



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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2003

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 31 December 2003 together with the comparative figures for the corresponding year in 2002 as follows:

RESULTS

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	457,077	467,663
Cost of sales	(345,042)	(363,610)
Gross profit	112,035	104,053
Interest income	3,414	4,438
Selling and distribution expenses	(14,206)	(13,364)
Administrative expenses	(25,975)	(18,148)
Profit from operations	75,268	76,979
Finance costs	(97)	–
Other income/(expenses), net	1,114	(28,064)
Profit before taxation	76,285	48,915
Taxation	(9,246)	(8,593)
Profit before minority interests	67,039	40,322
Minority interests	(461)	710
Net profit for the year	66,578	41,032
Dividends	19,739	16,289
Earnings per share	8.2 cents	5.0 cents

Notes:

1. Segment information

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

	Turnover		Segment results	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of rare earth products	208,281	206,127	16,305	10,439
Sales of refractory products	248,796	261,536	66,817	73,006
	457,077	467,663	83,122	83,445
Unallocated corporate expenses			(11,268)	(10,904)
Interest income			3,414	4,438
Profit from operations			75,268	76,979

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

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
The People's Republic of China (“PRC”)	315,022	353,965
Japan	94,393	77,332
Europe	43,082	25,672
The United States of America	1,330	7,329
Others	3,250	3,365
Total	457,077	467,663

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”) 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, the PRC subsidiaries 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 both years, two PRC subsidiaries are entitled to a 50% reduction of EIT.

3. Dividends

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividends for the year:		
– Interim, paid of HK\$nil per ordinary share (2002: HK\$0.01)	–	8,145
– Final, proposed of HK\$0.02 per ordinary share (2002: HK\$0.01)	19,739	8,144
	19,739	16,289

4. Earnings per share

Basic earnings per share was calculated based on the net profit for the year of approximately HK\$66,578,000 (2002: HK\$41,032,000) and the weighted average number of ordinary shares of approximately 814,453,000 (2002: 814,453,000) in issue during the year.

No diluted earnings per share was shown as the share options outstanding as at 31 December 2003 did not have material dilutive effect on the earnings per share.

FINANCIAL RESULTS

For the year ended 31 December 2003, the Group recorded a turnover of HK\$457,077,000, representing a slight drop of 2% as compared to HK\$467,663,000 in 2002. The rare earth business amounted to approximately HK\$208,281,000, contributing 46% of the total turnover, while the refractory materials business amounted to approximately HK\$248,796,000, representing 54% of total turnover. Profit attributable to shareholders increased to HK\$66,578,000 from HK\$41,032,000 in 2002. Earnings per share increased to HK8.2 cents from HK5.0 cents in 2002. However, excluding the write-off of obsolete machinery and equipment and the disposal of certain assets due to removals and renovations for healthier business growth in 2002, profit attributable to shareholders in 2003 decreased by approximately 8% compared to 2002, which reflected the difficult business environment experienced in 2003.

DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK2 cents per share for the year. There was no interim dividend paid for the year. Subject to the approval of shareholders at the forthcoming annual general meeting (the “Annual General Meeting”) to be held on 4 June 2004 (Friday), the final dividend will be paid on or before 16 June 2004 (Wednesday) to registered shareholders.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 1 June 2004 (Tuesday) to 4 June 2004 (Friday), both days inclusive, during which 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, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in

Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:00 p.m. on 31 May 2004 (Monday).

BUSINESS REVIEW

Rare Earth

Rare earth products are widely used in various sectors such as new materials, new energy, environmental protection, information, biology and the national economy. In fact, development and exploration of usage and applied techniques for rare earth have progressed substantially in recent years. However, the continuing uncertainty in the global economy, leading to slow growth in market demand, and the heavy competition in the rare earth industry have resulted in the price of rare earth products being maintained at extremely low levels, with this situation extending into the second half of 2003.

However, with the restructuring of the rare earth industry in the PRC in recent years, some rare earth mining and separation enterprises were weeded out at the end of 2003. At the same time, the PRC government implemented policies and regulations on the mining and separation industry to protect rare earth resources. Though the overall price level of rare earth products remained flat, a stable growth trend began to emerge while prices of some rare earth products started rising at the end of the year, creating a more prosperous atmosphere in the industry.

Through the modernization of its production skills in the past two years, the Group has strengthened its abilities to respond rapidly to market conditions. On the basis of the continuous improvement in internal management and cost controls, the Group has been able to follow closely the ever-changing market demands, and implement development strategies for high-end, value-added rare earth products thus minimizing the adverse effects in the market.

During the year, the Group sold about 4,000 tonnes of rare earth products, representing a 10% growth from 2002. Turnover for the rare earth business however, amounted to HK\$208,281,000, which is similar to 2002 levels. Despite the increase in sales volume, the turnover remained constant, reflecting the decrease in the average price of rare earth products in 2003. Prices for certain products, such as cerium oxide, neodymium oxide, dysprosium oxide and yttrium oxide, decreased by approximately 20%. In terms of costs however, the price of major raw materials, such as rare earth chloride and rare earth carbonate, showed no significant change. Since the Group had made relatively larger provisions for its inventory in 2002, the gross profit margin for the Group's rare earth business did not fall; rather it surged to around 10%. The domestic and export sales of rare earth products were 60% and 40%, respectively. The growth in the European market compensated for the drop in the US and Japanese markets, to become the Group's major export market.

On a more positive note, the volume of fluorescent products sold by the Group during the year also increased by over 30% compared to that in 2002. Although the price of fluorescent products followed the price fall of rare earth oxide, the fall did not exceed 5%, and the gross profit margin was maintained at over 20%.

Refractory Materials

Refractory materials form another major business for the Group. It has also provided the Group's major income during the recession in the rare earth market in recent years.

In 2003, the Group strengthened its research and development for refractory materials business, adjusting the structure of its product categories, improving product quality and modernizing production skills in response to market demand, which have brought in fruitful results for the operation. However, the outbreak of SARS in the first half of the year created a significant impact on the Group's refractory materials business, which involved both massive transportation and intensive labour. As such, the sales volume and amount of refractory materials business in the first half of 2003 decreased by 23% and 20% respectively, compared to the corresponding period in 2002. Through the dedication of staff however, the sales volume for the full year in 2003 decreased by only 15%, and turnover dropped slightly by 5% to HK\$248,796,000.

During the year, the Group sold about 47,000 tonnes of refractory materials, as compared to 55,000 tonnes in 2002. Although the sales volume decreased due to the outbreak of SARS, the Group's strategies to increase the proportion of medium to high-end refractory materials softened the drop in amount. For instance, sales of a kind of refractory materials which priced at around HK\$10,000 per tonne grew six-fold from 460 tonnes in 2002 to 3,430 tonnes in 2003. Moreover, technological advancements in production, enhanced skills and improved techniques accounted for the rebound in the gross profit margin to over 30%.

In 2003, approximately 23% of the Group's refractory materials were exported, representing further growth compared to 18% in 2002. The Group extended its market share in Japan, and successfully penetrated the Korean market. The Group will also continue to enhance product quality and explore international markets to offset the tight competition in the PRC market.

PROSPECTS

Rare Earth

Entering 2004, the gradual recovery of the global economy is leading to a substantial improvement in the Group's business. The continuing increase in the usage and consumption of rare earth products, along with the PRC government's stringent control in the mining of rare earth resources and the establishment of Southern and Northern Rare Earth Entities to soften the disequilibrium of demand and supply of rare earth materials, has resulted in a recovery in the prices of rare earth products from their previous low levels. As from 1 January 2004, the PRC government terminated certain export tax rebates, but as the price increment in rare earth products surpassed the tax rebate amount, there has been no significant impact on the Group's rare earth business. The annual average price of rare earth is expected to rise steadily. Market trend indicates that prices of those applied in magnetic materials such as neodymium oxide and dysprosium oxide will continue to grow in the future.

At the same time, the “National Forum on the Market of Trichromatic Phosphors” held in Hangzhou in March 2004 dealt with the growth of market prices of fluorescent products, preventing disordered competition and encouraging positive competition in skills and quality. The Group will continue to explore and enhance its development techniques in the rare earth market, leveraging on its competitive edge in the separation of rare earth products to co-operate with respective research institutes and universities for the development of value-added products for rare earth oxides. Additionally, new LED powders, PDP powders and polishing powder materials will be launched gradually in the market.

Refractory Materials

Although the market demand for refractory products has remained steady in recent years, competition has been very keen. Keeping abreast of market development, the Group will gradually decrease the production of low-end products in the keenly competitive market. However, leveraging on

the Group's competitive edge with regard to capital, production facilities and advanced techniques, the Group has expanded the production of its middle to high-end refractory products and new materials. Production skills for new products such as highly dense zircon and highly dense chrome bricks have become mature and the projects are scheduled for implementation in 2004.

The newly acquired high temperature ceramics business has broadened the Group's product categories and its room for business development, allowing it to stretch its market reach from the metallurgy, construction, petroleum, and chemical industries to the electrical industry.

In addition to penetration in the new high temperature ceramics business, the Group's new refractory materials business continues to grow, aligning it with the development of the application industries. To meet future market demand, the Group is also increasing its investment in production facilities with the introduction of advanced automatic bonding machines to improve product quality. The Group will also continue to increase the proportion of middle to high-end refractory material products and to research and develop more new products to enhance the market competitiveness of the Group's refractory materials. In addition to strengthening business relationships with existing overseas customers, the Group will proactively explore international markets to maintain substantial growth in its export sales.

The Group will continue to study ways to strengthen its co-operation with raw material suppliers of refractory materials, to ensure cost-effectiveness of its raw material supplies and cost controls.

MERGER AND ACQUISITION

To broaden its product categories, the Group entered into an acquisition agreement (the “Acquisition Agreement”) in December 2003 whereby 172,500,000 shares were allotted and issued at a price of HK\$1.2 per share as consideration for the acquisition of Dynamic Goal Worldwide Inc. and its subsidiary, Wuxi Pan-Asia High Temperature Ceramics Company Limited (“Wuxi Pan-Asia”), which is involved in the high temperature ceramics business. The acquisition was completed, with the approval of shareholders of the Company at the extraordinary general meeting held on 29 January 2004. As shown in the audited financial statements which prepared in accordance with the accounting principles generally accepted in Hong Kong, the net profit of Wuxi Pan-Asia for the year ended 31 December 2003 amounted to HK\$24,595,000, which was higher than the guaranteed net profit of HK\$23,000,000 specified in the Acquisition Agreement.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2003, the Group had cash and bank balances of approximately HK\$254,262,000 with nil long-term liability. Net current assets increased to HK\$620,781,000. The total liabilities to total assets ratio has been maintained at approximately 7%.

EXCHANGE RATE EXPOSURE

Most of the Group's assets, liabilities and transactions are denominated either in Renminbi, US dollars and Hong Kong dollars. As the exchange rates of the Renminbi, US dollars and Hong Kong dollars were relatively stable during the year, the Group was not exposed to material foreign exchange risk.

CHARGE ON ASSETS

During the year, the Group had certain banking facilities for trade finance. The trade finance facilities are secured by a first charge over deposits held with a bank in an amount not less than the utilized facility amount. As none of the facilities was utilized as at 31 December 2003, there was no charge on assets of the Group.

CONTINGENT LIABILITIES

As at 31 December 2003, the Group had no material contingent liabilities.

STAFF AND REMUNERATION

As at 31 December 2003, the Group had a workforce of approximately 1,050 staff. Comprehensive remuneration and welfare packages are offered to them. Keeping abreast of market needs, the Group continues to employ and train professionals in management, production skills, operation and sales, enabling staff to develop their full potential in exercising their job responsibilities.

During the year, HK\$15,010,000 was incurred in staff costs excluding directors' emoluments. The Group has also adopted a share option scheme as part of the benefits package to reward qualified staff. To enhance the flexibility, the Board has recommended re-establishing the share option scheme.

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 ended 31 December 2003.

The Company has established an audit committee with written terms of reference in compliance with the Code of Best Practice throughout the year. The audit committee comprises the two independent non-executive directors of the Company, Messrs. Liu Yujia and Huang Chunhua.

AMENDMENTS TO ARTICLES OF ASSOCIATION

The Board has resolved to propose to the shareholders of the Company for their consideration and, if thought fit, approval at the Annual General Meeting amendments to the articles of association of the Company to ensure compliance with the requirements of the revised Appendix 3 to the Listing Rules which took effect on 31 March 2004. A circular containing, among others, further particulars of the proposed amendments to the articles of association of the Company will be despatched to the shareholders of the Company as soon as practicable.

DIRECTORS OF THE COMPANY AS AT THE DATE OF THIS ANNOUNCEMENT

<i>Executive Directors:</i>	<i>Independent non-executive Directors:</i>
Jiang Quanlong	Liu Yujia
Qian Yuanying	Huang Chunhua, Charles
Fan Yajun	

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 paragraphs 45(1) to 45(3) of 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, 15 April 2004