



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)

(Page 1)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2005

INTERIM RESULTS

The Board of Directors (the “Board”) of China Rare Earth Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2005 together with the comparative figures for the corresponding period in 2004 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June 2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited) (Restated)
Turnover	(3)	375,505	336,471
Cost of sales		(284,233)	(247,894)
Gross profit		91,272	88,577
Interest income		892	1,051
Selling and distribution expenses		(8,512)	(8,391)
Administrative expenses		(10,309)	(10,729)
Other income, net		467	559
Profit from operations	(4)	73,810	71,067
Finance costs	(5)	(21)	(1,199)
Profit before taxation		73,789	69,868
Taxation	(6)	(16,984)	(8,981)
Profit for the period		56,805	60,887
Attributable to:			
Equity holders of the Company		56,136	59,941
Minority interests		669	946
		56,805	60,887
Dividends	(7)	-	-
Earnings per share	(8)		
- Basic		5.69 cents	6.24 cents
- Diluted		N/A	6.24 cents

CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2005 HK\$'000 (Unaudited)	31 December 2004 HK\$'000 (Audited) (Restated)
Non-current assets			
Goodwill		136,540	136,540
Property, plant and equipment and construction-in-progress	(9)	521,659	549,766
Prepaid lease payments on land use rights		9,863	10,037
		668,062	696,343
Current assets			
Inventories		221,849	225,237
Accounts and other receivables	(10)	295,764	203,556
Prepayments, deposits and other current assets		86,810	73,435
Prepaid lease payments on land use rights		347	347
Pledged deposits		320	1,418
Cash and bank balances		212,919	227,000
		818,009	730,993
Current liabilities			
Accounts payable	(11)	73,407	55,882
Accruals and other payables		20,670	25,937
Amounts due to directors		11,100	10,067
Amount due to a related company		1,099	8,713
Tax payable		23,053	7,061
		129,329	107,660
Net current assets		688,680	623,333
Total assets less current liabilities		1,356,742	1,319,676
Capital and reserves			
Share capital		98,695	98,695
Reserves		1,239,908	1,203,511
Equity attributable to equity holders of the Company		1,338,603	1,302,206
Minority interests		18,139	17,470
Total equity		1,356,742	1,319,676

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES

The accounting policies adopted in the condensed financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are effective for the accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. The changes in presentation have been applied retrospectively, as appropriate.

The effect of the changes in the accounting policies on the results for the current and previous periods are as follows:

	For the six months ended 30 June 2005 HK\$'000	2004 HK\$'000
Arising from adoption of HKAS 17, “Leases”	126	107
Arising from adoption of HKFRS 3, “Business Combinations”	3,577	-
Increase in profit for the period	3,703	107
Attributable to:		
Equity holders of the Company	3,703	107
Minority interests	-	-
	3,703	107

Analysis of increase / (decrease) in profit for the period by line items presented according to their function:

	For the six months ended 30 June 2005 HK\$'000	2004 HK\$'000
Decrease in depreciation of property, plant and equipment	291	259
Increase in amortisation of prepaid lease payments on land use rights	(173)	(160)
Decrease in amortisation of goodwill	3,585	8
	3,703	107

2. SEGMENT INFORMATION

Segment information for the six months ended 30 June 2005 and 2004 is as follows:

(a) Business segments

	Rare Earth		Refractory		Total	
	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited) (Restated)	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited) (Restated)	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited) (Restated)
Turnover	187,116	158,574	188,389	177,897	375,505	336,471
RESULTS						
Segment results	22,914	26,008	53,520	50,420	76,434	76,428
Unallocated corporate expenses					(3,983)	(6,971)
Interest income					892	1,051
Other income, net					467	559
Profit from operations					73,810	71,067
Rare Earth:	The manufacture and sale of rare earth products including fluorescent products					
Refractory:	The manufacture and sale of refractory products including high temperature ceramics products					

(b) Geographical segments

	Turnover by geographical market For the six months ended 30 June 2005 HK\$'000	2004 HK\$'000
The People’s Republic of China (the “PRC”)	295,555	259,900
Japan	47,991	35,942
Europe	15,213	35,467
The United States of America	6,847	3,690
Others	9,899	1,472
	375,505	336,471

Over 90% of segment assets of the Group are located in the PRC.

3. TURNOVER

	For the six months ended 30 June 2005 HK\$'000	2004 HK\$'000
Sales of rare earth products (including fluorescent products) and refractory products (including high temperature ceramics products)	375,505	336,471

4. PROFIT FROM OPERATIONS

During the period, profit from operations has been arrived at after charging depreciation on property, plant and equipment of approximately HK\$29,860,000 (2004 as restated: HK\$22,767,000).

5. FINANCE COSTS

During the period, no interest (2004: HK\$932,000) on short-term bank loan was charged and interest on discounted bills of approximately HK\$21,000 (2004: HK\$267,000) was charged.

6. TAXATION

	For the six months ended 30 June 2005 HK\$'000	2004 HK\$'000
Enterprise income tax (“EIT”) - The PRC subsidiaries	16,984	8,981

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.

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, subsidiaries in the PRC 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 period, two (2004: four) PRC subsidiaries are entitled to a 50% reduction of EIT and two (2004: Nil) PRC subsidiaries are subject to full provision of EIT.

The Group did not have any significant unprovided deferred taxation for the period or at 30 June 2005.

7. DIVIDENDS

During the period, a final dividend for 2004 of HK\$0.02 per share amounted to approximately HK\$19,739,000 was declared and paid. During the six months ended 30 June 2004, a final dividend for 2003 of HK\$0.02 per share amounted to approximately HK\$19,739,000 was declared and paid.

8. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group’s profit attributable to equity holders of the Company of approximately HK\$56,136,000 (2004 as restated: HK\$59,941,000) and the weighted average number of ordinary shares of 986,953,059 (2004: 960,414,597) in issue during the period.

No diluted earnings per share was shown for the six months ended 30 June 2005 as there was no dilutive potential ordinary share for the period. For the six months ended 30 June 2004, the calculation of the diluted earnings per share is based on the Group’s restated profit attributable to equity holders of the Company of approximately HK\$59,941,000 and the weighted average number of ordinary shares of 961,053,941 in issue after adjusting for the effect of all dilutive potential ordinary shares during that period.

9. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION-IN-PROGRESS

During the period, the Group spent approximately HK\$1,772,000 (2004: HK\$61,507,000) on additions to property, plant and equipment and construction-in-progress.

10. ACCOUNTS AND OTHER RECEIVABLES

The Group allows an average credit period of 30 to 90 days to its trade customers.

At 30 June 2005, accounts and other receivables comprised:

	30 June 2005 HK\$'000	31 December 2004 HK\$'000
Accounts receivable	294,775	201,124
Other receivables	9,962	10,644
	304,737	211,768
Less: Provision for bad and doubtful debts	(8,973)	(8,212)
	295,764	203,556

An ageing analysis of accounts receivable is as follows:

	30 June 2005 HK\$'000	31 December 2004 HK\$'000
Current to less than 6 months	253,835	180,549
6 months to less than 1 year	31,172	6,785
1 to less than 2 years	3,190	7,581
Over 2 years	6,578	6,209
	294,775	201,124

11. ACCOUNTS PAYABLE

An ageing analysis of accounts payable is as follows:

	30 June 2005 HK\$'000	31 December 2004 HK\$'000
Current to less than 6 months	66,175	50,768
6 months to less than 1 year	4,647	4,549
1 to less than 2 years	1,221	491
Over 2 years	1,364	74
	73,407	55,882

12. COMMITMENTS

At 30 June 2005, the Group had capital commitments authorised and contracted for in respect of acquisition and construction of property, plant and equipment, so far as not provided for in the financial statements, amounted to approximately HK\$45,384,000 (31 December 2004: HK\$45,434,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the six months ended 30 June 2005, the Group recorded a turnover of HK\$375,505,000, representing an increase of approximately 12% compared with HK\$336,471,000 in the corresponding period of 2004. Contributing approximately 50% of the Group’s total turnover, the sales of rare earth products (including fluorescent materials) amounted to HK\$187,116,000, an increase of around 18% compared with HK\$158,574,000 in the corresponding period last year. Sales of refractory materials (including high temperature ceramics) amounted to HK\$188,389,000, as compared with HK\$177,897,000 in the corresponding period last year. Gross profit margin slightly decreased from 26% to around 24%.

After that the Group’s subsidiaries Wuxi Xinwei Fluorescent Materials Company Limited and Wuxi Xinwei High Temperature Ceramics Company Limited (formerly Wuxi Pan-Asia High Temperature Ceramics Company Limited) are required to pay a 50% reduced Enterprise Income Tax in the PRC since last year, full Enterprise Income Tax commenced to levied on Yixing Xinwei Leeshing Rare Earth Company Limited and Yixing Xinwei Leeshing Refractory Materials Company Limited this year. Thus, taxation expenses for the period surged to HK\$16,984,000, representing an increase of approximately 90% as compared with HK\$8,981,000 in the corresponding period last year. Profit before taxation reached HK\$73,789,000, though it was higher than HK\$69,868,000 in the corresponding period last year, profit after taxation dropped around 7% to HK\$56,805,000. Net profit margin was approximately 15%. Earnings per share were HK5.69 cents.

Business Review

Rare Earth Business

In the first half of 2005, development varied for the different elements in the rare earth segment. As compared with the same period last year, the price of praseodymium oxide, neodymium oxide and dysprosium oxide, which are applied in magnetic materials, and europium oxide, which is applied in fluorescent materials, grew at different percentages ranging from 5% to 25%, while the price of terbium oxide and yttrium oxide decreased by approximately 15%. During the period under review, while the sales volume of rare earth and related downstream products increased slightly to approximately 2,200 tonnes, sales amount grew 18% to HK\$187,116,000. However, the gross profit margin of rare earth products dropped to approximately 13%. The drop was due mainly to the persistently hefty raw material costs caused by tense supply. Amongst different materials, prices of auxiliary materials including oxalic acid, liquid soda and fuel increased over 10% as compared to the same period last year. Some suppliers in Baotou, Inner Mongolia suspended production and the resultant limited supply of rare earth ore in the Northern region also presented additional pressure. Besides, the cancellation of export tax rebate for rare earth products by the PRC government since 1 May 2005 increased export costs. Polishing materials business is still in its preliminary development stage. As for the fluorescent materials business, the tight power supply in the PRC and government policies aimed at accelerating the building of an energy-efficient nation have continued to support its steady growth.

In terms of market, the amount of overseas orders returned to normal in the first half of 2005. In the last corresponding period, certain overseas customers ordered in advance at the end of 2003 taking into consideration the reduction of export tax rebate for rare earth products in 2004. Boasting faster growth, the PRC market continued to be the dominant contributor of sales accounting for around 75% of total sales.

Refractory Materials Business

Refractory materials business of the Group continued its stable growth and the domestic market was its major focus. Affected by the macro-economic control measures implemented by the PRC government, the growth of the property, metallurgy, construction material industries slowed down, and the demand for refractory materials also softened. In the first half of 2005, the Group sold approximately 33,800 tonnes of refractory materials, approximately 30% of which was high temperature ceramics, leveled the volume of the same period last year. Prices remained stable. The prices of major products such as fused magnesia-chrome bricks, zircon bricks, magnesia-alumina spinel bricks and AZS bricks, varied less than 5% compared with that in last corresponding period. During the period under review, sales reached HK\$188,389,000, representing approximately a 6% increase over the same period last year. The raw material and auxiliary material costs continued to increase, with the prices for fused magnesia clinker and chrome ore 10% higher than that in the same period last year, and the price for zircon sand even surged over 30%. However, at the Group's efforts to strengthen internal management and cost control, the gross profit margin was maintained at above 30%.

Prospects

Though the shadow of the revaluation in Renminbi suppressed the export growth, the Group targets to maintain stable business growth by flexibly adjusting the production strategies and passing the cost increment onto customers.

In the past few years, the Group obtained strong production capability through expansion of production facilities and technology investment. The Group always sees raw materials resources as vital to its business development in the long term, hence, it has been studying the possibility of investing in the magnesium ore in Northeast China, which is the raw material for refractory materials products, and the rare earth mines in Southern China. Regarding rare earth mines, the Group will continue to negotiate with the relevant authorities and hopefully an investment plan can be implemented in the near future to gain the advantage of resources control.

The Group will continue to strive to develop value-added rare earth products as well. Regarding the fluorescent materials business, illumination accounts for roughly 10% to 15% of the total electricity consumption in the PRC currently. The PRC government plans to promote the use of energy-saving lights in the advent of the 2008 Beijing Olympics. Thus the Group is full of optimism for the future of the fluorescent materials market. To facilitate the business development of the newly-established polishing materials production line, the Group will endeavour to enhance customer recognition and confidence in its products, shorten the market research and analysis cycle, gear up for large-scale production and ultimately maximize the production efficiency. For the refractory materials business, the Group will continue to develop high temperature ceramics and expand the production capacity of Sialon production line. The preliminary installation of highly densed zircon bricks and highly densed chrome bricks production line will be completed soon. Pending fine-tuning of all equipments and techniques, the installation of the entire set of production facilities is expected to complete in the second half of this year or at the beginning of next year, and will commence production thereafter to meet market demands.

Liquidity and Financial Resources

As at 30 June 2005, the Group had cash and bank balances of approximately HK\$213,239,000 within which there was a deposit at about HK\$320,000 pledged as business guarantee. Over 95% of the balance was deposited in banks in the PRC denominated in Renminbi. There was no bank borrowings and no contingent liabilities. Balance of net current assets rose to HK\$688,680,000. Total liabilities to total assets ratio remained below 10%.

The Group was not exposed to material foreign exchange risk or interest rate risk. There was no charge on assets of the Group.

Staff and Remuneration

At 30 June 2005, the Group had a workforce of approximately 1,400 staff. Comprehensive remuneration and welfare packages are offered to them. During the period, HK\$10,010,000 was incurred in staff costs including directors' emoluments.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2005.

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 six months ended 30 June 2005.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the interim financial statements for the six months ended 30 June 2005 which have not been audited.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company adopted its own code of corporate governance in August 2005 and a Remuneration Committee was established. The committee consists of all existing independent non-executive directors as members and Mr. Jiang Quanlong as chairman. In addition, the appointment terms of non-executive directors were renewed with a specific term of two years. After that the Company has complied with the code provisions set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standards set out in Appendix 10 of the Listing Rules. Having made specific enquiry, the Company confirms that all directors have complied with the required standards as stated in the code.

MEMBERS OF THE BOARD

On 19 August 2005, Mr. Fan Yajun resigned and each of Ms. Xu Panfeng and Mr. Jiang Cainan was appointed as an executive director. As at the date of this announcement, the Board consists of Mr. Jiang Quanlong, Ms. Qian Yuanying, Ms. Xu Panfeng and Mr. Jiang Cainan as executive directors and Mr. Liu Yujiu, Mr. Huang Chunhua and Mr. Jin Zhong as independent non-executive directors.

By order of the Board
Jiang Quanlong
Chairman

Hong Kong, 15 September 2005