



CHINA RARE EARTH HOLDINGS LIMITED

中國稀土控股有限公司

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

(Page 1)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

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 2005 together with the comparative figures for the corresponding year in 2004 as follows:

CONSOLIDATED INCOME STATEMENT

	NOTES	For the year ended	
		31 December 2005 HK\$'000	2004 HK\$'000 (Restated)
Turnover	(3)	769,370	665,320
Cost of sales		(565,407)	(484,667)
Gross profit		203,963	180,653
Interest income		1,804	2,049
Selling and distribution expenses		(21,698)	(19,329)
Administrative expenses		(14,906)	(24,312)
Other income, net		2,504	2,339
Finance costs	(4)	(21)	(2,117)
Profit before taxation	(5)	171,646	139,283
Taxation	(6)	(40,021)	(17,973)
Profit for the year		131,625	121,310
Attributable to:			
Equity holders of the Company		130,207	119,658
Minority interests		1,418	1,652
		131,625	121,310
Dividends	(7)	47,374	19,739
Earnings per share	(8)		
– Basic		13.2 cents	12.3 cents
– Diluted		N/A	12.3 cents

CONSOLIDATED BALANCE SHEET

	NOTES	31 December 2005 HK\$'000	31 December 2004 HK\$'000 (Restated)
Non-current assets			
Goodwill		199,715	136,540
Property, plant and equipment and construction-in-progress	(9)	570,046	549,766
Prepaid lease payments on land use rights		12,021	10,037
		781,782	696,343
Current assets			
Inventories		228,391	225,237
Accounts and other receivables	(10)	338,801	203,556
Prepayments, deposits and other current assets		91,150	73,435
Prepaid lease payments on land use rights		398	347
Pledged deposits		327	1,418
Cash and bank balances		153,115	227,000
		812,182	730,993
Current liabilities			
Accounts payable	(11)	56,249	55,882
Accruals and other payables		44,115	25,937
Amounts due to directors		11,850	10,067
Amount due to a related company		1,220	8,713
Tax payable		31,815	7,061
		145,249	107,660
Net current assets		666,933	623,333
Total assets less current liabilities		1,448,715	1,319,676
Capital and reserves			
Share capital		98,695	98,695
Reserves		1,331,132	1,203,511
Equity attributable to equity holders of the Company		1,429,827	1,302,206
Minority interests		18,888	17,470
Total equity		1,448,715	1,319,676

NOTES TO THE FINANCIAL STATEMENTS

1. **PRINCIPAL ACCOUNTING POLICIES**
The accounting policies adopted in the consolidated 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 year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants 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 consolidated income statement, consolidated balance sheet and the consolidated 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 years are as follows:

	For the year ended	
	31 December 2005 HK\$'000	2004 HK\$'000 (Restated)
Decrease in depreciation of property, plant and equipment	588	551
Increase in amortisation of prepaid lease payments on land use rights	(351)	(335)
Decrease in amortisation of goodwill	7,175	19
Increase in profit for the year	7,412	235

2. SEGMENT INFORMATION

Segment information for the year ended 31 December 2005 and 2004 is as follows:

(a) Business segments

	Rare Earth		Refractory		Total	
	For the year ended 31 December					
	2005 HK\$'000 (Restated)	2004 HK\$'000 (Restated)	2005 HK\$'000 (Restated)	2004 HK\$'000 (Restated)	2005 HK\$'000 (Restated)	2004 HK\$'000 (Restated)
Turnover	345,243	300,984	424,127	364,336	769,370	665,320
RESULTS						
Segment results	53,095	46,551	121,903	104,985	174,998	151,536
Unallocated corporate expenses					(7,639)	(14,524)
Interest income					1,804	2,049
Other income, net					2,504	2,339
Finance costs					(21)	(2,117)
Profit before taxation					171,646	139,283

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 year ended 31 December	
	2005 HK\$'000	2004 HK\$'000
The People's Republic of China ("the PRC")	593,733	501,470
Japan	102,567	90,091
Europe	49,601	60,456
The United States of America	13,161	8,901
Others	10,308	4,402
	769,370	665,320

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

3. TURNOVER

	For the year ended	
	31 December 2005 HK\$'000	2004 HK\$'000
Sales of rare earth products (including fluorescent products) and refractory products (including high temperature ceramics products)	769,370	665,320

4. FINANCES COSTS

During the year, no interest (2004: HK\$1,850,000) on short-term bank loan was charged and interest on discounted bills of approximately HK\$21,000 (2004: HK\$267,000) was charged.

5. PROFIT BEFORE TAXATION

During the year, profit from operations has been arrived at after charging depreciation on property, plant and equipment of approximately HK\$60,985,000 (2004 as restated: HK\$50,175,000).

6. TAXATION

	For the year ended	
	31 December 2005 HK\$'000	2004 HK\$'000
Enterprise income tax ("EIT") – The PRC subsidiaries	40,021	17,973

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 year, 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.

No provision for deferred taxation has been recognized in the financial statements as there are no significant temporary differences.

7. DIVIDENDS

During the year, a final dividend for 2004 of HK\$0.02 per share amounted to approximately HK\$19,739,000 was declared and paid. During the year ended 31 December 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\$130,207,000 (2004 as restated: HK\$119,658,000) and the weighted average number of ordinary shares of 986,953,059 (2004: 973,756,338) in issue during the year.

No diluted earnings per share was shown for the year ended 31 December 2005 as there was no dilutive potential ordinary share for the year. For the year ended 31 December 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\$119,658,000 and the weighted average number of ordinary shares of 973,908,826 in issue after adjusting for the effect of all dilutive potential ordinary shares during that year.

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

During the year, the Group spent approximately HK\$28,748,000 (2004: HK\$126,063,000) 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 31 December 2005, accounts and other receivables comprised:

	31 December 2005 HK\$'000	31 December 2004 HK\$'000
Accounts receivable	326,865	201,124
Other receivables	20,313	10,644
	347,178	211,768
Less: Provision for bad and doubtful debts	(8,377)	(8,212)
	338,801	203,556

An ageing analysis of accounts receivable is as follows:

	31 December 2005 HK\$'000	31 December 2004 HK\$'000
Current to less than 6 months	286,780	180,549
6 months to less than 1 year	26,519	6,785
1 to less than 2 years	5,773	7,581
Over 2 years	7,793	6,209
	326,865	201,124

11. ACCOUNTS PAYABLE

An ageing analysis of accounts payable is as follows:

	31 December 2005 HK\$'000	31 December 2004 HK\$'000
Current to less than 6 months	48,715	50,768
6 months to less than 1 year	4,581	4,549
1 to less than 2 years	1,456	491
Over 2 years	1,497	74
	56,249	55,882

12. COMMITMENTS

At 31 December 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\$67,461,000 (2004: HK\$45,434,000).

FINANCIAL RESULTS

For the year ended 31 December 2005, the Group's turnover surged to the record high of HK\$769,370,000, 16% more than the HK\$665,320,000 in 2004. Sales of rare earth products (including fluorescent materials) was HK\$345,243,000, an increase of 15% from HK\$300,984,000 in the previous year, accounting for 45% of the Group's total turnover. Sales of refractory materials (including high temperature ceramics) accounted for 55% of the Group's total turnover, an increase of approximately 16% from HK\$364,336,000 last year to HK\$424,127,000.

Profit before taxation of the Group reached HK\$171,646,000, representing an increase of 23% as compared to HK\$139,283,000 in 2004. However, the two-year exemption from Enterprise Income Tax ("EIT") and 50% reduction for the three years thereafter (兩免三減半) previously granted to its subsidiaries, Yixing Xinwei Leeshing Rare Earth Company Limited and Yixing Xinwei Leeshing Refractory Materials Company Limited, had expired. Starting from the year under review, these subsidiaries have to pay the full EIT amount. As a result, taxation for this year increased to HK\$40,021,000, nearly 123% higher than last year's HK\$17,973,000. Profit for the year slightly increased by 9% to HK\$131,625,000 as compared with 2004. Earnings per share increased to HK\$13.2 cents from last year's HK\$12.3 cents. Gross profit margin and net profit margin were 27% and 17% respectively.

DIVIDEND

The Board has recommended the payment of a final dividend of HK4 cents per share for 2005. Subject to the approval of shareholders at the forthcoming Annual General Meeting to be held on 15 June 2006, the final dividend will be paid on or before 23 June 2006 to registered shareholders as at 15 June 2006.

The Register of Members will be closed from 12 June to 15 June 2006, both days inclusive. During this period, no transfer of shares will be registered. To qualify for entitlement of the proposed final dividend and to attend the Annual General Meeting, all transfer documents accompanied by the relevant share certificate must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, for registration not later than 4:00 p.m. on 9 June 2006.

BUSINESS REVIEW**Rare Earth**

In 2005, the magnetic materials and fluorescent materials industries developed rapidly. Despite that the Government stepped up regulation of mining and environmental protection, and export tax rebate for rare earth products has been cancelled since 1 May 2005, the rare earth industry still continued to develop. In 2005, the Group sold approximately 4,400 tonnes of rare earth products and downstream products, an increase of 7% from that in 2004. Turnover of its rare earth business increased by 15% to HK\$345,243,000, as compared to HK\$300,984,000 in the previous year. The performance of individual element markets however varied. In 2005, the average prices of neodymium oxide and dysprosium oxide, the major contributors of its rare earth business, increased more than 20% from that in 2004, while the prices of terbium oxide and mixture of yttrium and europium maintained at the 2004 level. The Group adjusted its sales mix taking into account the change in product prices, it sold less products such as yttrium oxide which prices had dropped markedly, while increasing the sales volume of products, such as dysprosium oxide, which prices had hiked.

As for the production cost, the prices of most raw and auxiliary materials rose as compared with 2004. The country tightened its control on rare earth resources and prices were pushed up more than 15%. The price of oxalic acid, its major auxiliary material, increased by 10%, and the price of liquid alkaline surged even higher by over 15%. The prices of certain auxiliary materials, however, decreased. The price of hydrochloric acid, for instance, dropped around 10%. The cancellation of export tax rebate for rare earth products also created negative impact on export costs. Therefore, the gross profit margin of its rare earth business remained at around 15% in 2005, similar to last year.

Benefited from the tense power supply in China and the Government encouraging energy conservation in the community, its fluorescent material business recorded steady growth. Currently, the polishing powder material market is still developing with most customers still relying on products imported from overseas, hence the Group's products has yet to report meaningful sales. However, the Group is confident that, after establishing a renowned brand, this segment will become one of the major revenue contributors of its rare earth business.

Regarding market distribution, rapid development of the PRC economy has pushed up domestic needs. That plus the growing number of foreign companies attracted to set up base in the country to benefit from the low cost yet resources rich environment, the proportion of sales of rare earth products from the PRC market increased from 66% in 2004 to 72% during the year. The percentage of sales from overseas markets dropped slightly. Currently, the Japan market and the European market accounted for 8% and 12% of the Group's total sales respectively.

Refractory Materials

The refractory materials business maintained stable growth. Although the Chinese Government's macroeconomic control measures on the property, metallurgy, construction materials sectors dragged down demand for refractory materials during the year, the Group managed to increase sales of the material by stepping up development of its high temperature ceramics business. In 2005, total sales volume of refractory materials reached 79,400 tonnes, 12% more than that in the previous year. Sales amount increased by 16% to HK\$424,127,000 and product prices were stable. The prices of major products, such as fused magnesia-chrome bricks and alumina-graphite bricks, stayed at the 2004 level, but the prices of zircon bricks, magnesia-alumina spinel bricks and AZS bricks increased by 3% to 5%. The Group intends to actively promote its various high margin unshaped casting material at the end of this year. About 2,300 tonnes of products of the recently launched Sialon series were also sold. Regarding production costs, both raw and auxiliary materials costs continued to rise with the prices of major materials, including zircon sand and fused magnesia-chrome grains, 30% more expensive than last year. The prices of emery and brown corundum remained steady, while the prices of different grades of fused magnesia grains increased by 3% to 5%. The price of heavy crude oil, a necessary material for producing sintering products, also rose over 10%. However, at the Group's strengthened internal management and cost control, gross profit margin was kept at above 30%.

The Group has been actively seeking opportunities to co-operate with raw material suppliers of refractory materials to create a vertical industrial chain, and in turn enhance production efficiency. In December 2005, the Group acquired entire equity interest in its supplier Haicheng City Suhai Magnesium Ore Co., Ltd. ("Suhai Magnesium"), which has been providing it with fused magnesia grains, a major raw material of refractory products. Guaranteeing a stable supply of materials for producing refractory products, the acquisition helps to reduce the cost of sales of the Group's refractory products. As the acquisition was completed at the end of last year, the financial contribution of Suhai Magnesium will commence be reflected in the 2006 consolidated financial statements.

The PRC is still its principal market for refractory materials. Export value accounted for approximately 18% of the total turnover from refractory materials.

PROSPECTS**Rare Earth**

As the global economy revives, the rare earth market also shows signs of growth. The continuous development of rare earth technology and application has bred a growing demand for the downstream rare earth oxide products and in turn sent product prices on the up trend. The Group will continue to develop valued-added rare earth products, in particular fluorescent materials, in which it is seen brilliant prospects. Currently, the PRC consumes much power for lighting. With the Chinese Government planning to push the use of energy-saving lights in the advent of the 2008 Beijing Olympics, the Group's fluorescent material business is presented with immense opportunities.

The Group commenced export of fluorescent materials to Japan and Korea in 2006. In March 2006, the Group signed an agreement with a large fluorescent materials user in Korea, marking the beginning of a long-term cooperative relationship. The Korean user will order large quantities of fluorescent materials from the Group, and help to promote the Group's products in Korea. This customer will be the largest customer of the Group's fluorescent material segment. The partnership signified entry of the Group's fluorescent materials into overseas markets, and is expected to help enhance awareness of the Group's brand and the share of its fluorescent materials in the international market.

In February 2006, the Group forged strategic alliance with General Electric Company, one of the largest integrated business corporations in the world. General Electric has been a customer of the Group for the past several years. Pursuant to the terms of the alliance, General Electric will increase order for various rare earth products from the Group to be used by its different subsidiaries in the manufacturing of products including medical equipment, lighting equipment and automobiles, etc. General Electric will also provide technical support to the Group to help it extend the applications and production scale of rare earth products. The Group will continue to seek similar cooperation and strategic alliance opportunities in its bid to enhance technological capability and reap synergistic benefits.

On the technology front, the rare earth industrialized technology for nano-grade rare earth oxide materials developed by the Group passed the appraisal of the Jiangsu Science and Technology Department in February 2006, earning high acclaims from experts. This achievement represents a great leap made by the Group in advancing rare earth product technology. The Group not only boasts top-notch technology in producing rare earth products of high purity, but also stands out in its ability to control the size of rare earth products. This enables the Group to match the increasingly stringent specifications of new products with rare earth materials as components. Apart from helping to reduce production cost, with enhanced technology, the Group will be able to provide products that meet the requirement of quality conscious customers and assure higher profit.

The Group expects the supply of rare earth resources to tighten as the Chinese Government pushes ahead with its resources protection policy. In that light, the Group will continue to look for opportunities to invest in rare earth mine resources with the aim of securing stable supply of raw materials. At the same time, it will also seek to maintain optimum relationship with its suppliers. Moreover, the Group will continue to develop and produce more high value-added products, which will allow it to expand market coverage, diversify product offerings and speed up creation of a vertical industrial chain.

Refractory Materials

Refractory materials business has been growing steadily and contributing stable earnings to the Group. To boost the competitiveness and leadership of its refractory material products, the Group will continue to upgrade existing production facilities and increase the proportion and quality of the middle to high end refractory material products by bringing in advanced technology from overseas.

The Group will continue to develop its high temperature ceramics business. Second phase capacity expansion work of the Sialon production line is ready to commence to meet the requirement of the Group's growing operation. The Group also plans to begin exporting high temperature ceramics to Russia in 2006 to tap the overseas market.

The preliminary stage of installation of production lines for highly dense zircon and highly dense chrome bricks, which are used mainly in glass fibre production facilities, is completed. Fine-tuning of the entire set of production facilities and techniques is in the final stage and production will commence soon. The sales and marketing department is actively promoting this product to customers. The Group believes the new product line will emerge as a new growth driver for its refractory materials business.

The acquisition of Suhai Magnesium in late 2005 was a major strategic move in the Group's bid to establish a vertical industrial chain. This move will enable the Group to secure supply of certain raw materials and reduce costs. The sales of certain products of Suhai Magnesium to other manufacturers will also present to the Group an additional income stream. The Group recognizes the local advantages Suhai Magnesium enjoys in Liaoning Province, hence it intends to expand its production facilities to broaden its product offerings and maximize economies of scale. It will also seek cooperation opportunities with other refractory material suppliers to guarantee stable raw material supply and better control cost.

MERGER AND ACQUISITION

The Group signed an equity transfer agreement on 23 December 2005 to acquire entire equity interest in Suhai Magnesium at a total consideration of approximately HK\$115,385,000. The consideration was funded by internal resources of the Group. The audited net assets value of Suhai Magnesium amounted to approximately HK\$52,210,000. Goodwill resulted from the merger amounted to HK\$63,175,000. The net profit of Suhai Magnesium amounted to approximately HK\$18,184,000 in 2005. As the acquisition was completed at the end of the year, related revenue was not shown in the consolidated accounts of the Group in 2005.

PLACING OF SHARES

The Company conducted a fund raising activity in 2006. In March to April 2006, the Company placed 197,390,000 new shares at HK\$1.38 per share. Upon the completion of the placing, the issued share capital of the Group increased to 1,184,343,059 shares and the public float increased from 39.59% to 49.66%. The net proceeds from the placing amounted to approximately HK\$264,390,000. The Company intends to use the fund raised as general working capital.

FINANCIAL REVIEW**Liquidity and Financial Resources**

Subsequent to the settlement of consideration for the Suhai Magnesium acquisition by cash, the Group had cash and bank balances of approximately HK\$153,442,000 as at 31 December 2005. There was no bank borrowings.

The Group had net current assets of approximately HK\$666,933,000 as at the end of the year. Total liabilities to total assets ratio was 9%.

Exchange Exposure

Most of the Group's assets, liabilities and transactions are denominated either in Renminbi, US dollars or Hong Kong dollars. As the exchange rate between US dollars and Hong Kong dollars remained stable during the year and the appreciation of Renminbi was moderate during the year, the Group was not exposed to material foreign exchange risk.

Pledge of Assets

As at 31 December 2005, bank deposit valued at HK\$327,000 in the Group's assets was pledged as guarantee for the short term trading facilities.

Contingent Liabilities

As at 31 December 2005, the Group had no material contingent liability.

STAFF AND REMUNERATION

As at 31 December 2005, the Group had a workforce of approximately 1,650 staff including young graduates and experienced professionals. The Group has in place a comprehensive staff remuneration and welfare system. During the year, approximately HK\$21,046,000 was incurred in staff costs including directors' emoluments. The Group implements a share option scheme granting options as appropriate to outstanding staff to encourage contribution to the Group. Recognizing that its people is its most valuable asset, the Group will continue to seek and train high calibre staff and provide them with on-the-job trainings to enhance their competitiveness.

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 ended 31 December 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 audited financial statements for the year ended 31 December 2005.

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 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 Yujie, Mr Huang Chunhua and Mr Jin Zhong as independent non-executive directors.

By order of the Board
Jiang Quanlong
Chairman

Hong Kong, 20 April 2006