

# Management Discussion and Analysis

The management of the Company is pleased to provide the following discussion and analysis of the Company's 2006 business results for better understanding of investors in reading this annual report. Unless otherwise specified, the financial data mentioned in this discussion and analysis is mainly extracted from the Company's financial statements prepared under the PRC GAAP. The investors are advised to pay attention to the Company's audited financial statements for the years 2006 and 2005 prepared under the PRC GAAP when reading this discussion and analysis.

## I. Principal Operations and Profit

Changes to the Company's principal operations by industry and by products during the reporting period are set out as follows:

By industry	Revenue from principal operations RMB'000	Cost of principal operations RMB'000	Gross profit margin (%)	Increase (decrease) in revenue from principal operations from last year (%)	Increase (decrease) in cost of principal operations from last year (%)	Percentage of increase (decrease) in gross profit margin from last year
Non-ferrous metals (copper cathode and processing)	11,909,497	8,199,876	31.1	102.04	79.32	8.7
Copper product (copper rod and wire and processing)	10,104,734	7,209,190	28.7	126.66	102.53	8.5
Precious metals (gold/silver)	2,835,701	1,815,437	36.0	21.60	14.20	4.2
Chemical and others	585,126	472,036	19.3	(10.77)	98.44	(44.4)
Total	25,435,058	17,696,539	30.4	90.66	77.68	5.1
Including: connected transactions	2,024,519	1,412,784	30.2	205.90	158.24	12.9

The Company's gross profit and its structure in 2006 as compared with 2005 are set out as follows:

Profit by industry	2006		2005		Changes	
	Gross profit RMB'000	Percentage as to total gross profit (%)	Gross profit RMB'000	Percentage as to total gross profit (%)	Gross profit RMB'000	Percentage as to total gross profit (%)
Non-ferrous metals (copper cathode and processing)	3,709,621	47.94	1,322,000	39.10	2,387,621	8.84
Copper product processing (copper rod and wire and processing)	2,895,544	37.42	898,559	26.58	1,996,985	10.84
Precious metals (gold/silver)	1,020,264	13.18	742,318	21.96	277,946	(8.78)
Chemical and others	113,090	1.46	417,902	12.36	(304,812)	(10.90)
Total	7,738,519	100	3,380,779	100.00	4,357,740	—

### (1) Non-ferrous Metals

During the reporting period, sales revenue from non-ferrous metals increased by RMB6,014.73 million (or 102.04%) over last year, which was favoured by the substantial increase in prices of copper cathode over last year and sales volume of self-operated copper cathode. Yet, prices of purchased copper raw materials also surged significantly, resulting in an increase of RMB3,627.11 million (or 79.32%) in cost of non-ferrous metals over last year. During the reporting period, gross profit from non-ferrous metals increased by RMB2,387.62 million (or 180.61%) as compared with last year. The percentage as to the total gross profit grew to 47.94% from 39.10% in 2005.

## (2) Copper Product

During the reporting period, the Company's sales revenue from copper product increased by RMB5,646.63 million (or 126.66%) over last year, which was attributable to the considerably increased prices of copper rod and wire linked with copper price hikes, and the increase in sales volume of copper rod and wire as a result of the operation of 220,000 tonnes copper alloy materials project. Further, due to the significant increase in prices and sales volume of raw materials including copper cathode, the Company's processing cost of copper products rose by RMB3,649.64 million (or 102.53%) from last year. During the reporting period, gross profit from copper processing increased by RMB1,996.99 million (or 222.24%) as compared with last year. The percentage as to the total gross profit grew to 37.42% from 26.58% in 2005. Apart from provision of raw materials (copper cathode) for production of copper rod and wire, the Company also purchased copper cathode from the market for production of copper rod and wire and hence the gross profit margin of copper rod and wire was lower than that of copper cathode.

## (3) Precious Metals

During the reporting period, the Company's revenue from precious metals increased by RMB503.65 million (or 21.60%) over last year due to the rising gold and silver prices. Over the same period, the Company's purchase cost of precious metals also rose by RMB225.71 million (or 14.20%) from last year resulting from the growing prices of purchased raw materials containing gold and silver. During the reporting period, gross profit from precious metals increased by RMB277.95 million (or 37.4%) as compared with last year. The percentage as to the total gross profit reduced to 13.18% from 21.96% in 2005.

## (4) Chemical Products and Others

During the reporting period, the Company's revenue from principal operations and gross profit attributable to chemical products decreased due to the declining prices of sulphuric acid and pyrite concentrates. During the reporting period, gross profit from chemical products and other integrated recycle products amounted to RMB113.09 million, representing a decrease of RMB304.81 million (or 72.94%) from last year. The percentage as to the total gross profit decreased from 12.36% to 1.46%.

The 2006 and 2005 Company's revenue from principal operations and its structure are set out as follows:

	2006		2005		Increase (decrease)	
	Sales revenue RMB'000	Percentage to total sales revenue %	Sales revenue RMB'000	Percentage to total sales revenue %	Sales revenue RMB'000	Percentage to total sales revenue %
Copper cathode	11,774,601	46.4	5,617,526	42.1	6,157,075	109.6
Tolling copper cathode	134,895	0.5	277,240	2.1	(142,345)	(51.3)
Copper Rod and Wire	10,020,405	39.4	4,448,658	33.3	5,571,747	125.2
Processing copper cathode	84,329	0.3	9,447	0.1	74,882	792.7
Gold	1,819,517	7.2	1,608,607	12.1	210,910	13.1
Silver	1,016,185	4.0	723,444	5.4	292,741	40.5
Sulphuric acid	211,915	0.8	302,653	2.3	(90,738)	(30.0)
Pyrite concentrates	163,314	0.6	166,540	1.2	(3,226)	(1.9)
Other scraps	209,897	0.8	186,577	1.4	23,320	12.5
<b>Total</b>	<b>25,435,058</b>	<b>100.0</b>	<b>13,340,692</b>	<b>100.0</b>	<b>12,094,366</b>	<b>90.7</b>

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The Company's revenue from principal operations by geographic location for 2006 and 2005 are set out as follows:

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Mainland China	<b>23,141,382</b>	12,496,541
Hong Kong	<b>949,803</b>	784,098
Korea	<b>343,375</b>	—
Japan	<b>75,795</b>	—
Australia	<b>34,070</b>	16,392
Belgium	<b>23,135</b>	16,591
Holland	<b>322,726</b>	16,008
New Zealand	<b>3,732</b>	—
England	<b>388,522</b>	—
USA	<b>118,142</b>	—
German	<b>33,486</b>	—
Other areas	<b>890</b>	11,063
Total	<b>25,435,058</b>	13,340,692

## II. Profit From Other Operations

Due to hiking copper prices in the global volatile market in the first half of 2006, the Company's hedging activities for outsourced materials to be processed into copper cathode failed to earn a speculative profit of approximately RMB1,351.02 million (stated as loss from other operations under PRC GAAP), representing an increase of RMB804.89 million of opportunity loss over last year. The Company believes, however, its hedging activities for outsourced materials to be processed into copper cathode in such a case that the daily copper fluctuation for the first half of 2006 even exceeded the tolling fee charged by manufacturers are in the prudent principle for a large-scale copper manufacturer, and thus are beneficial for the Company to hedge the potential loss in gross margin in copper cathode processing activities from the turbulent copper prices.

## III. Working Capital and Cash Flow

During the reporting period, the Company's net cash inflow from operating activities amounted to RMB2.20 billion, representing an increase of RMB37 million from last year. As to financing, the Company further broadened its financing channels. Apart from the borrowings of RMB6,470 million from financial institutions, the first and second tranches of short-term debentures were issued during the reporting period, whereby RMB1,000 million was raised in aggregate and interest expenses of the Company were thereby decreased.

In ensuring the capital for production, operation, expansion of business and distribution of cash dividend, the Company speeded up the repayment of loans. During the reporting period, a total of RMB6,570 million was repaid to banks.

As at the end of the reporting period, the Company's bank loans totalled RMB2.9 billion, of which RMB1.7 billion was due within one year with interest rates ranging from approximately 3.60% to 7.02%. Besides, the Company's short-term debentures due within one year amounting to RMB500 million at an interest rate of 3.23%.

During the reporting period, a total of RMB2.0 billion was used as capital expenditures for the Company's investment projects including Guixi Smelter Phase IV Expansion, Fujiawu Mine Development and Construction Project, and technological renovation of Wushan Copper Mine with a processing capacity of 5,000 tonnes ores per day. This represents an increase of RMB1.0 billion from last year.

As at the end of the year, the Company had cash and cash equivalents amounting to approximately RMB1.02 billion.

## IV. Financial Position and Capital Structure

As at the end of the reporting period, total assets and liabilities of the Company increased to RMB18.75 billion and RMB5.77 billion respectively from RMB13.13 billion and RMB4.26 billion at the end of 2005. Gearing ratio was 30.78%, representing a decrease of approximately 1.66 percentage points. Capital-liabilities ratio (liabilities divided by shareholders' equity) was 45.97%.

## V. Operating Results of the Company's Subsidiaries and Associated Companies

Operating results of the Company's subsidiaries and associated companies for the reporting period are set out as follows:

### 1. Jiangxi Copper Products Company Limited

This company's registered capital is RMB225,000,000, 60% of which is owned by the Company. It is mainly engaged in production, processing and sales of copper rod and wires. During the reporting period, the aggregated realised sales of copper rods and wires (including processing of copper rod and wire) of this company amount to 177,000 tonnes, representing an increase of 19,000 tonnes (or 12%) over last year. As at the end of the reporting period, this company owned total assets of RMB400,099,500. For the year 2006, the realised sales revenue amounted to RMB3,007,707,200, representing a decrease of RMB1,450,398,000 (or 32.53%) from last year; net realised profit amounted to RMB42,297,900, representing an increase of RMB23,080,800 (or 120%) from last year.

### 2. Sichuan Kang Xi Copper Limited Liability Company

This company's registered capital is RMB140,000,000, 57.14% of which is owned by the Company. It is mainly engaged in smelting of copper, with products such as blister copper and sulphuric acid. During the reporting period, it provided approximately 20,000 tonnes of blister copper to the Company. For the year 2006, its realised sales revenue amounted to RMB1,054.18 million, representing an increase of RMB411.57 million (or 64.05%) over last year; net realised profit amounted to RMB133.30 million, representing an increase of RMB118.95 million (or 828.92%) over last year.

### 3. Shanxi Diaquan Silver and Copper Mine Company Limited

This company's registered capital is RMB76,160,000, 45.96% of which is owned by the Company. It is mainly engaged in copper mining and ore-dressing, with products including copper concentrate. During the reporting period, it provided approximately 1,517 tonnes of copper concentrate to the Company. For the year 2006, its realised sales revenue amounted to RMB85.02 million, representing an increase of RMB28.09 million (or 49.34%) over last year; net realised profit amounted to RMB9.21 million, representing an increase of RMB1.19 million (or 14.84%) from last year.

## 4. Sure Spread Limited

This company's registered capital is HK\$50,000,000, 55% of which is owned by the Company. It is mainly engaged in import and export trading and related technology services. As at the end of the reporting period, this company owned total assets of HK\$59.05 million. For the year 2006, the company recorded net realised profit of HK\$5.15 million.

## 5. Jiangxi Copper Alloy Company Limited

The company's registered capital is RMB199,500,000, 60% of which is owned by the Company. It is mainly engaged in production, processing and sales of copper rod and wires. During the reporting period, the company was completed and put into production. The aggregated realised sales of copper rods (including processing of copper rod and wire) and wires amounted to 94,000 tonnes. As at the end of the reporting period, this company owned total assets of RMB221.10 million. For the year 2006, the realised sales revenue amounted to RMB56.48 million; net realised profit amounted to RMB8.97 million.

## 6. Jiangxi Copper Shenzhen Trading Company Limited

In June 2006, the Company invested RMB30,000,000 to establish Jiangxi Copper Shenzhen Trading Company Limited, which is mainly engaged in sales of non-ferrous metal. For the year 2006, the realised sales revenue of this company was RMB2,608.93 million; net realised profit amounted to RMB7.84 million.

## 7. Jiangxi Copper Shanghai Trading Company Limited

In June 2006, the Company invested RMB20,000,000 to establish Jiangxi Copper Shanghai Trading Company Limited, which is mainly engaged in sales of non-ferrous metal. As at the end of the reporting period, this company owned total assets of RMB86.59 million. For the year 2006, the realised sales revenue was RMB1,406.73 million; net realised profit amounted to RMB4.81 million.

## 8. Jiangxi Copper Beijing Trading Company Limited

In July 2006, the Company invested RMB10,000,000 to established Jiangxi Copper Beijing Trading Company Limited, which is mainly engaged in sales of non-ferrous metal. As at the end of the reporting period, this company owned total assets of RMB51.02 million. For the year 2006, the realised sales revenue was RMB65.62 million; net realised profit amounted to RMB60,000.

## VI. Investment

During the reportig period, the Company had a total investment of RMB2,003.11 million, representing an increase of RMB996.57 million (or 99.01%) over last year.

### 1. Progress of Projects Financed by Proceeds

The Company raised net proceeds of approximately RMB896 million from the placement of 231,000,000 H shares in Hong Kong on 25 July 2005. As at the end of the reporting period, the proceeds were used up.



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 RMB3,644.76 million. As at the end of the reporting period, a total of RMB837.59 million (or 23% of total investment) has been invested in the project, of which approximately RMB643.71 million were proceeds from placement of H shares, and RMB193.88 million were non-public raised proceeds. As at the end of the reporting period, a total of RMB714.09 million was invested. 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) Fujiauwu Mine Development and Construction Project**

The total investment of Fujiauwu Mine Development and Construction Project is estimated to be approximately RMB1,052.54 million. As at the end of the reporting period, a total of RMB691.86 million had been invested in the project, of which approximately RMB40.99 million were proceeds from the A share offering in 2001, and RMB134.88 million were proceeds from the placement of H shares, totalling RMB175.87 million. A total of RMB286.21 million was invested during the reporting period. 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 and will produce 22,265 tonnes of copper contained in copper concentrate per annum, thus securing the self-supply of copper raw materials for the Company.

**(3) Wushan Copper Mine's 5,000 tonnes per day Expansion Project**

The total investment of the project is estimated to be approximately RMB257.31 million. As at the end of the reporting period, a total of RMB139.18 million had been invested in the project, of which RMB69.32 million were proceeds from the placement of H shares. A total of RMB74.21 million was invested during the reporting period. 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 concentrate and 107 kg of contained gold and 10,000 kg of contained silver per annum.

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

The total investment of the project is estimated to be approximately RMB239.24 million. As at the end of the reporting period, a total of RMB238.54 million had been invested in the project, of which RMB24.70 million were proceeds from the placement of H shares. A total of RMB17.66 million was invested during the reporting period. As a project of consolidated utilization of resources and environmental protection, it is a key project for the Company's pursuit of cycle economy with original innovative technology in the PRC. The project was completed during the reporting period and the investment was recovered during the year.

## (5) Project of Waste Heat Recovery from Off-gas of Smelting Process

The total investment of the project is estimated at RMB54.24 million. As at the end of the reporting period, a total of RMB37.42 million had been invested in the project, of which RMB9.77 million were proceeds from the placement of H shares. A total of RMB20.99 million was invested during the reporting period. It is another project for the Company's pursuit of environmental treatment and cycle 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. Annual reduction in coal consumption with economic value is approximately RMB12 million.

## 2. Progress of Projects Financed by Non-public Raised Proceeds

### (1) 400,000-tonne sulphuric acid project of JCC-Wengfu Chemical Company Limited

In May 2005, the Company and Guizhou Wengfu Chemical Company Limited established JCC-Wengfu Chemical Company Limited, a joint venture in Yongping, Jiangxi Province, to which the Company contributed RMB127,050,000, representing 70% of its registered capital. The total investment of the project is estimated at RMB344.89 million. As at the end of the reporting period, a total of RMB308.27 million had been invested in the project. A total of RMB230.34 million was invested during the reporting period.

### (2) Environmental energy-saving project of Sichuan Kangxi Copper Company Limited

In October 2005, the Company made further capital contribution of RMB40,000,000 to Sichuan Kangxi Copper Company Limited to finance its environmental energy-saving project. The total investment of the project is estimated to be RMB94.80 million. As at the end of the reporting period, a total of RMB86.67 million had been invested in the project. A total of RMB44.66 million was invested during the reporting period. Upon its completion, this company will be able to produce additional 10,000 tonnes of blister copper per annum.

### (3) Investment in JCC Financial Co., Ltd.

In July 2006, the Company and seven other companies including JCC and China Construction Bank jointly invested RMB300 million to establish JCC Financial Co., Ltd., of which RMB100 million was invested by the Company, accounted for 33.33% of the registered capital of that company. This company commenced operation in December 2006.

### (4) Expansion project of arsenious acid

In December 2006, the Company commenced the auxiliary 300,000-tonne arsenious acid environmental project for copper smelting. The total investment in the project is estimated to be RMB113 million. As at the end of the reporting period, a total of RMB11.67 million had been invested in the project. The project is expected to be completed by the end of 2007. Upon its completion, the Company will be able to recover 1,300 tonnes of arsenious acid and 2,500 tonnes of copper metal per annum.