



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)

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INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2006

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 2006 together with the comparative figures for the corresponding period in 2005 as follows:

		For the six months ended 30 June	
		2006	2005
	NOTES	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Turnover	(4)	470,703	375,505
Cost of sales		(328,259)	(284,233)
Gross profit		142,444	91,272
Interest income		2,233	892
Selling and distribution expenses		(10,378)	(8,512)
Administrative expenses		(8,911)	(10,309)
Other (expenses)/income, net		(37)	467
Finance costs	(5)	(667)	(21)
Profit before taxation	(6)	124,684	73,789
Taxation	(7)	(28,725)	(16,984)
Profit for the period		95,959	56,805
Attributable to:			
Equity holders of the Company		94,743	56,136
Minority interests		1,216	669
		95,959	56,805
Dividends	(8)	11,843	-
Earnings per share	(9)		
- Basic		8.80 cents	5.69 cents
- Diluted		8.80 cents	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		30 June	
		2006	2005
	NOTES	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Non-current assets			
Goodwill		200,329	199,715
Property, plant and equipment and construction-in-progress	(10)	551,131	570,046
Prepaid lease payments on land use rights		11,937	12,021
		763,397	781,782
Current assets			
Inventories		219,295	228,391
Accounts and other receivables	(11)	313,470	338,801
Prepayments, deposits and other current assets		234,771	91,150
Prepaid lease payments on land use rights		402	398
Pledged deposits		108,416	327
Cash and bank balances		364,831	153,115
		1,241,185	812,182
Current liabilities			
Accounts payable	(12)	53,900	56,249
Accruals and other payables		40,286	44,115
Amounts due to directors		11,645	11,850
Amount due to a related company		1,499	1,220
Bank borrowings			
- due within one year	(13)	92,233	-
Tax payable		34,082	31,815
		233,645	145,249
Net current assets		1,007,540	666,933
Total assets less current liabilities		1,770,937	1,448,715
Capital and reserves			
Share capital	(14)	118,434	98,695
Reserves		1,632,399	1,331,132
Equity attributable to equity holders of the Company		1,750,833	1,429,827
Minority interests		20,104	18,888
Total equity		1,770,937	1,448,715

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with the Hong Kong Accounting Standard ("HKAS") No.34 "Interim Financial Reporting" of Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared under the historical costs basis except for certain buildings, which are measured at revalued amounts as appropriate.

The accounting policies used in the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005.

In the current period, the Group had applied for the first time, a number of new HKFRSs issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2006. The adoption of the new HKFRSs has had no material on how the results and financial position for the current or prior accounting period as prepared and presented. The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the consolidated financial statements of the Group:

- HKAS 1 (Amendment) Capital disclosures (i)
HKFRS 7 Financial instruments: Disclosures (i)
HK(IFRIC) - INT 7 Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies (ii)
HK(IFRIC) - INT 8 Scope of HKFRS 2 (iii)
HK(IFRIC) - INT 9 Reassessment of embedded derivatives (iv)
- (i) Effective for annual periods beginning on or after 1 January 2007
(ii) Effective for annual periods beginning on or after 1 March 2006
(iii) Effective for annual periods beginning on or after 1 May 2006
(iv) Effective for annual periods beginning on or after 1 June 2006

3. SEGMENT INFORMATION

Segment information for the six months ended 30 June 2006 and 2005 is as follows:

(a) Business segments

	Rare Earth		Refractory		Total	
	2006	2005	2006	2005	2006	2005
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Turnover	231,712	187,116	238,991	188,389	470,703	375,505
RESULTS						
Segment results	44,715	22,914	82,862	53,520	127,577	76,434
Unallocated corporate expenses					(4,422)	(3,983)
Interest income					2,233	892
Other (expenses)/income, net					(37)	467
Finance costs					(667)	(21)
Profit before taxation					124,684	73,789
Taxation					(28,725)	(16,984)
Profit for the period					95,959	56,805

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 and magnesium grains)

(b) Geographical segments

	Turnover by geographical market	
	2006	2005
	HK\$'000	HK\$'000
The People's Republic of China ("the PRC")	369,261	295,555
Japan	58,947	47,991
Europe	28,554	15,213
The United States of America	10,379	6,847
Others	3,562	9,899
	470,703	375,505

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

4. TURNOVER

	For the six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Sales of rare earth products (including fluorescent products)	231,712	187,116
Sales of refractory products (including high temperature ceramics products and magnesium grains)	238,991	188,389
	470,703	375,505

5. FINANCE COSTS

During the period, bank charges and interest of approximately HK\$200,000 (2005: Nil) and HK\$341,000 (2005: Nil) on bank borrowings were charged and interest on discounted bills of approximately HK\$126,000 (2005: HK\$21,000) was charged.

6. PROFIT BEFORE TAXATION

During the period, profit before taxation has been arrived at after charging depreciation on property, plant and equipment of approximately HK\$35,090,000 (2005: HK\$29,860,000) and amortisation of prepaid lease payments on land use rights of approximately HK\$200,000 (2005: HK\$173,000) respectively.

7. TAXATION

	For the six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Enterprise income tax ("EIT") - The PRC subsidiaries	28,725	16,984

Hong Kong Profits Tax has not been provided for in the condensed consolidated 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 (2005: two) PRC subsidiaries are entitled to a 50% reduction of EIT and three (2005: two) 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 2006.

8. DIVIDENDS

During the period, a final dividend for the previous year of HK\$0.04 (2005: HK\$0.02) per share amounted to approximately HK\$47,374,000 (2005: HK\$19,739,000) was declared and paid.

As at the date of this announcement, the Board has resolved to declare an interim dividend of HK\$0.01 (2005: Nil) per share amounting to HK\$11,843,000.

9. 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\$94,743,000 (2005: HK\$56,136,000) and the weighted average number

of ordinary shares of 1,076,378,363 (2005: 986,953,059) in issue during the period.

The calculation of the diluted earnings per share is based on the Group's profit attributable to equity holders of the Company of approximately HK\$94,743,000 and the weighted average number of ordinary shares of 1,076,604,314 in issue after adjusting for the effect of all dilutive potential ordinary shares during the period. No dilutive earnings per shares was shown for the six months ended 30 June 2005 as there was no dilutive potential ordinary share for that period.

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

During the period, the Group spent approximately HK\$10,894,000 (2005: HK\$1,772,000) on additions to property, plant and equipment and construction-in-progress.

11. ACCOUNTS AND OTHER RECEIVABLES

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

At 30 June 2006, accounts and other receivables comprised:

	30 June 2006	31 December 2005
	HK\$'000	HK\$'000
Accounts receivable	305,649	326,865
Other receivables	16,279	20,313
	321,928	347,178
Less: Allowance for bad and doubtful debts	(8,458)	(8,377)
	313,470	338,801

An ageing analysis of accounts receivable is as follows:

	30 June 2006	31 December 2005
	HK\$'000	HK\$'000
Current to less than 6 months	276,512	286,780
6 months to less than 1 year	20,663	26,519
1 to less than 2 years	2,364	5,773
Over 2 years	6,110	7,793
	305,649	326,865

The fair value of the Group's accounts and other receivables at 30 June 2006 approximate to the corresponding carrying amounts.

12. ACCOUNTS PAYABLE

An ageing analysis of accounts payable is as follows:

	30 June 2006	31 December 2005
	HK\$'000	HK\$'000
Current to less than 6 months	46,118	48,715
6 months to less than 1 year	4,272	4,581
1 to less than 2 years	1,582	1,456
Over 2 years	1,928	1,497
	53,900	56,249

The fair value of the Group's accounts payable at 30 June 2006 approximate to the corresponding carrying amounts.

13. BANK BORROWINGS - DUE WITHIN ONE YEAR

During the period, the Group obtained new bank borrowings of approximately HK\$92,233,000 (2005: Nil), which was secured by bank deposits of approximately HK\$99,790,000, carrying at fixed interest rate of 4.73% per annum.

14. SHARE CAPITAL

	Number of shares	HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 January 2005, 31 December 2005 and 30 June 2006	2,000,000,000	200,000
Issued and fully paid:		
At 1 January 2005 and 31 December 2005	986,953,059	98,695
Issue of new shares (Note)	197,390,000	19,739
At 30 June 2006	1,184,343,059	118,434

Note:

On 10 April 2006, 197,390,000 ordinary shares of HK\$0.10 each were issued. All shares issued during the period rank pari passu with the existing shares in all respects.

15. COMMITMENTS

At the balance sheet date, the Group had the following commitments, so far as not provided for in the condensed consolidated financial statements:

	30 June 2006	31 December 2005
	HK\$'000	HK\$'000
(a) Capital commitments in respect of acquisition of machinery and equipment and construction of buildings:	258,336	67,461
Authorised and contracted for		
(b) Operating lease commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:		
	30 June 2006	31 December 2005
	HK\$'000	HK\$'000
Within one year	1,274	1,307
In the second to fifth year inclusive	2,785	3,036
Over five years	10,360	10,543
	14,419	14,886

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the six months ended 30 June 2006, the Group recorded a turnover of HK\$470,703,000, representing an increase of approximately 25% compared with HK\$375,505,000 in the corresponding period of 2005. Contributing approximately 49% of the Group's total turnover, the sales of rare earth products (including fluorescent materials) amounted to HK\$231,712,000, an increase of around 24% compared with HK\$187,116,000 in the corresponding period last year. Sales of refractory materials (including high temperature ceramics and magnesium grains) was HK\$238,991,000, increased by around 27% from HK\$188,389,000 in the corresponding period last year. Gross profit margin increased from 24% to around 30%.

The Group's profit before taxation reached HK\$124,684,000, representing an increase of approximately 69% as compared with HK\$73,789,000 in the corresponding period last year. The Group's subsidiaries Wuxi Xinwei Fluorescent Materials Company Limited and Wuxi Xinwei High Temperature Ceramics Company Limited continued to enjoy 50% reduction of Enterprise Income Tax in the PRC. The Group's profit for the period, after deducting taxation of HK\$28,725,000, was HK\$95,959,000. Net profit margin was approximately 20%. Earnings per share were HK8.80 cents.

In December 2005, the Group acquired the entire equity interest in Haicheng City Suhai Magnesium Ore Co., Ltd. ("Suhai Magnesium") in Liaoning Province, the PRC. This acquisition has not only enabled the Group to secure stable supply of raw materials for its refractory materials business, but has also presented the Group with a new source of profit. The turnover and net profit of Suhai Magnesium, HK\$24,210,000 and HK\$7,669,000 respectively, were reflected in the first half 2006 consolidated financial statements.

Business Review

Rare Earth Business

In the first half of 2006, the rare earth industry in the PRC continued on the up trend which started in 2005. The strong demand for neodymium, praseodymium, terbium and dysprosium used in the magnetic material industry drove their prices up continuously. For instance, the prices of neodymium oxide and praseodymium oxide increased by 20% to 30% between January and June 2006, while the prices of terbium oxide and dysprosium oxide surged even more by 40% to 50%. However, prices of certain products dropped. For example, prompted by the shrinking color television market (the major consumer of yttrium products), some rare earth manufacturers dumped yttrium products at very low prices. As a result, the sale price of the Group's yttrium oxide during the reporting period dropped around 5% when compared with the same period last year. Given the substantial increase in prices of rare earth products, despite that the Group sold less of rare earth products to around 2,000 tonnes during the reporting period against the corresponding period last year, its sales revenue increased by 24% to HK\$231,712,000.

Regarding production cost, because the PRC Government has tightened control on rare earth resources supply and stepped up regulation and standardization of mining of mineral resources, the prices of rare earth resources have been on the rise persistently. For instance, the average price of rare earth oxide resources had increased by around 50% between December 2005 and June 2006. However, having applied its strengths to prepare for the rise in prices of rare earth resources, the Group has been able to effectively mitigate the impact of climbing material prices on its production costs. During the period under review, the gross profit margin of its rare earth business increased to around 20%.

By market, the PRC market accounted for around 75% of the Group's rare earth sales, about the same as in the corresponding period last year.

Refractory Materials Business

The Group's refractory materials business maintained stable growth during the period, with total sales reaching HK\$238,991,000, around 27% more than that in the same period last year. As the prices of major products such as fused magnesia-chrome bricks, magnesia-alumina spinel bricks, alumina-graphite bricks and AZS bricks varied no more than 5% when compared with the last corresponding period, the gross profit margin of general refractory materials products was at similar level as in the last corresponding period. The higher margin high temperature ceramics business achieved better performance during the period under review. Although there was no significant changes in the average sales price of the products, thanks to increase in sales volume which brought down average cost, the gross profit margin of the high temperature ceramics business increased by approximately 30%. The magnesium grains business acquired by the Group in late 2005 also recorded a high gross profit margin of 50%. As a result, the gross profit margin of the refractory materials segment grew to approximately 38%. In terms of sales volume, the total sales volume of general refractory materials and high temperature ceramics reached a total of approximately 40,000 tonnes, 18% more than that in the same period last year. One third of the total sales volume was attributable to high temperature ceramics. The Group also sold about 10,500 tonnes of fused magnesium grains during the period under review.

The PRC is still the Group's principal market for refractory materials. Taking into account the magnesium grains business, which sales primarily attributable to the local market, the PRC market brought in around 80% of the total sales of the Group's refractory materials business. The remaining mainly came from export to Japan.

Prospects

In February 2006, the Group forged strategic alliance with General Electric Company, one of the largest integrated business corporations in the world. Pursuant to the alliance, General Electric will substantially increase order for various rare earth products from the Group. General Electric will also provide technical support to the Group's value-added rare earth business to help it extend the applications and production scale of rare earth products.

Besides, the Group will continue to explore and develop more downstream products for rare earth, such as catalysts for automobile exhaust gas treatment, hopefully to add new products to its portfolio after fluorescent materials and polishing materials for launching in the market. The Group will also continue to look for opportunities to invest in rare earth mines so as to speed up creation of a vertical industrial chain.

As for the refractory materials business, in addition to strengthening investment in and development of its existing businesses, the Group will capitalize on the opportunities arising from the acquisition of Suhai Magnesium in late 2005 to tap the abundant magnesium resources in Liaoning Province. Its aim is to build the high purity magnesium grains business on its solid foundation of fused magnesium grains business. The project will commence in the second half of 2006 with total investment estimated at around HK\$400 million to HK\$500 million. The project construction will take two years to complete. Upon completion, it will enable the Group to secure supply of raw materials for its refractory materials business and thus effectively control costs. It will also be an additional income stream for the Group.

Placing of Shares

The Company conducted a fund raising activity in the first half of 2006. In March to April, the Company placed 197,390,000 new shares at HK\$1.38 per share. Upon the completion of the placing, the total number of issued shares of the Company increased to 1,184,343,059 shares and the public float increased to over 49%. The net proceeds from the placing amounted to approximately HK\$264,120,000. The raised fund will be used as general working capital.

Liquidity and Financial Resources

As at 30 June 2006, the Group had cash and bank balance of approximately HK\$473,247,000 within which there was deposit at about HK\$108,416,000 pledged for business guarantee and banking facilities utilized. With pledged deposit, the Group raised a short term bank loan at RMB95,000,000 in May 2006 and which will be repayable before the end of the year. There was no contingent liabilities. Balance of net current assets rose to HK\$1,007,540,000. Total liabilities to total assets ratio rose to around 12%.

The Group was not exposed to material foreign exchange risk or interest rate risk. Apart from the deposit pledged as stated above, there was no charge on assets of the Group.

Staff and Remuneration

As at 30 June 2006, the Group had a workforce of approximately 1,600 staff. Comprehensive remuneration and welfare packages are offered to them. During the period, HK\$11,901,000 was incurred in staff costs including directors' emoluments.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend for the six months ended 30 June 2006 of HK 1 cent per share to the shareholders whose names appear on the register of members on 6 October 2006. The dividend will be payable on or before 27 October 2006.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on 5 October 2006 and 6 October 2006, during these two days no transfer of shares will be registered. To qualify for the above declared interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on 4 October 2006.

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 2006.

AUDIT COMMITTEE

The Audit Committee has reviewed, with the assistance of the Company's auditors, 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 2006 which have not been audited.

CORPORATE GOVERNANCE

The Company is committed to the establishment of good corporate governance practices and procedures. In order to align with the code provisions of the Code of Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Listing Rules, a special resolution was passed at the 2006 annual general meeting of the Company held on 15 June 2006 to alter the Articles of Association of the Company to specify that every director of the Company should be subject to retirement by rotation at least once every three years.

The Company has complied with the code provisions set out in the CG Code throughout the six months ended 30 June 2006.

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

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