



中國稀土控股有限公司
China Rare Earth Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 769)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

The Board of Directors (the “Board”) of China Rare Earth Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2004 together with the comparative figures for the corresponding year in 2003 as follows:

RESULTS	2004 HK\$'000	2003 HK\$'000
Turnover	665,320	457,077
Cost of sales	(484,884)	(345,042)
Gross profit	180,436	112,035
Interest income	2,049	3,414
Selling and distribution expenses	(19,329)	(14,206)
Administrative expenses	(24,330)	(25,975)
Other income, net	2,339	1,114
Profit from operations	141,165	76,382
Finance costs	(2,117)	(97)
Profit before taxation	139,048	76,285
Taxation	(17,973)	(9,246)
Profit before minority interests	121,075	67,039
Minority interests	(1,651)	(461)
Net profit for the year	119,424	66,578
Dividends	19,739	19,739
Earnings per share		
– Basic	12.3 cents	8.2 cents
– Diluted	12.3 cents	N/A

NOTES:

1. Segment information

- a. An analysis of the Group's turnover and results by business segments is as follows:

	Rare Earth		Refractory		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
TURNOVER	300,984	208,281	364,336	248,796	665,320	457,077
RESULTS						
Segment results	46,534	16,305	104,767	66,817	151,301	83,122
Unallocated corporate expenses					(14,524)	(11,268)
Interest income					2,049	3,414
Other income, net					2,339	1,114
Profit from operations					141,165	76,382

Rare Earth:	The manufacture and sales of rare earth products (including fluorescent products)
Refractory:	The manufacture and sales of refractory products (including high temperature ceramics products)

- b. An analysis of the Group's turnover by geographical segments is as follows:

	2004 HK\$'000	2003 HK\$'000
The People's Republic of China (“the PRC”)	501,470	315,022
Japan	90,091	94,393
Europe	60,456	43,082
The United States of America	8,901	1,330
Others	4,402	3,250
Total	665,320	457,077

2. Taxation

Hong Kong Profits Tax has not been provided for in the financial statements as the Group did not derive any assessable profits in Hong Kong.

PRC Enterprise Income Tax (“EIT”) has been provided at the prevailing rates on the estimated assessable profits applicable to each PRC subsidiary. Pursuant to the relevant tax laws in the PRC, the PRC subsidiaries are entitled to full exemption from EIT for two years starting from their first profit-making year, after offsetting all losses brought forward, followed by a 50% reduction for the next three years thereafter. During the year, two PRC subsidiaries are entitled to a 50% reduction of EIT in the third year and two PRC subsidiaries are entitled to a 50% reduction of EIT in the first year.

3. Dividends

	2004 HK\$'000	2003 HK\$'000
Final dividend proposed of HK\$0.02 per ordinary share (2003: HK\$0.02)	19,739	19,739

4. Earnings per share

Basic earnings per share was calculated based on the net profit for the year of approximately HK\$119,424,000 (2003: HK\$66,578,000) and the weighted average number of ordinary shares of approximately 973,756,000 (2003: 814,453,000) in issue during the year.

Diluted earnings per share was calculated based on the net profit for the year of approximately HK\$119,424,000 and the weighted average number of ordinary shares of approximately 973,909,000 in issue after adjusting for the effect of all dilutive potential ordinary shares during the year. No diluted earnings per share was shown for 2003 as there was no dilutive potential ordinary share for that year.

FINANCIAL RESULTS

For the year ended 31 December 2004, the Group recorded a turnover of HK\$665,320,000, representing an increase of 46% compared with HK\$457,077,000 in 2003. Sales of rare earth products (including fluorescent materials) contributed 45% of the Group's total turnover, reaching HK\$300,984,000, an approximate 45% increase compared with HK\$208,281,000 last year; the sales of refractory products (including high temperature ceramics) during the year amounted to HK\$364,336,000, which accounted for 55% of total turnover, representing an increase of approximately 46% over HK\$248,796,000 in 2003. The Group achieved better results this year with net profit rebounded to HK\$119,424,000, representing an increase of approximately 79% over that of last year. Basic earnings per share rose from last year's HK8.2 cents to HK12.3 cents this year. Gross profit margin also surged to 27%.

DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK2 cents per share for the year. Subject to the approval of shareholders at the forthcoming annual general meeting (the “Annual General Meeting”) to be held on 16 June 2005 (Thursday), the final dividend will be paid on or before 24 June 2005 to registered shareholders.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 13 June 2005 (Monday) to 16 June 2005 (Thursday), both days inclusive, during which period no transfer of shares will be registered. In order to qualify for entitlement of the proposed final dividend and for attending the Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:00 p.m. on 10 June 2005 (Friday).

BUSINESS REVIEW

Rare Earth

In 2004, the rare earth market gradually picked up after bottoming in 2003. The development of different rare earth elements varied in the market. Selling prices on the major rare earth elements from rare earth mines in Northern China, such as lanthanum and cerium remained low due to excessive supply. To avoid price competition, the Group lowered the sales of these products to less than 10% of the sales volume of rare earth products for the whole year. While price of neodymium oxide, which is applied in magnetic materials, grew 30% over that in 2003. Prices of elements with higher value, such as europium and terbium, saw more significant increases as the economy improved. The price of dysprosium oxide even surged a fold. Furthermore, seeing rare earth as very important resources, the PRC government has lowered the export tax rebate for rare earth oxides and rare earth metals since 1 January 2004, which led to rise in export prices of these rare earth products.

During the year, the Group restructured the sales mix of rare earth products by lowering the sales volume of elements with lower prices, such as lanthanum and cerium, while increasing the sales volume of higher price products, such as mixture of yttrium and europium. As a result, though the Group sold about 3,900 tonnes of rare earth products, slightly lower than last year's figure, sales amount increased by 45%. As for production cost, the prices of both raw and auxiliary materials rose, for example, the prices of ores from rare earth mines in Southern China and fuel increased by approximately 15% and 40% respectively. Despite these, the gross profit margin of the Group's rare earth business in 2004 still rose to 16% from approximately 10% last year. In terms of market performance, the Group secured several local new customers. In addition, due to the reduction of export tax rebate on rare earth products by the PRC government in 2004, several of the Group's major overseas customers ordered in advance in 2003. Hence the proportion of export sales lowered in 2004. In particular, sales to the Japanese market dropped significantly and contributed only 9% of the turnover, while sales to Europe was maintained at 20%. Following the development of downstream products and broadened rare earth applications in the PRC, domestic market demand grew rapidly. The proportion of local sales surged to 66% this year from 60% last year.

The Group's continuous efforts to improve the production technology of trichromatic phosphor resulted in the improvement in both quantity and quality of products. Lighting has remained as the major application of the Group's fluorescent powder. As electricity supply is growingly tense in China, the public has been urged to cut electricity consumption. Encouragement to the public to use energy-saving rare earth trichromatic lights brings immense opportunities to the Group. During the year, the Group's sales of fluorescent powder increased by around 50% compared with 2003. Its gross profit margin remained at around 20%. Serving an expanding market, the Group kept the price of its trichromatic phosphor in 2004. However, the price of green fluorescent powder rose due to the significant increase in the price of one of the ingredients, terbium oxide. The production technology development of the newly developed LED powders and PDP powders reached the final stage. Samples were sent to potential customers for ratification. New products are expected to be launched soon.

As the market for cerium oxide remained weak, the Group adjusted its strategy to produce polishing powder materials – the better-priced downstream product of cerium oxide. The construction of polishing powder production line was completed in the fourth quarter of 2004 and trail production had commenced, and orders were received from some customers. These products are mainly used in integrated circuit board, LCD monitor and precision optical glass. Though the sales of these materials has yet to be expanded, the demand for quality polishing powder materials is high in the PRC market. As the majority of local manufacturers are unable to match the technology standard required in producing high quality polishing powder materials, the PRC market has been relying on import, which implies that quality polishing powder materials has great market potential.

Refractory Materials

Compared with the rare earth business, the refractory materials business, another major business segment of the Group, showed more stable growth. Total sales recovered to approximately 57,500 tonnes in 2004, after the drop in domestic sales resulted from the outbreak of the Severe Acute Respiratory Syndrome in 2003. It increased by over 20% when compared with last year though selling price was similar to that of last year. Despite the economies of scale brought by the increase in sales volume, due to price surges of raw and auxiliary materials, fuel, oil and transportation, the Group's gross profit margin remained at the similar level as last year at over 30%. Other than serving its major market – the PRC, the Group also actively explored other international markets. In addition to the Japanese market, the Group also marketed its products to Europe. Total export value accounted for 27% of turnover.

High temperature ceramics fall within the category of special refractory materials and are used primarily for electricity power industry. With urbanization speeding up and rapid development of different industries in the PRC, electricity supply constantly falls short of growing domestic demand, prompting the building of more electricity supply facilities. In addition, the development of industries such as non-ferrous metals brings abundant opportunities to the Group's high temperature ceramics business. As the specification requirements of high temperature ceramics are stricter than conventional refractory materials, their gross profit margin averaging at approximately 40%, topping at over 50%. In 2004, the Group sold a total of approximately 13,700 tonnes of high temperature ceramics products.

PROSPECTS

Rare Earth

The rare earth market has shown signs of recovery although competition is still intense. It is expected that the growth of rare earth market in 2005 will be dominated by individual elements. The Group will continuously adjust its product mix to meet market

needs. Looking ahead, with technological advantage in rare earth separation, the Group will strive to broaden and deepen the development of value-added products such as the brand new LED powders and PDP powders under the category of trichromatic phosphor, aiming to gain customer recognition and commence sale. As for the newly developed polishing powder business, besides expanding the customer base and exploring the export market, the Group also plans to invest resources to strengthening its production facilities for producing different kinds of polishing powder, hoping to establish a renowned brand.

In addition to downstream development, the Group will also place special emphasis on the development of upstream resources. It will continue to place an eye on the policies implemented by the PRC government on rare earth mines and continue to devote itself in seeking opportunity to create a vertical industrial chain.

Refractory Materials

Although market demand for refractory materials is relatively stable, the Group will continue to enhance its technology and production facilities, strengthen the quality of staff and diversify its products so as to maintain its prestigious position in the industry. The Group will continue to ride on its advanced equipment and technology to improve its existing production facilities and boost its market competitiveness.

The Group used to develop its refractory materials business by producing different kinds of high-end products. Besides the continuous exploration of the high temperature ceramics business, the production lines for the highly densed zircon and highly densed chrome bricks, which are mainly used in the production facilities of glass fibre, entered the final assembly stage. It is expected to be completed and commence operation in the second quarter of 2005, after which the Group will have a new growth driver for its refractory materials business.

Furthermore, the Group continues to seek opportunity to co-operate with raw material suppliers of refractory materials. The Group has started negotiation with identified target, hoping to reach agreement within a short time, in order to ensure stable raw material supplies and maximize cost efficiency.

MERGER AND ACQUISITION

Pursuant to the resolutions passed at the extraordinary general meeting held on 29 January 2004, the Group acquired Dynamic Goal Worldwide Inc. and its subsidiary, Wuxi Pan-Asia High Temperature Ceramics Co., Ltd., which is involved in high temperature ceramics business. The purchase consideration of HK\$207,000,000 was satisfied by allotting and issuing 172,500,000 new shares at HK\$1.20 per share. Net asset value of the acquired object amounted to HK\$63,505,000 that led to goodwill of HK\$143,495,000.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2004, the Group had cash and bank balances of approximately HK\$228,418,000, in which a bank deposit of approximately HK\$1,418,000 was pledged as business guarantee. From the assets and liabilities of the newly acquired Wuxi Pan-Asia High Temperature Ceramics Co., Ltd., the Group has assumed a short term bank loan of RMB50,000,000. The Group repaid the loan during the year and remained with nil bank loan balance as at 31 December 2004.

The Group had net current assets of approximately HK\$622,986,000 at end of the year. Total liabilities to total assets ratio was 8%.

EXCHANGE RATE EXPOSURE

Most of the Group's assets, liabilities and transactions are denominated either in Renminbi, US dollars and Hong Kong dollars. As the exchange rates of the Renminbi, US dollars and Hong Kong dollars were relatively stable during the year, the Group was not exposed to material foreign exchange risk.

CONTINGENT LIABILITIES

As at 31 December 2004, the Group had no material contingent liabilities.

STAFF AND REMUNERATION

At 31 December 2004, the Group had a workforce of approximately 1,400 staff including young graduates and experienced professionals. Comprehensive remuneration and welfare packages are offered to them. During the year, approximately HK\$17,298,000 was incurred in staff costs excluding directors' emoluments. The share option scheme has been re-established pursuant to the resolutions passed at the annual general meeting held on 4 June 2004. It will be granted to outstanding staff accordingly to encourage their contribution to the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There has been no purchase, sale or redemption of any of the Company's listed securities by the Group during the year.

CORPORATE GOVERNANCE

The Company has, throughout the year ended 31 December 2004, complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules which was in force prior to 1 January 2005, except that the non-executive directors are not re-appointed for a specific term as they are subject to retirement by rotation in accordance with the Company's Articles of Association.

The Company has an audit committee with written terms of reference in compliance with the Code of Best Practice throughout the year. The audit committee comprises the independent non-executive directors of the Company, Messrs. Liu Yujui, Huang Chunhua and Jin Zhong. The audit committee has held regular meetings during the year and it has reviewed the results for the year ended 31 December 2004.

DIRECTORS OF THE COMPANY AS AT THE DATE OF THIS ANNOUNCEMENT

Executive Directors:

Jiang Quanlong, Qian Yuanying, Fan Yajun;

Independent non-executive Directors:

Liu Yujui, Huang Chunhua, Jin Zhong.

PUBLICATION OF ANNUAL REPORT ON THE WEBSITE OF THE STOCK EXCHANGE

The annual report of the Company containing full details of the information required to be disclosed under paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules which remain applicable to the results announcement for the year will be published on the website of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) in due course.

On behalf of the Board
JIANG Quanlong
Chairman

Hong Kong, 7 April 2005