.
6. speeding up construction of Jiangxi Copper-Alloy Company Limited to explore new profit growth base of the Company.
7. Reinforcing cooperation with international commercial and technology development firms, introducing new ore-exploration theories and methods, starting a risk ore-exploration mechanism and accelerating resource exploration.

By order of the Board

He Changming

Chairman

Hong Kong, 10 March 2005