



MANAGEMENT DISCUSSION AND ANALYSIS

I. INDUSTRY REVIEW

During the reporting period, despite sufficient supply of global copper smelting raw materials, global copper stocks continued to decline and reached a record low as constricted by the bottleneck of copper smelting capacity and the increasing global copper consumption. According to the recent monthly report released by the International Copper Study Group (ICSG), the global copper output from January to April 2005 was expected at approximately 5,300,000 tonnes with consumption of approximately 5,450,000 tonnes, representing an undersupply of 150,000 tonnes. Therefore, the global copper stocks continued to fall without any relief by addition to the low stocks as of the end of last year. As at the end of the reporting period, the three largest metal futures exchanges in the world (London Metal Exchange, Shanghai Futures Exchange and New York Mercantile Exchange) published that their visible stocks recorded a historical low of merely 28,900 tonnes, 29,800 tonnes and 13,800 tonnes respectively. In the PRC, though the domestic copper output and imported copper rose by 19.0% and 3.8% to 1,176,000 tonnes and 692,000 tonnes respectively as compared with the corresponding period of last year, the strong growth in copper consumption led to shortage of domestic copper supply and reduction in visible stocks. Thus the domestic and overseas copper prices unusually climbed up as driven by such favourable fundamental factors, breaking the highest historical level time and again. During the reporting period, the average price of three-month copper futures quoted in London Metal Exchange was US\$3,197 per tonne, being 18.4% higher than the same period of last year. The average closing price of three-month copper futures quoted in Shanghai Futures Exchange was RMB30,865 per tonne (inclusive of tax), being 20.1% higher than the same period of last year.

II. BUSINESS REVIEW

1. Scope of Principal Business

The Company is principally engaged in copper mining, milling, smelting and refining as well as processing of copper cathode and by-products including pyrite concentrates, sulphuric acid, gold and silver. The Company also offers smelting and refining services for materials provided by customers. The subsidiaries of the Company are principally engaged in smelting of copper concentrates into blister copper, processing of copper rods and wires and sales of sulphuric acid, etc.

2. Business Summary

Leveraging favourable high prices in domestic and overseas copper selling market, the Company made full play of marketing strategies such as sales bidding of spot copper and reallocation of forward positions in favour of spot copper, so as to take advantage of spot premium for better copper prices. The Company also seized the favourable opportunities in increasing prices of gold and silver to sell in time the gold and silver stocks as of the end of last year. The Company furthermore strengthened on-site production and safety management to tap production potentials. The Company increased the comprehensive recycling utilisation ratio of "Three Wastes" through technological improvements. During the reporting period, the Company achieved sales revenue of RMB6,907,670,000, increasing by 42.5% over the same period of last year. In accordance with the PRC GAAP, net profit increased by 56.9% over the same period of last year to RMB982,570,000, with earnings per share of RMB0.37, increasing by RMB0.13 over the same period of last year. In accordance with IFRS, net profit increased by 54.8% over the same period of last year to RMB974,550,000.



MANAGEMENT DISCUSSION AND ANALYSIS

1) Principal businesses categorized by products (Prepared in accordance with PRC GAAP)

For the six months ended 30 June 2005

Products	Principal operating revenue RMB'000 (unaudited)	Principal operating cost RMB'000 (unaudited)	Gross profit margin (%)	Increase /decrease in principal operating revenue from same period of previous year (%)	Increase/decrease in principal operating cost from same period of previous year (%)	Increase/decrease in gross profit margin from same period of previous year (%)
Non-ferrous metals (copper cathode and tolling)	3,046,071	2,368,640	22.2	22.9	7.4	11.2
Precious metals (gold/silver)	1,293,548	855,237	33.9	97.6	98.4	(0.2)
Copper product fabricating (copper rod and wire inc. tolling)	2,202,499	1,764,059	19.9	51.5	43.9	4.2
Chemical products and others (sulphuric acid/pyrite concentrate/slag, etc.)	365,551	179,114	51.0	39.5	10.2	13
Total	6,907,669	5,167,050	25.2	42.5	28.4	8.2
Including: connected transactions	284,919	229,373	19.5	114.44	88.1	11.3

Note:

During the reporting period, the Company's gross profit margin was 25.2%, representing an increase of 8.2 percentage points over the same period of last year, with realized gross profit totalling RMB1,740,620,000, representing an increase of RMB917,380,000 (or 111.4%) over the same period of last year. The increases of gross profit and gross profit margin were mainly attributable to: (1) rise in sales volume and output, together with sale of gold and silver stocks as of the end of last year during the reporting period; (2) increase in product selling prices during the reporting period; (3) carrying out the clean production, and making full use of and recycled the wastes from smelting process, thus further improving environment protection and obtaining desirable economic benefits.



MANAGEMENT DISCUSSION AND ANALYSIS

2) Principal business by geographical locations

For the six months ended 30 June 2005

Geographical locations	Principal operating revenue RMB'000 (unaudited)	Increase/(decrease) in principal operating revenue from same period of last year (%)
Mainland China	6,491,827	42.3
Hong Kong	364,256	163.1
Belgium	16,591	Not applicable
Holland	16,320	Not applicable
Australia	16,080	Not applicable
New Zealand	2,101	Not applicable
Others	493	(67.8)

3) Other operations with significant impact on net profit

Other operations	Profit/ (loss) RMB'000	Percentage of net profit (%)
Forward hedging	(248,277)	Not applicable

During the reporting period, without a slight oversupply and gradually recovering stocks as previously expected in the global copper market, copper price experienced continual rises along the fluctuations. While bringing favourable opportunities for further improving the Company's profitability, the increasing copper price also imposed a pressure on the proper hedging price made in early 2005 by the Company for achieving its annual profit target. As such, based on thorough analysis on copper market supply and demand fundamentals and the premium of copper spot prices, the Company made timely adjustment to its hedging strategies and goals and settled some hedging positions, and thus released some spot copper cathode resources. Meanwhile, by timing its spot sales, the Company gained a spot premium. Therefore, notwithstanding a loss of RMB248,280,000 (under PRC GAAP) from the hedging, the accumulative average selling price of copper cathode was relatively increased, accomplishing the Company's profit target for the reporting period.



MANAGEMENT DISCUSSION AND ANALYSIS

4) *Operation and results of major subsidiaries*

(1) Jiangxi Copper Products Company Limited

During the reporting period, this company produced and tolled 79,896 tonnes of copper wire and rods, including 64,804 tonnes of copper wire and rods produced from internal procurement of copper cathode raw materials. It produced and tolled a total of 79,050 tonnes of copper wire and rods, accomplishing sales revenue of RMB2,202,500,000, principal operating profit of RMB37,370,000 and net profit of RMB4,470,000. The gross profit margin of selling copper wire and rods was 1.7%.

(2) Kangxi Copper Company Limited

During the reporting period, it provided 10,571 tonnes of blister copper containing 70 kg of gold and 8,280 kg of silver for the Company and the external sales of sulphuric acid amounted to 19,436 tonnes, accomplishing principal operating revenue of RMB298,760,000, principal operating profit of RMB23,250,000 and net profit of RMB7,850,000. The gross profit margin of sold products was 7.8%.

(3) Shanxi Diaquan Copper Mine Company Limited

During the reporting period, it provided 650 tonnes of raw materials of copper concentrates containing approximately 4,860 kg of silver for the Company, achieving sales revenue of RMB24,370,000, principal operating profit of RMB7,240,000 and net profit of RMB2,020,000. The gross profit margin of sold products was 29.7%.

(4) Sure Spread Limited

During the reporting period, this company recorded revenue from import and export of RMB342,680,000, principal operating profit of RMB4,810,000, net profit of RMB3,880,000, with gross profit margin of principal operation of 1.4%.

3. **Business Review**

During the reporting period, the production and operation of the Company demonstrated a sound trend of "steady mining operations, over-targeted smelting production capacity, a rise in sales volume and selling price and a stable growth in business results".

1) *Production Volume*

During the reporting period, the Company produced 226,586 tonnes of copper cathode (including tolling copper cathode), 6,246 kg of gold, 176,905 kg of silver, 538,000 tonnes of sulphuric acid, and 79,896 tonnes of copper wire and rods (including tolling copper wire and rods), representing the increase of 16.6%, 32.9%, 88.1%, 7.4% and 26.6% respectively when compared with the same period of last year. Production volume of pyrite concentrates amounted to 527,000 tonnes, representing an increase of 3.1% when compared with the same period of last year. Self-produced copper concentrates contained 75,000 tonnes of copper, which was basically unchanged as compared with the same period of last year.



MANAGEMENT DISCUSSION AND ANALYSIS

2) *Sales Volume*

During the reporting period, copper cathode sold externally and tolled by the Company amounted to 103,653 tonnes and 58,580 tonnes respectively, and 64,804 tonnes of copper cathode were provided to Jiangxi Copper Products Company Limited, a subsidiary of the Company. The total sales volume of copper cathode, gold, silver, sulphuric acid, pyrite concentrates and copper wire and rods (sold and tolled) amounted to 227,037 tonnes, 7,737 kg, 229 tonnes, 550,000 tonnes, 540,000 tonnes and 79,050 tonnes, representing the increase of 20.8%, 61.2%, 144.0%, 7.7%, 0.7% and 25.6% respectively when compared with the same period of last year.

3) *Realized Accumulative Average Selling Prices*

During the reporting period, the Company realized average selling prices (exclusive of tax) of self-produced copper cathode, tolling copper cathode, gold, silver, sulphuric acid, pyrite concentrates and copper wire and rods were RMB28,114 per tonne, RMB2,287 per tonne, RMB112,981 per kg, RMB1,828 per kg, RMB339 per tonne, RMB167 per tonne and RMB29,055 per tonne, representing increase of 29.0%, 2.1%, 6.9%, 16.7%, 3.7%, 10.9% and 25.9% respectively when compared with the same period of last year.

4. **Financial Position and Cash Flow**

1) *Total Assets, shareholders' interests, gearing ratio*

As at the end of the reporting period, the Company's total assets and shareholders' interests amounted to RMB11,910,840,000 and RMB6,739,920,000, representing an increase of RMB529,660,000 (or 4.7%) and RMB663,080,000 (or 10.9%) respectively when compared with the end of last year. The gearing ratio was 40.8%, representing a decrease of 4.1% when compared with the end of last year, with current ratio of 1.60:1.

2) *Cash flow*

During the reporting period, cash inflow from operating activities of the Company (under PRC GAAP) amounted to RMB1,760,140,000, representing an increase of RMB1,070,580,000 (or 155.3%) from the corresponding period in last year. During the reporting period, the Company's cash and cash equivalents increased by RMB709,260,000, and thus the Company had a balance of RMB996,690,000 of cash and cash equivalents as at the end of the reporting period.

During the reporting period, the considerable increase in operating cash inflow and sufficient cash improved the Company's financial structure and further sharpened its competitive edge in the industry, laying a more solid foundation for the next strategic development.



MANAGEMENT DISCUSSION AND ANALYSIS

5. Investment of the Company

1. Use of proceeds

None of proceeds was raised nor any of proceeds previously raised was utilised during the reporting period.

2. Use of non-publicly raised funds

(1) Guixi Smelter Phase III Project:

The total investment of the Company's Guixi Smelter Phase III was approximately RMB1,500,000,000, of which fixed asset investment amounted to approximately RMB1,167,500,000. As at the end of the reporting period, a total of RMB1,151,080,000 was invested for fixed assets, of which the investment amount during the reporting period amounted to RMB2,210,000. This project has been basically completed. Upon completion, the Company's production capability for copper cathode will increase by 200,000 tonnes per annum.

(2) Development and Construction of Fujiawu Copper Mine:

With a total investment of approximately RMB871,540,000, the Fujiawu Copper Mine development project was in fast paces during the reporting period. As at the end of the reporting period, a total of RMB178,270,000 was invested in advance for the project, with 20% of the total investment accomplished. Investment in advance during the reporting period amounted to RMB59,950,000. Being the continuing mine of Dexing Copper Mine, the project will further extend the steady production life of Dexing Copper Mine by 10 years as well as its open-pitting mining service life by 17 years over the existing level. Meanwhile, the Company's production capability of copper content in copper concentrates will be increased by 22,265 tonnes per annum, thus stabilising and appropriately increasing the self-supplying rate of copper raw materials for the Company.

(3) Project of Copper Recovering from Flash Furnace Slag:

The total investment for this project is estimated to be at RMB137,110,000. As at the end of the reporting period, a total of RMB94,080,000 was invested in advance, with 69% of the total investment accomplished. Investment in advance during the reporting period amounted to RMB62,760,000. Being a complex utilisation project of resources and environment protection, the project is equipped with original innovative domestic technologies. Upon completion of the project, the Company will be able to recover approximately 6,000 tonnes copper-bearing materials from the waste.



MANAGEMENT DISCUSSION AND ANALYSIS

(4) Project of pit-slope extension of Yongping Copper Mine:

The total investment for this project is RMB109,400,000. As at the end of the reporting period, a total of RMB87,830,000 was invested in advance for the project, with 80% of the total investment accomplished. The investment in advance during the reporting period amounted to RMB2,240,000. Upon completion of the project, the reserves of copper ore in Yongping Copper Mine will increase by 13,080,000 tonnes, and the service life of copper milling will be extended by 6 years at the existing capacity of 10,000 tonnes per day.

(5) In-depth Exploration and Expansion of Production Capacity to 5,000 tonnes per Day for Wushan Copper Mine:

The total investment for this project is estimated to be at RMB257,320,000. As at the end of the reporting period, a total of RMB20,080,000 was invested in advance, representing 7.8% of the total investment accomplished. Investment in advance during the reporting period amounted to RMB20,080,000. Upon completion of the project, the ore processing capability of Wushan Copper Mine will be improved from 3,000 tonnes per day to 5,000 tonnes per day, and additional 6,145 tonnes of copper metal, 107 kilograms of gold and 10 tonnes of silver will be produced per annum.

(6) Establishment of Jiangxi Copper Alloy Company Limited:

During the reporting period, the Company and JCC jointly invested RMB199,500,000 to set up Jiangxi Copper Alloy Company Limited, of which RMB119,700,000 was contributed by the Company, representing 60% equity interest in the joint venture. During the reporting period, the paid up capital contributed by the Company amounted to RMB59,850,000. The joint venture is mainly engaged in further fabricating copper cathode into copper alloy rods and wires. Upon completion, it will be able to produce approximately 220,000 tonnes of copper alloy rods and wires per annum. It is estimated a total of RMB400,400,000 will be invested in the project.

(7) Establishment of Jiangxi Copper- Wengfu Sulphuric Acid Company Limited:

During the reporting period, the Company and Guizhou Hongfu Industrial Company Limited jointly invested RMB181,500,000 to establish Jiangxi Copper- Wengfu Sulphuric Acid Company Limited, of which RMB127,050,000 was contributed by the Company, representing 70% equity interest in the joint venture. During the reporting period, the paid up capital contributed by the Company was RMB127,050,000. Upon completion, it will be able to produce approximately 400,000 tonnes of sulphuric acid per annum.

(8) Establishment of Sure Spread Limited:

During the reporting period, the Company, Silver Grant International Industries Limited, and Hua Gan Enterprises Company Limited jointly invested HK\$50,000,000 to establish Sure Spread Limited in Hong Kong, of which HK\$27,500,000 was contributed by the Company, representing 55% of the total registered capital of the joint venture. The paid up capital contributed by the Company amounted to HK\$27,500,000 during the reporting period.



MANAGEMENT DISCUSSION AND ANALYSIS

III. PROSPECTS FOR THE SECOND HALF YEAR

In the second half of 2005, it is estimated the increasing momentum will remain for copper consumption in the PRC due to the continuous fast growth of the PRC economy and the booming economy of the United States. Meanwhile, due to the lingering copper smelting bottleneck and the historically low global copper visible stocks, it is projected that the copper price may maintain high for some time. As a result, the upstanding momentum will continue for the Company's operation in the second half of 2005. Facing such an opportunity, the Company will take efforts in the following tasks during the second half of 2005:

1. The Company will schedule proper import of raw material, spare parts and equipment and cut down the import cost by capturing the opportunity from the appreciation of Renminbi and the reform of exchange system announced by the PRC government. At the same time, it will strive to carry out the interaction between future and spot operations for better selling prices of its products.
2. With enhanced on-site production and safety management, the Company will effectively bring existing techniques and equipment into full play, ensuring an equivalent or a slightly increasing output as compared with last year despite the reduced working days due to annual overhaul.
3. The Company will continue to speed up and enhance the construction of resource exploration projects including development of Fujiawu Copper Mine, expansion of Wushan Copper Mine and copper recovering from flash furnace slag as well as the technology renovation and expansion of Sichuan Kangxi Copper Company Limited, a subsidiary of the Company, to improve its current production capacity of blister copper from 20,000 per annum to 30,000 per annum which will ensure the on-streaming of the key projects as scheduled and increase the supply rate of its own raw materials, thus forming new profit-making points.
4. In order to better use the proceeds from placing of H Shares, the Company will further carry out the feasibility study and preliminary work for expansion of production capacity and further copper fabricating for project implementation as soon as possible.
5. The Company will proactively seek economic and technologic cooperation with overseas large-scale mining corporations to explore the resources around the Company's mines within the country and improve its mining technology for better resource efficiency.
6. Based on the movements in domestic and overseas capital markets and the prospect of the domestic financing and debenture markets, the Company will formulate a suitable financial strategy to expand the financing channels and obtain lower-cost working capital.