



中國稀土控股有限公司

China Rare Earth Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER 2001

The Board of Directors (the “Board”) of China Rare Earth Holdings Limited中國稀土控股有限公司 (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31st December 2001 together with the comparative figures for the corresponding year in 2000 as follows:

RESULTS

	2001 HK\$'000	2000 HK\$'000
Turnover	617,808	558,231
Cost of sales	(434,757)	(367,455)
Gross profit	183,051	190,776
Other revenue	6,253	4,648
Selling and distribution costs	(11,207)	(5,140)
Administrative expenses	(20,877)	(33,015)
Profit from operations	157,220	157,269
Finance costs	(2,621)	(5,770)
Other expenses, net	(7,892)	(5,820)
Profit before taxation	146,707	145,679
Taxation	–	–
Profit after taxation	146,707	145,679
Minority interests	(4,493)	(4,756)
Net profit for the year	142,214	140,923
Dividends	32,578	26,277
Earnings per share		
– Basic	19.1 cents	23.2 cents
– Diluted	18.9 cents	22.7 cents

Notes:

1. Segment information

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

	Turnover		Segment results	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Sales of rare earth products	374,661	371,211	99,022	100,821
Sales of refractory products	243,147	187,020	66,390	59,517
	617,808	558,231	165,412	160,338
Unallocated corporate expenses			(14,445)	(7,717)
Other revenue			6,253	4,648
Profit from operations			157,220	157,269

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

	2001 HK\$'000	2000 HK\$'000
The People’s Republic of China (the “PRC”)	336,565	293,408
*The United States	81,209	93,024
*Japan	151,546	142,641
*Others	48,488	29,158
Total	617,808	558,231

* Certain export sales are conducted through import/export agents in the PRC.

2. Profit before taxation

	2001 HK\$'000	2000 HK\$'000
Profit before taxation was stated after charging:		
Depreciation	21,372	14,311
Interest expenses on bank borrowings	2,621	3,451
Interest expenses on convertible bonds and ancillary costs of the issuance	–	2,319
Loss on disposal of fixed assets	5,848	7,967
and after crediting:		
Interest income from bank deposits	6,253	4,648

3. Taxation

No provision for Hong Kong profits tax has been made as the Group had no assessable profits in Hong Kong during both years.

Pursuant to the relevant tax laws in the PRC, the Group is exempted from enterprise income tax during the two years from 1st January 2000 to 31st December 2001.

4. Dividends

	2001 HK\$'000	2000 HK\$'000
Dividends for the year:		
– Interim, paid of HK\$0.02 per ordinary share (2000: HK\$0.01)	16,289	6,018
– Final, proposed of HK\$0.02 per ordinary share (2000: HK\$0.03)	16,289	20,259
	32,578	26,277

The final dividends of approximately HK\$20,259,000 for the year ended 31st December 2000 were proposed after 31st December 2000. The amount subsequently declared and paid was approximately HK\$20,773,000.

The previously recorded final dividends proposed after the balance sheet date but accrued as a liability as at 31st December 2000 were approximately HK\$20,259,000. After the adoption of the revised Statements of Standard Accounting Practice No. 9 “Events after the balance sheet date” (“SSAP 9”) issued by the Hong Kong Society of Accountants, these dividends have been written back against opening retained profits as at 1st January 2001. Dividends are now recorded in the period in which they are proposed.

At the Board meeting held on 18th April 2002, the directors recommended a final dividend of HK\$0.02 per ordinary share, totaling approximately HK\$16,289,000. Pursuant to SSAP 9, the proposed dividends were not reflected as dividends payable at 31st December 2001.

5. Earnings per share

a. Basic earnings per share

Basic earnings per share was calculated based on the net profit for the year of approximately HK\$142,214,000 (2000: HK\$140,923,000) and the weighted average number of ordinary shares of approximately 744,432,000 (2000: 607,684,000) in issue during the year.

b. Diluted earnings per share

Diluted earnings per share was calculated based on the adjusted net profit for the year of approximately HK\$142,214,000 (2000: HK\$141,486,000), and the weighted average number of ordinary shares in issue of approximately 754,283,000 (2000: 623,944,000) after taking into consideration the potential dilutive effect of conversion of convertible bonds and exercise of a subscription right granted to the bond holder.

6. Convertible bonds

During the year ended 31st December 2000, the Company issued convertible bonds with an aggregate principal amount of US\$5,000,000, equivalent to HK\$39,000,000, to a third party. US\$600,000, equivalent to HK\$4,680,000, of the bonds were converted into 5,294,169 ordinary shares of the Company in that year. The remaining balance of US\$4,400,000 of the bonds, equivalent to HK\$34,320,000, were converted into 29,958,890 ordinary shares of the Company during the year ended 31st December 2001.

In addition to the bonds, the Company also granted a subscription right to the bond holder to subscribe for 4,000,000 newly issued ordinary shares of the Company. The subscription right was exercised during the year ended 31st December 2001.

7. Reserves

	Share premium HK\$'000	Capital reserve HK\$'000	Statutory reserves HK\$'000	Exchange translation reserve HK\$'000	Retained profit HK\$'000	Total HK\$'000
As at 1st January 2001, as previously reported	130,958	32,837	20,235	3,218	245,817	433,065
Appropriations to statutory reserves not approved before year end	–	–	(8,642)	–	8,642	–
Proposed final dividend not declared before year end	–	–	–	–	20,259	20,259
As at 1st January 2001, restated	130,958	32,837	11,593	3,218	274,718	453,324
Shares issued upon conversion of bonds	31,324	–	–	–	–	31,324
Shares issued upon exercise of a subscription right	6,014	–	–	–	–	6,014
Shares issued upon shares placement	247,220	–	–	–	–	247,220
Shares issue expenses	(3,031)	–	–	–	–	(3,031)
Net profit for the year	–	–	–	–	142,214	142,214
Appropriations to statutory reserves	–	–	15,375	–	(15,375)	–
Distributions during the year	–	–	–	–	(37,062)	(37,062)
Translation of PRC subsidiaries’ financial statements	–	–	–	280	–	280
As at 31st December 2001	412,485	32,837	26,968	3,498	364,495	840,283

The appropriations of profit for 2000 to statutory reserves in the amount of HK\$14,529,000 were recorded in the Group’s financial statements for the year ended 31st December 2000. HK\$5,887,000 of the appropriations was made in accordance with relevant financial regulations in the PRC and Articles of Association of a subsidiary in the PRC. The remaining balance of HK\$8,642,000 was made at the directors’ discretion and approved after 31st December 2000. Due to the adoption of SSAP 9, the appropriation of HK\$8,642,000 has been written back against the opening retained profit as at 1st January 2001. Discretionary appropriations to reserves are now recorded in the period in which they are approved.

FINANCIAL RESULTS

For the year ended 31st December 2001, the Group recorded a turnover of HK\$617,808,000, representing 11% growth against HK\$558,231,000 recorded last year. The growth was mainly attributable to the increased sales volume brought about by the improved production capacity. The sales of rare earth products and refractory products amounted to HK\$374,661,000 and HK\$243,147,000, respectively. The Group recorded the profit attributable to shareholders of HK\$142,214,000. Basic earnings per share was HK19.1 cents. During the year, the Group was still enjoying tax relief with the PRC enterprise income tax waived. Net profit leveled 2000’s figure.

DIVIDENDS

The Board has resolved to recommend the payment of a final dividend of HK2 cents (2000: HK3 cents) per share. Together with the interim dividend of HK2 cents per share paid in October 2001, total dividends for the year will amount to HK4 cents per share. Subject to the approval of shareholders at the forthcoming Annual General Meeting to be held on 31st May 2002 (Friday), the final dividend will be paid on or before 12th June 2002 to registered shareholders.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 28th May 2002 (Tuesday) to 31st May 2002 (Friday), both days inclusive, during the 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 of the Company, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s Share Registrar in Hong Kong, Central Registration Hong Kong Limited, Rooms 1712-1716, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:00 p.m. on 27th May 2001 (Monday).

BUSINESS REVIEW

2001 was a year filled with threats as well as opportunities. Poor external market sentiment and fluctuations imposed a pressure on the Group to cut the prices of its products. As a result, despite there was growth in turnover, the Group’s profit can only be maintained at the level attained in 2000. On the other hand, with the expansion of its rare earth separating production line, the Group was able to achieve economies of scale and higher product quality and it stabilized the Group’s profitability and broadened its market share. Additionally, the strategic alliance formed with a raw material supplier by the end of 2001 will help stabilize both the supply as well as the price of raw materials. The strengthened resources position will enable the Group to withstand the adverse impact of the fluctuating market conditions.

Rare Earth

Production – The annual production capacities of rare earth separating lines increased significantly to 6,500 tonnes (REO) as a result of the completion of two expansion projects of rare earth production facilities. Installed with advanced controlling systems and state-of-the-art separation technology, the 26,500 sq. meter newly established rare earth separating line for ionic ore enables the Group to produce products that lead the PRC market in both quality and quantity. Together with the separating line for rare earth chloride established in 2000, the Group has established its leading position in the industry.

Markets – In the past year, the global economic slowdown, which has cooled down the information technology sector, has also been affecting the rare earth industry. The over supply of rare earth product has led to severe price competition in the industry. Some competitors in the PRC even had to cease their production. As the Group’s products are comparatively ahead of others and supported by a well-established customer base, the Group is able to withstand the harsh times. With enlarged production capacity and immense orders, the Group sold over 5,900 tonnes (REO) of rare earth products in 2001, which is 40% higher than that in 2000. However, due to keen competition, price cuts were inevitable, for instance, the average price on Neodymium Oxide and Dysprosium Oxide dropped by 17% and 30% respectively and the average selling price of fluorescent powder also decreased from that in 2000. Certain products, however, recorded an increase in price. The price of Lanthanum Oxide stepped up by 14% as compared with its price in 2000. As the negative effects brought by the price drop offset the increase in sales volume, the turnover of rare earth products business could only remain at about the same level as that in the previous year.

In terms of export market, proportion of sales to Europe market increased and the proportion of sales to the US and Japan markets dropped relatively. The proportion of sales to the PRC market, on the other hand, was enhanced by the growing economy of the Mainland.

Industry Consolidation – As China holds approximately 80% of the world’s rare earth reserves, the Chinese government has always been paying special attention on the industry. The government has introduced different measures including imposing restrictions on ores extraction and issuance of export licenses. Furthermore, the government is actively seeking to adjust the demand-supply position of rare earth products by considering the consolidation of the whole industry and organization of the management alliance. The Group has been actively involved and has made suggestions to this end.

Co-operation – The Group formed a strategic alliance with a state-owned enterprise, which is also a leading rare earth supplier in China specialising in the extraction of rare earth refined ore, by the end of 2001. This alliance does not only help to stabilize the price and the demand-supply position, but also secures the supply of raw materials to the Group, which will enhance the competitiveness of both parties.

Refractory Materials

Production – The Group’s annual production capacity of refractory products reaches 50,000 tonnes. The expansion projects on the production capacity of refractory products, which were completed in mid-2000, have started to bear fruit. In 2001, the Group sold about 45,000 tonnes of refractory products, up 40% against that in the previous year. Among all, fused rebonding magnesium bricks series, a type of materials that widely applied in both glass and steel industries, was still the top-sales refractory product of the Group. It recorded the sales volume of over 8,000 tonnes in the year. To ensure the achievement of top quality levels, the Group has persisted in adopting the latest techniques and becoming a major refractory products supplier both for domestic and foreign enterprises. The price for refractory products was quite stable in 2001. The Group recorded a growth of 30% in turnover as compared to that of 2000. The production and sales of refractory products has become a crucial pillar for growth of the Group’s business.

Markets – In export terms, the Group cooperated closely with Japanese clients and the annual export accounted for about 16% of the Group’s sales of refractory products. During the year, the Group’s refractory products started penetrating the Europe market but the amount only accounted for less than 1% of the total sales. Although the percentage is not significant now, the Group is on the track to lead export sales of refractory products to reach a target of 50% from 10%.

PROSPECTS

The Group’s core businesses, namely rare earth products and refractory products, complement each other while at the same time show strong competitive advantage in their respective industries. The refractory materials industry is booming and evolving in the PRC and development has been stable. Despite the

fluctuating economy, thanks to the wide range of product applications, the rare earth industry has a promising prospect and tremendous growth potentials. The market conditions were poor in rare earth industry last year. The Group, however, has prepared for the adversity and through exerting its tremendous efforts, managed to successfully maintain its turnover and established its prime position in the PRC rare earth industry. The Group can also take advantage of the re-structuring of the industry to be guided by the Chinese government in the near future.

On the other hand, the Group anticipates a rebound of the rare earth industry in the second half of 2002. The completion of the expansion projects of rare earth separation facilities would allow the Group to meet the needs of different customers and accelerate its development. Looking ahead, the Group will turn its attention towards downstream products development.

Wuxi Xinwei Fluorescent Materials Co., Ltd., a subsidiary of the Group that specializes in the development of quality fluorescent powders, was established by the end of 2001. The new company, with a total investment of HK\$150,000,000 of which 71% of it is borne by the Group, is jointly operated by the Group and another enterprise. The new production line is expected to commence operation in mid 2002 and is capable to produce annually 500 tonnes top grade fluorescent materials, including super afterglow phosphor.

For refractory products, the second phase expansion project is expected to be completed and commence operation in mid 2002. Upon the completion of the expansion project, the annual production capacity will escalate from currently 50,000 tonnes to 80,000 tonnes, in line with the agreement signed between the Group and a Japanese refractory expert company in April 2001 to jointly develop new products. The Group will also step up its efforts to explore overseas markets for its products and increase its market share.

LIQUIDITY AND FINANCIAL RESOURCES

In July 2001, the Group raised approximately HK\$254,500,000 from a placement of 105,200,000 new shares of the Company. In addition, all the outstanding bond balance had been converted into ordinary shares during the year and all bank loans had been repaid upon maturity by the end of the year. As at 31st December 2001, the Group had cash and bank balances of HK\$249,017,000 with no outstanding long-term liabilities.

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.

CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) throughout the year.

The Company established an audit committee with written terms of reference in compliance with the Code of Best Practice throughout the year ended 31st December 2001. The audit committee comprised the two independent non-executive directors of the Company, Messrs. Liu Yujiu and Huang Chunhua.

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 Appendix 16 of the Listing Rules 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, 18th April 2002

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of China Rare Earth Holdings Limited (the “Company”) for the year 2002 will be held at Basement II, The Boardroom, The Wharney Hotel, Hong Kong, 57-73 Lockhart Road, Wanchai, Hong Kong on 31st May 2002 (Friday), at 10:30 a.m. to deal with the following matters:

- (1) To receive and consider the Reports of the Directors and Auditors and the audited Financial Statements of the Company for the year ended 31st December 2001.
- (2) To declare a final dividend.
- (3) To re-elect the retiring Director and to authorize the Board of Directors of the Company (the “Board”) to fix their emoluments.
- (4) To re-appoint the retiring auditors and to authorize the Board to fix their remuneration.
- (5) As special business, to consider and, if thought fit, pass the following resolutions as Ordinary Resolutions.

A. “**THAT:**

- (a) subject to paragraph (c) below, the exercise by the Board during the Relevant Period (as defined in paragraph (d) of this Resolution) of all the powers of the Company to allot, issue and deal with unissued shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and it is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) shall authorize the Board during the Relevant Period to make or grant offers, agreements and options which would or might be exercised after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Board pursuant to the approval in paragraph (a), otherwise than pursuant to:-
 - (i) a Rights issue (as hereinafter defined); or
 - (ii) any share option scheme of the Company; or
 - (iii) any issue of shares in lieu of the whole or part of a dividend on shares in accordance with the Articles of Association of the Company and other relevant regulations,

shall not exceed twenty per cent (20%) of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution, and the said approval shall be limited accordingly; and

- (d) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earlier of:

- (1) the conclusion of the next annual general meeting of the Company;
- (2) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Memorandum and Articles of Association of the Company to be held; and
- (3) the revocation or variation of the mandate granted under this resolution by ordinary resolution of the members in general meeting.

“Rights Issue” means an offer of shares open for a period fixed by the Board to holders of shares whose names appear on the Register of Members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws

of, or the requirements of any recognized regulatory body or any stock exchange in, any territory applicable to the Company).”

B. “**THAT:**

- (a) subject to paragraph (b) below, the exercise by the Board during the Relevant Period (as defined in paragraph (c) of this Resolution) of all the powers of the Company to repurchase its shares, subject to and in accordance with all applicable laws and/or the requirements of The Stock Exchange of Hong Kong Limited, as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) for the aggregate nominal amount of shares authorized to be repurchased by the Company pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed ten per cent (10%) of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this resolution, and the said approval shall be limited accordingly; and
- (c) for the purpose of this Resolution:
“Relevant Period” means the period from the passing of this resolution until whichever is the earlier of:
 - (1) the conclusion of the next annual general meeting of the Company;
 - (2) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Memorandum and Articles of Association of the Company to be held; and
 - (3) the revocation or variation of the mandate granted under this resolution by ordinary resolution of the members in general meeting.”

C.

“**THAT** conditional on the passing of the Ordinary Resolutions Nos 5A and 5B as set out above, the general mandate granted to the Board to allot, issue and deal with additional shares pursuant to Ordinary Resolution No. 5A be and is hereby extended by the additional to the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to the Ordinary Resolution No. 5B above, provided that such extended amount shall not exceed ten per cent (10%) of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution.”

By Order of the Board
Law Lap Tak
Company Secretary

Hong Kong, 18th April 2002

Principal Place of Business:
Room 618, Hutchison House,
10 Harcourt Road,
Central
Hong Kong

Notes:

- (1) A member entitled to attend and vote at the meeting mentioned above is entitled to appoint in written form one or more proxies to attend and vote at the AGM on his/her behalf. A proxy need not be a member of the Company.
- (2) To be valid, the proxy form together with the certified power of attorney or authority (if any) must be delivered to the Company’s Branch Registrar in Hong Kong, Central Registration Hong Kong Limited at Rooms 1901-1905, 19th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time of the meeting.
- (3) The Register of Members of the Company will be closed from Tuesday, 28th May 2002 to Friday, 31st May 2002 (both days inclusive), during which period no transfer of the Company’s shares will be effected.