

Discussion and Analysis of the Management

The following is the discussion and analysis of the Company's 2004 annual results. The financial data mentioned in such discussion and analysis is mainly extracted from the Company's financial statements prepared under the PRC GAAP and regulations. The investors are advised to pay attention to the Company's audited financial statements for the years 2004 and 2003 prepared under the PRC GAAP and regulations when reading this discussion and analysis.

1. Discussion and analysis of the overall operations during the reporting period

In 2004, the Company recorded a revenue from principal operations of RMB10,627,270,000, representing an increase of 96.04%. After including the loss on obsolescence of fixed assets and other extraordinary losses, the net profit amounted to RMB1,143,500,000, representing an increase of 126.33% from last year. Earnings per share increased by 126.32% to RMB0.43. Operating cash inflows amounted to RMB920,950,000, representing an increase of RMB575,700,000 or 166.75%. The increase in operating cash flows played an import role in improving the Company's financial structure, anti-risk capabilities and strengths.

2. Production volume

In 2004, 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 2004 and the comparative figures in 2003 is as follows:

	2004	2003	Increase (decrease)	Increase (decrease) %
Copper cathode (inclusive of processing copper)(tonne)	415,051	343,088	71,963	21.0
Of which: Processing copper (tonne)	89,665	111,237	(21,572)	(19.4)
Gold (kg)	12,002	10,129	1,873	18.5
Silver (kg)	300,001	220,115	79,886	36.3
Sulphuric acid (tonne)	1,041,205	979,151	62,054	6.3
Pyrite concentrates (tonne)	1,024,890	932,462	92,428	9.9
Copper wire rods (tonne)	142,870	—	142,870	N/A

3. Sales volume

Comparative figures of sales volume of major products for 2004 and 2003 are set out as follows:

	2004	2003	Increase (decrease)	Increase (decrease) %
Copper cathode (tonne)	208,583	232,251	(23,668)	(10.2)
Processing copper (tonne)	89,665	111,237	(21,572)	(19.4)
Gold (kg)	10,229	10,056	173	1.7
Silver (kg)	228,241	220,103	8,138	3.7
Sulphuric acid (tonne)	1,067,444	993,059	74,385	7.5
Pyrite concentrates (tonne)	1,090,175	1,331,094	(240,919)	(18.1)
Copper wire rods (tonne)	144,369	—	144,369	N/A

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4. Selling prices

Comparative figures of selling prices (including tax) of major products for 2004 and 2003 are set out as follows:

	2004	2003	Increase (decrease)	Increase (decrease) %
Copper cathode (RMB/tonne)	27,621	17,681	9,940	56.22
Processing copper (RMB/tonne)	2,636	3,556	(920)	(25.89)
Gold (RMB/kg)	106,438	98,502	7,936	8.06
Silver (RMB/kg)	1,890	1,230	660	53.66
Sulphuric acid (RMB/tonne)	440	293	147	50.09
Pyrite concentrates (RMB/tonne)	153	75	78	104.63
Copper wire rods (RMB/tonne)	28,549	—	28,549	N/A

5. Table of gross profit margin of principal business by industry

Industry	Principal business revenue RMB'000	Principal business cost RMB'000	Gross profit (%)	Increase (decrease) in principal business revenue from previous year (%)	Increase (decrease) in principal business cost from previous year (%)	Increase (decrease) in gross profit from previous year (%)
Non-ferrous metals (copper cathode and processing)	5,126,187	4,528,673	11.66	33.21	31.41	1.26
Precious metals (gold/silver)	1,457,480	1,006,286	30.96	19.71	49.06	(13.64)
Chemical products (sulphuric acid/pyrite concentrate etc.)	626,787	335,946	46.40	76.22	79.25	(0.90)
Copper processing (copper rod and wire and processing)	3,416,820	2,785,488	18.48	N/A	N/A	N/A
Total	10,627,274	8,656,393	18.55	96.04	100.91	(1.97)
Of which: connected transactions	887,464	675,785	23.86	30.70	27.92	1.66

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5. Table of gross profit margin of principal business by industry (Continued)

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 the 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 the Industry-prescribed Price; (3) If there is neither State-prescribed Price nor Industry-prescribed Price, then adopt a price as the actual costs plus tax.
Explanations on necessity and ongoing nature of connected transaction	<p>The Company ensures the integrity and the independence of its assets, organisation, personnel, business and finance. However, by taking full use of respective production facilities and advantages in technologies and resources, such as resource sharing and advantage complementation, the Company can benefit from supplying or selling products to another 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 the operating assets of Jiangxi Copper Company, the former State-owned enterprise (currently known as Jiangxi Copper Corporation), it is still necessary that the 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.</p> <p>The Company has been strictly complying with regulations governing connected transactions for all of its connected transactions, which are subject to the auditor's findings and independent Directors' review to follow a fair, liberal and open principle, so as to prevent the minority shareholders' interests from being damaged.</p>

The connected transactions in relation to the sales of products between the Company and the controlling shareholders and its subsidiaries amounted to RMB887,464,000.

6. Principal business by geographical location

Geographical Location	2004 RMB'000	2003 RMB'000	Increase (decrease) %
Mainland China	9,851,880	4,852,104	103.04
Hong Kong	441,550	162,600	171.56
Taiwan	192,683	291,095	(33.81)
Korea	123,668	69,525	77.88
Other areas	17,493	45,567	(61.61)
Total	10,627,274	5,420,891	96.04

7. Constituents of principal operations

	Percentage of sales revenue (%) 2004	Percentage of sales revenue (%) 2003	Increase / (decrease) (%)
Non-ferrous metals (copper cathode and processing)	48.24	70.98	(22.74)
Precious metals (gold / silver)	13.71	22.46	(8.74)
Chemical products (sulphuric acid / pyrite concentrates etc.)	5.90	6.56	(0.66)
Copper processing (copper rod and wire and processing)	32.15	—	N/A
Total	100.00	100.00	0.00

Note: During the reporting period, Jiangxi Copper Products Company Limited, of which the Company is the controlling shareholder, established investments and realized a combined revenue of sales and processing for products of copper rods and wire amounted to RMB3,416,820,000, representing 32.15% of the Company's total sales revenue. Thus, the principle operations and its constituents in the reporting period had material changes over last year.

8. Particulars of operating results and profit constituents

Principal operating profit

The Company's profit of principal operations amounted to RMB1,933,110,000 in the reporting period with an increase of RMB856,660,000 over last year (or an increase of 79.6%), mainly attributable to the significant increase in products prices during the reporting period. Also, gross profit increased after offsetting the rise in cost of outsourced copper raw materials, including copper, gold and silver etc., as well as the increased cost of production materials necessary for production operation and cost of power and transportation.

Despite sales volume and product price increased tremendously during the reporting period, the gross profit of the Company during the reporting period was 18.55%, representing a decrease of 1.97 percentage point as compared with 20.52% of last year, due to the increased proportion of the products manufactured by purchased materials, resulting in the dilution of total gross profit of the Company by the gross profit of products manufactured by outsourced materials.

Other operating profit

The Company's operating profit amounted to RMB81,610,000 during the reporting period, profit increased by RMB120,960,000 as compared with the loss of RMB39,350,000 in last year. Such increase was mainly attributable to profit of RMB49,680,000 realized from futures settlement by the Company during the reporting period, representing an increase in profit of RMB111,190,000 as compared with the loss of RMB61,510,000 for that project last year.

Expenses in the reporting period

The expenses (including management, financial and sales expenses) during the reporting period of the Company increased by RMB141,360,000 over last year to RMB607,310,000, mainly attributable to increase in sales volume and transportation fee. Besides, after the completion of project construction and the commencement of operation of project of Guixi Smelter Phase III and project of 150,000 tonnes of copper rod and wire, interest capitalization ceased and expenses shall transfer into production outlay according to relevant requirement also attributed to the increase in expenses.

8. Particulars of operating results and profit constituents (Continued)

Non-operating net revenue and expenditure

The Company's non-operating net revenue and expenditure amounted to RMB123,700,000 during the reporting period, representing an increase of RMB91,940,000 over last year, mainly attributable to treatment of obsolescent fixed assets during the reporting period. Those fixed assets are of the nature reaching maturity in their use of life, non-compliance with national requirements for environmental protection, high power consumption and out-dated technology, and practically be technically judged with no value in usage during the reporting period after their transformation by new technology, which resulted in an increase in expenditure of RMB92,450,000. In addition, a donation of RMB3,000,000 was recorded in the reporting period.

Net profit

The Company's net profit amounted to RMB1,143,500,000 during the year, representing an increase of RMB638,260,000 over last year (or an increase of 126.33%), mainly attributable to scale increase in production and sales volume, income increase from principal business due to the rise in selling price of products, leading to larger profit increase from principle operations even after offsetting expenses in the period.

9. Analysis of financial status

Unit: RMB'000

Item	As at 31 December 2004	As at 1 January 2004	Increase (decrease)	Increase (decrease) (%)
Total assets	11,381,181	10,169,255	1,211,926	11.92
Shareholder interest	6,076,843	5,251,626	825,217	15.71

Unit: RMB'000

Item	As at 31 December 2004	Same period of last year	Increase (decrease)	Increase (decrease) (%)
Principal operating profit	1,933,114	1,076,453	856,661	79.58
Net profit	1,143,501	505,243	638,258	126.33
Net increase in cash or cash equivalents	(18,701)	48,638	(67,339)	N/A

Assets and Liabilities

As at the end of the year, the Company's total assets as prepared in accordance with PRC GAAP amounted to RMB11,381,180,000, representing an increase of RMB1,211,930,000 over last year (or an increase of 11.92%), mainly attributable to the need for the expansion of scale of production which led to the corresponding increase in inventory reserve during the reporting period. The prices of those inventory reserve surged during the reporting period resulting in the increase in value of current asset. Also, the shortage in the supply of raw materials and increase in prices leading to the increased prepayment for the procurement of raw materials as compared with the beginning of the year. In addition, the value of assets in the consolidated accounting statement increased correspondingly with the acquisition of Shanxi Diaquan Silver and Copper Mining Co., Ltd. by the Company.

9. Analysis of financial status (Continued)

Assets and Liabilities (Continued)

The Company's total liabilities amounted to RMB5,104,740,000 by the end of the year, representing an increase of RMB335,530,000 (or an increase of 7.04%) over last year. The total liabilities increased correspondingly with the increase in total assets and devoid of new capital injection by the shareholders during the reporting period. The increase in total liabilities is less than that of total assets as a result of the surplus of capital from operations generated during the reporting period of the Company. Total gearing ratio was 44.85%, representing a decrease of 2.05 percentage point over last year.

The shareholders' equity interests amounted to 6,076,840,000 at the end of the year, representing an increase of RMB825,220,000 over last year (or an increase of 15.71%), mainly attributable to the increase in realization of profit of the Company in the year.

Working capital and capital resources

As at the end of the year, the balance of the Company's working capital was RMB1,324,070,000 and the current ratio was 1.45:1.

As at the end of the year, the Company's bank loans totalled RMB4,053,200,000, of which loans of approximately RMB1,961,490,000 are payable within one year; loans of approximately RMB693,000,000 are payable within one to two years; loans of approximately RMB1,376,710,000 are payable within two to five years and loans of approximately RMB22,000,000 are payable after five years. The interest rates of all the bank loans ranged from 3.54% to 7.49% (2003: 2.07% to 6.21%).

During the reporting period, the net cash inflow from the Company's operating activities during the year amounted to RMB920,950,000, representing an increase of RMB575,700,000 (or an increase of 166.75%) from the previous year. This was mainly attributable to the significantly increased profit and decreased account receivable in the year. The increase in operating cash flow constituted much importance to further optimization of financial structure, increase the risk-bearing ability and competitiveness of the Company.

For the reporting period, the Company's net cash outflow arising from investment activities amounted to RMB560,430,000, representing a decrease of RMB65,460,000 (or a decrease of 10.45%) from last year. This was mainly attributable to the fact that there was no large scale expansion construction project in the reporting period.

During the reporting period, the Company's net cash outflow arising from financing activities amounted to -RMB379,220,000, representing a decrease of RMB708,500,000 over last year. The significant decrease was mainly attributable to an increased balance for working capital and there was no large scale investment in the reporting period.

As at the end of the year, the Company held approximately RMB287,440,000 in cash and cash equivalents, representing an decrease of RMB18,700,000 from RMB306,140,000 as at the end of the previous year.

10. Operation And Results Of Major Companies Controlled By The Company And Investing Companies

(1) Operation and results of major companies controlled by the Company

Unit: RMB'000

Name of company	Business	Major products or services	Registered capital	Asset amount	Net profit
Jiangxi Copper Products Company Limited	Processing	Copper wire rods and processing	225,000	395,332	33,178
Sichuan Kang Xi Copper Limited Liability Company (四川康西銅業有限責任公司)	Smelting	Blister copper and gold, silver contents and sulfuric acid from blister copper	100,000	274,423	4,158
Shanxi Diaoquan Silver & Copper Mine Company Limited (山西省刁泉銀銅礦業有限責任公司)	Mining	Copper concentrate and gold, silver and sulfuric contents from Copper concentrate	76,158	146,434	(5,297)

Jiangxi Copper Products Company Limited: during the reporting period, it sold and processed 144,400 tonnes of copper wire rods. Sales revenue amounted to RMB3,416,820,000 with profit from principal operations of RMB75,140,000 and net profit of RMB33,180,000.

Sichuan Kang Xi Copper Limited Liability Company: during the reporting period, it sold 20,109 tonnes of blister copper and 48,000 tonnes of sulphur. Sales revenue amounted to RMB489,250,000 with profit from principal operations of RMB21,400,000 and net profit of RMB4,160,000.

Shanxi Diaoquan Silver & Copper Mine Company Limited : since the Company's investment, it recorded sales revenue amounting to RMB18,580,000 with profit from principal operations of RMB1,720,000 and net profit of RMB5,300,000.