



CHINA RARE EARTH HOLDINGS LIMITED

中國稀土控股有限公司

(incorporated in the Cayman Islands with limited liability)

2002 ANNUAL RESULTS ANNOUNCEMENT

RESULTS

The Board of Directors (the "Board") of China Rare Earth Holdings Limited (the "Company") is pleased to announce that the audited results of the Company and its subsidiaries (the "Group") for the year ended 31st December 2002 were as follows:

	Notes	For the year ended 31st December	
		2002 HK\$'000	2001 HK\$'000
Turnover	1	467,663	617,808
Cost of sales		(363,610)	(434,757)
Gross profit		104,053	183,051
Interest income		4,438	6,253
Selling and distribution expenses		(13,364)	(11,207)
Administrative expenses		(18,148)	(20,877)
Profit from operations		76,979	157,220
Finance costs		-	(2,621)
Other expenses, net		(28,064)	(7,892)
Profit before taxation		48,915	146,707
Taxation	2	(8,593)	-
Profit before minority interests		40,322	146,707
Minority interests		710	(4,493)
Net profit for the year		41,032	142,214
Dividends	3	16,289	32,578
Earnings per share	4		
- Basic		5.0 cents	19.1 cents
- Diluted		N/A	18.9 cents

Notes:

1. Segment information

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

	Turnover For the year ended 31st December		Segment results For the year ended 31st December	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Sales of rare earth products	206,127	374,661	10,439	99,022
Sales of refractory products	261,536	243,147	73,006	66,390
	467,663	617,808	83,445	165,412
Unallocated corporate expenses			(10,904)	(14,445)
Interest income			4,438	6,253
Profit from operations			76,979	157,220

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

	For the year ended 31st December	
	2002 HK\$'000	2001 HK\$'000
The People's Republic of China (the "PRC")	353,965	336,565
Japan	77,332	151,546
The United States	7,329	81,209
Others	29,037	48,488
	467,663	617,808

2. Taxation

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

PRC Enterprise Income Tax ("EIT") in the PRC has been provided at the prevailing rates on the estimated assessable profits applicable to each PRC subsidiary.

The PRC subsidiaries of the Company are subject to EIT based on assessable profits. 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 PRC subsidiaries are entitled to a 50% reduction of EIT.

3. Dividends

	For the year ended 31st December	
	2002 HK\$'000	2001 HK\$'000
Interim dividend paid: HK\$0.01 (2001: HK\$0.02) per share	8,145	16,289
Proposed final dividend: HK\$0.01 (2001: HK\$0.02) per share	8,144	16,289
	16,289	32,578

4. Earnings per share

Basic earnings per share were calculated based on the net profit for the year of approximately HK\$41,032,000 (2001: HK\$142,214,000) and the weighted average number of ordinary shares of approximately of 814,453,000 (2001: 744,432,000) in issue during the year.

There was no diluted earnings per share shown for the year ended 31st December 2002 as there was no dilutive potential ordinary shares as at 31st December 2002.

MAJOR DIFFERENCE BETWEEN THE AUDITED AND UNAUDITED RESULTS

The major difference between the audited results of the Group for the year ended 31st December 2002 and the unaudited results announced on 26th April 2003 is as follows:

(i) Turnover

The difference in turnover with approximately HK\$8,139,000 represents adjustments made on cut-off error in respect of export sales to two customers in Germany and Japan respectively to which title has not been passed to the customers as at 31st December 2002.

(ii) Other expenses, net

The difference in other expenses, net with approximately HK\$20,135,000, approximately HK\$19,527,000 was attributable to the write-off of redundant property, plant and equipment.

OPINION OF THE AUDITORS

Without qualifying their opinion, the existing auditors draw attention to the fact that they are not auditors of the Company and the Group for the year ended 31st December 2001. The financial statements for the year ended 31st December 2001, issued on 18th April 2002, were audited by another firm of auditors. The existing auditors did not audit the financial statements for the year ended 31st December 2001 and therefore do not express any opinion on the comparative figures presented in the financial statements for the current year. Accordingly, the comparative figures presented in the financial statements may not be comparable with the figures for the current year.

Subject to the above mentioned, in the auditors' opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December 2002 and of its profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the year ended 31st December 2002, the Group recorded a total turnover of HK\$467,663,000, representing a 24% drop approximately from HK\$617,808,000 last year. The decrease in turnover was mainly caused by the drop in the rare earth business, whose turnover declined from HK\$374,661,000 in 2001 to HK\$206,127,000 in 2002. Profit attributable to shareholders amounted to HK\$41,032,000. Basic earnings per share were HK5 cents. During the year under review, the Group still enjoyed tax-relief and was partially exempted on the PRC Enterprise Income Tax.

Dividends

The Board has recommended the payment of a final dividend of HK1 cent per share for the year ended 31st December 2002. Together with the interim dividend of HK1 cent per share, total dividends for the year will amount to HK2 cents per share. Subject to the approval of shareholders at the forthcoming Annual General Meeting to be held on 8th August 2003, the final dividend will be paid on or before 22nd August 2003 to registered shareholders as at 8th August 2003.

Closure of Register of Members

The Register of Members will be closed from 5th August to 8th August 2003, both days inclusive. During this period, no transfer of shares will be registered. To qualify for the entitlement of the proposed final dividend and to attend the Annual General Meeting, 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, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:00 p.m. on 4th August 2003 (Monday).

Business Review

Due to the lagging world economy and the severe over supply of rare earth products in 2002, price levels for rare earth products plunged, lingering at historical lows and causing the entire rare earth industry to suffer loss. However, helped by its comprehensive production facilities and stringent quality controls, the Group managed to record profits for the rare earth business. In the refractory products business, the Group expanded and sustained its market share with the technical support rendered by international partners and was therefore able to maintain a stable growth.

Rare Earth Business

Production - The Group has undertaken comprehensive and thorough technical reforms with the expansion of its rare earth production lines in 2000 and 2001. It has combined and consolidated its originally divided production lines into three separating rare earth assembly lines, raising the Group's integration levels and the quality of its rare earth separation technology to international standards. In 2002, the Group further enhanced its production techniques, attaining further improvements in lowering consumption rates, raising recycling rates and stabilizing the quality of products. The Group's annual production capacity for high-quality rare earth products currently reaches 6,500 tonnes (REO).

Sales - During the year under review, the Group sold about 3,700 tonnes rare earth oxides, together with the fluorescent products and other rare earth products, turnover of rare earth business amounted to HK\$206,127,000. Among the different types of products, the price level for Europium oxide, which is widely deployed in the production of energy efficient lighting and monitor screens, maintained its levels compared with that in last year. While the prices for Neodymium oxide and Dysprosium oxide, which are mainly used on metallic materials, magneto-optic memory materials and glass decreased on average by a half, the prices for Lanthanum oxide which is widely employed in the production of optical glass also dropped by more than 30%. Affected by the reduction in sales volume and lowered price levels, coupled with the significant increase in the provision for inventory, the Group's gross profit margin moving down to 5% in 2002 compared with 28% in 2001.

Market - The worldwide economy experienced a downturn in 2002. In particular, the recession in Japan and the United States, the two main export countries for China's rare earth products, affected the development of high-tech industries such as semiconductors and information technology, in turn lowering the consumption of rare earth. This situation was further worsened by the over extraction of rare earth materials within the region, leading to fierce competition and thus the dropping of rare earth products' prices to historical lows in 2002. As the price of rare earth has fallen to loss incurring levels, the Group is confident that the industry-wide consolidation policies being implemented by the PRC government, together with the eventual recovery of the global economy, will bring about a rebound in the price of rare earth. The Group increased inventory levels

of rare earth products in 2002. Although the provision for inventory was larger than last year due to the drop in prices and increases in inventory levels, through increase our inventory balances and not participating in unhealthy price wars, the negative repercussions due to the poor economic cycle could be minimized.

New fluorescent products - The Group focused its efforts on the development of high value-added products. Trichromatic phosphor production line with designed capacity up to 500 tonnes of its subsidiary, Wuxi Xinwei Fluorescent Materials Co., Ltd. commenced operations in May 2002. It recorded sales of almost 100 tonnes of products this year. As the gross profit of fluorescent products is much higher than that of oxidized rare earth products, the increase in the output of fluorescent powder would become a profit driven point for the Group.

Refractory Business

Production - The Group's refractory products business has been sustaining a stable growth since its listing. The refractory materials production Division I completed its technical reform and expansion in June 2002. The newly installed 118m super high temperature tunnel kiln with design imported from Japan achieved satisfactory results in trial production, raising the annual production capacity for medium to high-grade refractory products to 80,000 tonnes. The standards and quality of the new super high temperature tunnel kiln are much higher than the previous one completed in 2001, therefore its construction costs were also higher.

Sales - During the year under review, the Group sold about 55,000 tonnes of refractory materials. Turnover surged from HK\$243,147,000 in 2001 to HK\$261,536,000, representing a growth of 8%. Triggered by users squeezing production costs, price levels for refractory products also dropped. Nevertheless, the Group managed to maintain the gross profit margin of refractory products at over 30%.

Market - The Group's long-term technical assistance from international partner is its prime competitive edge. With the continued application of expertise to improve the standard and quality of its products and explore new product varieties, the Group has captured more international markets and secured a surge in exports of refractory products growing from 16% in 2001 to 18% in 2002. As for local sales, adhering diligently to its business strategies of providing top quality products and superior services, the Group was able to maintain its share in the market of the steel industry in the PRC.

Prospects

The Group's business strategies in the past few years were, through the expansion and upgrading of production facilities, to achieve economies of scale. The Board believes that preliminary technical reforms and expansion have generally been completed. On the understanding that not many internal investments will be made, the Group's business goal for the next few years will be to further explore its internal and external competitive advantages. Major emphasis will also be placed on the research and development of value-added products, which will allow the Group to benefit from the economies of scale achieved and to enhance overall competitiveness.

Rare Earth Business

Since last year, the PRC government has initiated the restructuring of the PRC's rare earth industries. It has actively supervised and assisted rare earth corporations in the PRC to form two major rare earth groups in order to protect state-owned resources. The directors believe that the regulatory policies will help to minimize the negative impact of fierce market competition and bring the price of rare earth back to reasonable levels.

Although the Group is confident of a rebound in rare earth prices, which will bring in extra sales and increase gross profit margins, it will continue in full thrust to achieve the goal of developing high value-added products and restructure our product mix. It plans to further increase the sales of fluorescent materials and launch more high value-added products, including polishing powder into the market in 2003.

Furthermore, the Group will unrelentingly improve its research and development capabilities, continue the cooperation with large-scale research and development institutions and universities in developing new products. To grow with the global market, the Group will work hand-in-hand with clients. It will continue to employ and nurture sales professionals, aiming to explore new market segments and strengthen customer relationships.

Refractory Business

While decreasing demand looks to be the general trend for refractory products, the demand for medium to high-grade refractory products is on the rise. To meet this increasing demand for medium to high-grade refractory products, the Group plans to further improve and upgrade existing production facilities, increasing the present production capacity of 80,000 tonnes to approximately 100,000 tonnes without seeking additional financing. The expansion plan is now in progress and is expected to be completed at the end of 2003. The Group will also continue to enlarge its market share in international markets to achieve its long-term goal to increase the export ratio to 50%.

Liquidity and Financial Resources

As at 31st December 2002, the Group had cash and bank balances of approximately HK\$333,000,000 with nil long-term liability. Total liabilities to total assets ratio has been maintained at approximately 7%.

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

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the year, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

The Company has established an audit committee throughout the year. The audit committee comprises the two independent non-executive directors of the Company, Messrs. Liu Yujun and Huang Chunhua.

PUBLICATION OF RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE'S WEBSITE

All the information of the Company required by 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, 26th June 2003

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 2003 will be held at Basement II, The Boardroom, The Wharney Hotel, Hong Kong, 57-73 Lockhart Road, Wanchai, Hong Kong on 8th August 2003 (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 2002.
- (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 his emoluments.
- (4) To re-appoint the retiring auditors, Messrs. Ho and Ho & Company 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) 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 No. 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, 26th June 2003

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, Computershare Hong Kong Investor Services 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, 5th August 2003 to Friday, 8th August 2003 (both days inclusive), during which period no transfer of the Company's shares will be effected.