

MANAGEMENT DISCUSSION AND ANALYSIS

(1) BUSINESS SUMMARY

In the first half of 2006, capturing the favourable opportunities of listing as a model enterprise of recycling economy by the State's Eleventh Five-Year Plan, the Company implemented numerous key projects, witnessing significant development in production, operation and construction. As a result, the economic efficiency was dramatically improved.

In the first half of 2006, the Company actively pursued the development of recycling economy by implementing reasonable exploitation and utilization of resource and energy saving. The Company also sought external collaboration, speed up the outsource of external resources and expand the channel of resources control. The Company has completed the following projects, namely 220,000-tonne copper and copper alloy rods and wire projects; environmental energy-saving project of Kangxi Copper Company Limited; copper recovering from flash furnace slag project. The share reform was completed smoothly. Effort was made on technological innovation and localisation of imported equipment was stepped up.

In the first half of 2006, copper cathode, gold, silver, copper rods and wires, sulphuric acid and pyrite concentrates produced by the Company amounted to 228,900 tonnes, 6,686 kilograms, 175 tonnes, 97,600 tonnes, 539,700 tonnes and 458,000 tonnes respectively, representing an increase of 1%, 7.04%, -1.08%, 19.00%, 0% and 9.97% respectively over the corresponding period of last year. Sales revenue and net profit amounted to RMB10,404,650,000 and RMB2,056,630,000 respectively, hitting the highest historical record of the same period.

(2) INDUSTRY ENVIRONMENT IN THE FIRST HALF OF 2006 AND INDUSTRY PROSPECT IN THE SECOND HALF OF 2006

Industry environment in the first half of 2006

In the first half of 2006, the global economy continued to have stable growth of 4.6% while China's economy also witnessed a fast growing of 10.9%. Economic development prompted the booming of business investment and demand of consumption. According to latest figures issued by CRU, the global demand for copper grew rapidly in the first half of 2006, representing an increase of 750,000 tonnes as compared with the same period of the previous year, while the total consumption amounted to 8,857,000 tonnes. Although the global output of copper increased by 660,000 tonnes to 8,795,000 tonnes, there was still a discrepancy between supply and demand of 62,000 tonnes. The demand and supply of copper worldwide remained tight while the global output of ore copper had not increased. According to data released by International Copper Study Group, the global output of ore copper from January to April amounted to 4,720,000 tonnes, which is the same as the corresponding period of last year. As at the end of the reporting period, copper inventory released by the top three Metal Exchanges in the world was approximately 160,000 tonnes, standing at the historical low.

Copper price in the reporting period surged dramatically due to a number of factors, namely increase of price globally, inflation, depreciation of US dollar and regular strikes in copper mines which led to inadequate supply of copper concentrate. The average price of 3-month copper futures quoted in London Metal Exchange was US\$5,976/tonne, representing an increase of US\$2,779/tonne (or 86.9%) as compared with US\$3,197/tonne of the same period of previous year. The average closing price of 3-month copper futures quoted in Shanghai Futures Exchange was RMB53,905/tonne, representing an increase of RMB23,040/tonne (or 74.6%) as compared with RMB30,865/tonne of the same period of previous year.

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Industry prospect in the second half of 2006

The surge in copper price in the period was triggered by the demand arising from the global economic growth. The global economy in the second half of 2006 is expected to maintain a momentum of stable and rapid growth while the demand for copper is expected to continue to increase. In terms of supply, the stagnant growth of supply of copper concentrate will remain as a result of declining grade of ore, reduction of rich ores and regular strikes. Moreover, the rise of production cost arising from inflation and the low level of inventory supported the copper price standing at a high level.

In the second half of 2006, the Mainland China will step up macro control measures to cool down the heating economy and it is anticipated that the economic growth in the second half of the year will slow down, which may suppress the growth of copper demand. Copper smelting industry is the major industry under the macro control measures, following the issue of the Opinions Regarding Suppression of Irrational Investment of Copper Smelting Industry in 2005, the Entry Conditions of Copper Smelting Industry issued by National Development and Reform Commission of the PRC has been officially implemented on 1 July 2006, benefiting the healthy and continuous development of copper industry.

In conclusion, we believe that copper price will still run at high level in the second half of 2006. The risks in relation to rising inflationary pressure, the expectation of increased interest rate, constant US dollar depreciation arising from adjustment of global imbalance, will still persist.

(3) PRINCIPAL BUSINESS OF THE COMPANY AND THE OPERATION (PREPARED IN ACCORDANCE WITH PRC GAAP)

1) Principal businesses categorized by products

For the six months ended 30 June 2006

Products	Principal operating revenue RMB'000 (Unaudited)	Principal operating cost RMB'000 (Unaudited)	Gross profit margin (%)	Increase/decrease in principal operating revenue from the same period of previous year (%)	Increase/decrease in principal operating cost from the same period of previous year (%)	Increase/decrease in gross profit margin from the same period of previous year (%)
Non-ferrous metals (copper cathode and tolling)	6,030,639	3,582,514	40.59	97.98	51.25	18.39
Copper product fabricating (copper rod and wire and tolling)	2,885,548	1,756,607	39.12	31.01	(0.42)	19.22
Precious metals (gold/silver)	1,243,379	719,027	42.17	(3.88)	(15.93)	8.27
Chemical products and others (sulphuric acid/pyrite concentrate)	178,421	142,005	20.41	—	—	—
Others	66,664	24,161	63.76	—	—	—
Total	10,404,651	6,224,314	40.18	50.62	20.46	14.98

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Including: The amount of connected transactions in relation to sale of products and provision of service from the Company to the controlling shareholder and its subsidiaries was RMB917,997,000 during the reporting period.

- (1) Non-ferrous metals: sales of copper cathode and copper cathode tolling in the reporting period were 129,300 tonnes and 31,100 tonnes respectively, realizing a gross profit of RMB2,448.13 million, representing an increase of RMB1,770.70 million, or 261.38%, as compared with the same period of last year. The increase of gross profit was due to the growth of rising sales price exceeded that of rising cost.
- (2) Precious metals: sales of gold and silver in the reporting period were 5,949 kilograms and 129.76 tonnes respectively, realizing a gross profit of RMB524.35 million, representing an increase of RMB86.04 million, or 19.63%, as compared with the same period of last year. The growth of gross profit was lower than the increase of profit margin, because the Company's inventory of gold decreased by approximately 1,788 kilograms as compared with the same period of last year.
- (3) Chemical products: sales of sulphuric acid and pyrite concentrates in the reporting period were 554,500 tonnes and 569,900 tonnes respectively, realizing a gross profit of RMB36.42 million.
- (4) Copper product fabricating: sales of copper rods and wires in the reporting period was 99,500 tonnes, realizing a gross profit of RMB1,128.94 million, representing an increase of RMB690.50 million, or 157.49%, as compared with the same period of last year. The increase of gross profit was mainly because the output and selling price of copper rods and wires increased as compared with the same period of last year and the fabricating cost dropped as compared with the same period of last year.

2) Principal business by geographical locations

Geographical locations	For the six months ended 30 June 2006	
	Principal operating revenue RMB'000 (Unaudited)	Increase/ (decrease) in principal operating revenue from the same period of last year (%)
Mainland China	9,612,719	48.07
Hong Kong	355,627	(2.37)
USA	125,836	Not applicable
Korea	219,410	Not applicable
Singapore	266	Not applicable
Holland	88,779	443.99
New Zealand	1,893	(9.94)
Others	121	(75.46)
Total	10,404,651	50.62

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3) Other operations with significant impact on net profit

Other operations	Profit/(loss) RMB'000	Percentage of net profit (%)
Forward hedging	(1,347,530)	65.52

50% of the raw materials used by the Company has to be outsourced, the effect of fluctuation in copper price to the variations of prices of outsourced raw materials, was in excessive to the income from processing of such materials, therefore during the reporting period, following its stable policies, the Company hedged its copper raw materials purchased outside and part of self-produced copper against loss in order to fix the processing income and target profit. However, the copper price recorded the highest rise in its history during the reporting period, the Company lost the chance of generating profit as a result of entering into such forward hedging contracts. Although the closed out price of hedged contract was RMB1,347,530,000 less when compared with the settlement price of futures, the Company still achieved the target profit.

4) Explanation to the significant change of profitability (profit margin) of principal businesses over last year

During the reporting period, the consolidated profit margin of the Company was 40.18%, representing an increase of 14.98 percentage points as compared with the same period of last year. The increase of profit margin of the Company was primarily because the price of major products, namely copper cathode, gold and silver, rose dramatically as compared with the same period of last year.

5) Reason for the significant change of profit structure over last year

Gross profit by business and its structure

By business	First half of 2006		First half of 2005		The change of percentage from last year
	Gross profit RMB'000	Percentage of total gross profit (%)	Gross Profit RMB'000	Percentage of total gross profit (%)	
Non-ferrous metals (copper cathode and tolling)	2,448,125	58.56	677,431	38.92	Increase of 19.64 percentage points
Copper product fabricating (copper rod and wire and tolling)	1,128,941	27.01	438,440	25.19	Increase of 1.82 percentage points
Precious metals (gold/silver)	524,352	12.54	438,311	25.18	Decrease of 12.64 percentage points
Chemical products (sulphuric acid / pyrite concentrate)	36,416	0.87	—	—	—
Others	42,503	1.02	—	10.71	—
Total	4,180,337	100.00	1,740,619	100.00	—

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Benefiting from the surging price of principal product, copper cathode, non-ferrous metals business of the Company contributed a gross profit of RMB2,448.13 million during the reporting period, representing an increase of RMB1,770.70 million as compared with same period of last year and the percentage of total gross profit increased from 38.92% of last year to 58.56%.

(4) INVESTMENT OVERVIEW

1. Use of raised proceeds

The Company raised net proceeds of approximately RMB890 million from the placement of 231,000,000 H shares in Hong Kong, which was announced on 25 July 2005. As at the end of the reporting period, the Company utilised approximately RMB464.2 million of the said proceeds, of which RMB320.02 million was utilized in the reporting period. The remaining proceeds of RMB427.60 million were deposited with a commercial bank, which will be gradually utilised in line with the progress of project investments.

During the reporting period, progresses of projects financed by raised proceeds are as follows:

1) *Guixi Smelter Phase IV Expansion*

The total investment of Guixi Smelter Phase IV Expansion is estimated to be approximately RMB3,428.19 million. The investment during the reporting period was RMB163.46 million. As at the end of the reporting period, a total of RMB286.96 million, or 8% of total investment, has been invested in the project, of which approximately RMB250.90 million were proceeds from placement of H shares. The project is expected to be completed by the end of 2007. Upon its completion, the Company's production capacity of copper cathode is expected to reach 700,000 tonnes per annum, which will enable the Company to become one of the largest copper manufacturers in the world.

2) *Fujiawu Mine Development and Construction Project*

The investment during the reporting period was RMB143.71 million. As at the end of the reporting period, a total of RMB549.36 million had been invested in the project, of which approximately RMB40.99 million were proceeds from the A share offering in 2001, and RMB99.74 million were proceeds from the placement of H shares, totaling RMB140.73 million. Upon its completion, the project will further extend the steady production period of Dexing Copper Mine by 10 years as well as its open mining service period by 17 years over the existing level. Meanwhile, it will produce 22,265 tonnes of copper contained in copper concentrate per annum, thus stabilising the self-supply of copper raw materials for the Company.

3) *Wushan Copper Mine's 5,000-tonne Expansion Project*

The total investment of Wushan Copper Mine's expansion project with an ore handling capacity of 5,000 tonnes per day is estimated to be approximately RMB257.31 million. The investment during the reporting period was RMB19.13 million. As at the end of the reporting period, a total of RMB84.09 million had been invested in the project, of which RMB41.37 million were proceeds from the placement of H shares. Upon its completion, the ore handling capacity of Wushan Copper Mine will be increased to 5,000 tonnes from the existing 3,000 tonnes per day. The project is estimated to contribute to the Company additional 6,145 tonnes of copper, 107 kg of gold and 10,000 kg of silver in concentrates per annum.

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4) *Project of Copper Recovering from Flash Furnace Slag*

The total investment of the project is estimated to be RMB239.24 million. The investment during the reporting period was RMB17.67 million. As at the end of the reporting period, a total of RMB238.55 million had been invested in the project, of which RMB26.65 million were proceeds from the placement of H shares. This is a project of comprehensive utilization of resources and environmental protection, and is a key project for the Company's pursuit of recycling economy with original innovative technology in the PRC. The project enables the Company to recover approximately 5,000 tonnes copper in concentrate from the waste per year, is completed and has commenced production.

5) *Project of Waste Heat Recovery from off-gas of Anode Furnaces*

The total investment of the project is estimated to be RMB54.24 million. The investment during the reporting period was RMB8.31 million. As at the end of the reporting period, a total of RMB24.75 million had been invested in the project, of which RMB8.99 million were proceeds from the placement of H shares. It is another project for the Company's pursuit of environment treatment and recycling economy. Upon its completion, the project is expected to produce approximately 200,000 tonnes of steam per annum, equivalent to energy saving of 20,000 tonnes of standard coal or an annual reduction in coal consumption with a value of approximately RMB12 million.

2. **Progress of projects financed by non-public raised proceeds**

1) *Shenzhen JC Marketing Co. Ltd.*

In June 2006, the Company invested RMB30 million to establish Shenzhen JC Marketing Co. Ltd., which is principally engaged in sale of non-ferrous metals.

2) *Shanghai JC Marketing Co. Ltd.*

In June 2006, the Company invested RMB20 million to establish Shanghai JC Marketing Co. Ltd., which is principally engaged in sale of non-ferrous metals.

3) *400,000 tonnes sulphuric acid project of JCC-Wengfu Chemical Company Limited*

The total investment of the project is estimated to be RMB309.85 million. As at the end of the reporting period, a total of RM204.04 million had been invested in the project. A total of RMB119.31 million was invested during the reporting period. During the reporting period, the company has basically completed the project and is able to produce 400,000 tonnes of sulphuric acid per annum.

4) *Environmental energy-saving project of Sichuan Kangxi Copper Company Limited*

The total investment of the project is estimated to be RMB209.4 million. As at the end of the reporting period, a total of RMB66.71 million had been invested in the project. A total of RMB24.70 million was invested during the reporting period. Upon its completion, the Company will be able to produce additional 10,000 tonnes of blister copper per annum.

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(5) WARNING AND EXPLANATION TO THE ESTIMATION OF THE POTENTIAL LOSS MADE TO THE CUMULATIVE NET PROFIT FROM THE BEGINNING OF THE YEAR TO THE NEXT REPORTING PERIOD OR SIGNIFICANT CHANGE FROM THE SAME PERIOD OF LAST YEAR.

As initially estimated by the Company, the cumulative profit of the first three quarters as at 30 September 2006 will grow by 50% or more as compared with the same period of last year, provided that the selling prices of products in next quarter will not record a significant decrease over the first half of the year.