



# 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)

### INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2004

#### 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 2004 together with the comparative figures for the corresponding period in 2003 as follows:

#### CONDENSED CONSOLIDATED INCOME STATEMENT

	For the six months ended 30 June	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Turnover	336,471	196,549
Cost of sales	(247,992)	(156,960)
Gross profit	88,479	39,589
Interest income	1,051	1,112
Selling and distribution expenses	(8,391)	(6,028)
Administrative expenses	(10,738)	(10,126)
Other income, net	559	547
Profit from operations	70,960	25,094
Finance costs	(1,199)	(93)
Profit before taxation	69,761	25,001
Taxation	(8,981)	(2,842)
Profit before minority interests	60,780	22,159
Minority interests	(946)	(336)
Net profit for the period	59,834	21,823
Dividends	3	-
Earnings per share	4	-
- Basic	6.23 cents	2.68 cents
- Diluted	6.23 cents	N/A

#### NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Segment information for the six months ended 30 June 2004 and 2003 is as follows:

#### (a) Business segments

	Rare Earth		Refractory		Total	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Turnover	185,574	97,365	177,897	99,184	363,471	196,549

#### 4. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's net profit for the period of approximately HK\$59,834,000 (2003: HK\$21,823,000) and the weighted average number of ordinary shares of 960,414,597 (2003: 814,453,059) in issue during the period.

The calculation of the diluted earnings per share is based on the Group's net profit for the period of approximately HK\$59,834,000 and the weighted average number of ordinary shares of 961,053,941 in issue after adjusting for the effect of all dilutive potential ordinary shares during the period. No dilutive earnings per share was shown for the six months ended 30 June 2003 as there was no dilutive potential ordinary share for that period.

#### MANAGEMENT DISCUSSION AND ANALYSIS

##### Financial results

For the six months ended 30 June 2004, the Group recorded a turnover of HK\$336,471,000, representing an increase of 71% compared with HK\$196,549,000 in the corresponding period of 2003. Sales of rare earth products (including fluorescent materials) contributed 47% of the Group's total turnover, amounted to HK\$158,574,000, increased by 63% compared with HK\$97,365,000 in the corresponding period last year; sales of refractory materials (including high temperature ceramics) during the period amounted to HK\$177,897,000, representing an increase of 79% compared with HK\$99,184,000 in the corresponding period last year. Gross profit margin surged to 26% during the period from 20% in the corresponding period last year.

Commencing this period, Wuxi Xinwei Fluorescent Materials Company Limited, a subsidiary of the Group, is required to pay a 50% reduced Enterprise Income Tax in the PRC. The same goes for Wuxi Pan-Asia High Temperature Ceramics Company Limited ("Wuxi Pan-Asia") which the Group recently acquired. Thus, taxation for the period amounted to HK\$8,981,000, significantly higher than that of the corresponding period last year. After deducting taxation and minority interests, net profit for the period reached HK\$59,834,000, representing an increase of 1.7 times when compared with the corresponding period last year. Net profit margin rose to 18%. Earnings per share was HK6.23 cents.

##### Business review

**Rare Earth Business**  
In the first half of 2004, as the economy recovered, the demand for rare earth products grew. Furthermore, with the changing of the export tax rebate policy for rare earth products by the Chinese government, prices of some of the rare earth products rose and in turn led to stronger demand for and higher prices of downstream products of rare earth oxides.

During the period under review, the Group sold about 1,950 tonnes of rare earth products. Though the growth in sales volume was slightly below 10%, sales amount increased by over 60%. Selling prices on certain rare earth products such as lanthanum oxide and cerium oxide remained low, while prices of other rare earth products such as terbium oxide and dysprosium oxide surged a fold. Shortage of supply of these products and enormous demand of the application industries were the major reasons for the increase in prices. As for production cost, the prices of both raw

supply, raising sales price of products and enhancing internal management, it is effectively reduced the unfavorable impact on the operative environment of the Group.

##### Rare Earth Business

The continuous pursuance of technological excellence and product upgrade are vital for the Group in meeting market demand; and the development of new applications of rare earth products is the way to go. With advantage in rare earth separation, the Group will strive to broaden and deepen the development of value-added products. The additional trichromatic fluorescent powder production facilities and new rare earth polishing powder production project will both commence operation in the near future, promising to bring in better returns to the Group. To satisfy customers' rising requirements, the Group will continue to invest resources to strengthen its production facilities for producing yet better quality products. On the other hand, the Group would continue to devote itself in seeking opportunity to cooperate with rare earth mines.

##### Refractory Materials Business

As market demand for middle to high-end refractory products increases, the Group will continue to leverage its equipment and technology advantages to improve existing production facilities. New production lines of castable materials, highly densified zircon and highly densified chrome bricks are under construction. To enhance market competitiveness, the Group will adjust the scope and quality of refractory products to satisfy changing market demand and further increase investment in developing new refractory products. Furthermore, the Group will step up co-operation with raw material suppliers of refractory materials with the aim of keeping costs low. While maintaining its share of the metallurgy and construction material market, it will continue to seek to develop markets in the petrochemical and electrical power industries, making sure that the Group's refractory materials business adapts to both technological and marketing requirements.

##### Merger and acquisition

Pursuant to the resolutions passed at the extraordinary general meeting held on 29 January 2004, the Group acquired Dynamic Goal Worldwide Inc. and its subsidiary, Wuxi Pan-Asia, which is involved in high temperature ceramics business. The consideration of HK\$207,000,000 was satisfied by allotting and issuing 172,500,000 new shares at a price of HK\$1.20 each. Net asset value of the acquired object amounted to HK\$63,505,000 that led to goodwill at HK\$143,495,000. Goodwill is amortised over 20 years.

The acquisition allowed the Group to extend the reach of its refractory materials business to cover high temperature ceramics and broadened its product category. With a rapidly growing business and relatively high gross profit margin, the business of Wuxi Pan-Asia will generate higher profit for the Group.

##### Liquidity and financial resources

As at 30 June 2004, the Group had cash and bank balances of approximately HK\$249,949,000. From the assets and liabilities of the newly acquired Wuxi Pan-Asia, there was a short-term bank loan of RMB\$0,000,000. As at 30 June 2004, there was a short-term bank loan of RMB\$0,000,000.

(a) Business segment

	Rate Earh		Refractory		Total
	2004	2003	2004	2003	
Turnover	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
	158,574	97,365	177,997	99,184	336,471
RESULTS					
Segment results	25,509	9,818	50,830	18,419	76,339
Unaudited corporate expenses					(6,979)
Interest income					1,061
Other income, net					\$59
Profit from operations					70,460
Rate Earh:					25,904
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		2003
	2004	2003	
The People's Republic of China ("the PRC")	259,900	112,838	HK\$'000
Japan	35,942	49,277	HK\$'000
Europe	35,467	29,396	HK\$'000
The United States of America	3,690	2,430	HK\$'000
Others	1,472	2,608	HK\$'000
	336,471	196,549	HK\$'000

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

2. TAXATION

	For the six months ended 30 June		2003
	2004	2003	
Enterprise income tax ("EIT")	8,981	2,842	HK\$'000
- The PRC subsidiaries			HK\$'000

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 period, four (2003: two) PRC subsidiaries are entitled to a 50% reduction of EIT.

The Group did not have any significant unprovided deferred taxation for the period or at 30 June 2004.

3. DIVIDENDS

During the period, a final dividend for 2003 of HK\$0.02 per share amounted to approximately HK\$19,739,000 was declared and paid. During the six months ended 30 June 2003, no dividend was declared and paid.

of rare earth products. Though the growth in sales volume was slightly below 10%, sales amount increased by over 60%. Selling prices on certain rare earth products such as lanthanum oxide and cerium oxide remained low, while prices of other rare earth products such as terbium oxide and dysprosium oxide surged a fold. Shortage of supply of these products and enormous demand of the application industries were the major reasons for the increase in prices. As for production cost, the prices of both raw and auxiliary materials rose and fuel price increased by 30% because of shortage of resources. Despite of these, the gross profit margin of the Group's rare earth business in the first half of 2004 still rose to 15% from last year's 10%. In terms of market performance, heeding the impending reduction of export tax rebate on rare earth products by the Chinese government in 2004, several of the Group's major overseas customers ordered in advance at the end of 2003, hence affected the turnover from export in the first quarter of 2004. Though the Group secured several new customers in the first half of 2004, turnover contributed from overseas markets decreased to less than 30% from 40% in 2003. In particular, sales to Japanese market dropped significantly and contributed less than 5% of the turnover. However, with the development of the downstream products of rare earth oxides and broadening of rare earth applications, domestic market demand grew rapidly, hence offset the impact of the decreased export sales on the Group.

Besides, continuous improvement on the production technology of trichromatic phosphor, a rare earth application material, resulted in the betterment of the product in both quantity and quality. With growingly tense electricity supply, the public has been urged to cut electricity consumption. Promotion of using energy-saving rare earth trichromatic lights presents immense opportunities to the Group. During the review period, the Group's sales of fluorescent powder increased by slightly over 50% compared to that of the corresponding period last year. Gross profit margin remained at 20%.

Refractory Materials Business

Refractory materials business of the Group continued its stable growth with domestic market as its major focus. Domestic sales recovered after the drop prompted by the outbreak of Severe Acute Respiratory Syndrome last year, to approximately 26,800 tonnes in the first half of 2004, representing an increase of about 30% compared with the corresponding period last year. Gross profit margin remained at over 30%.

Striving to expand its product portfolio, the Group penetrated into high temperature ceramics business through an acquisition during the review period. High temperature ceramics fall within the category of special refractory materials and are used primarily by the electrical power industry. With the electricity supply constantly falling, short of growing domestic demand leading to growth in electricity supply facilities and development of industries such as non-ferrous metals, the Group's high temperature ceramics business is presented with abundant opportunities. As the specification requirements of high temperature ceramics are stricter than conventional refractory materials, it has a higher gross profit margin of close to 40%. In the first half of 2004, Wuxi Pan-Asia sold about 6,400 tonnes of high temperature ceramics products. The Station production line which commenced operation in the first quarter of 2004 served as a new growth driver for the business development.

Prospects

In the first half of 2004, the rise in production cost resulting from price surges of raw and auxiliary materials and shortage of electricity supply was a challenge for the Group. However, through the efforts of different departments in adjusting production, compensating of electricity shortages with self-generated power

and broadened its product category. With a rapidly growing business and relatively high gross profit margin, the business of Wuxi Pan-Asia will generate higher profit for the Group.

Liquidity and financial resources

As at 30 June 2004, the Group had cash and bank balances of approximately HK\$249,949,000. From the assets and liabilities of the newly acquired Wuxi Pan-Asia, there was a short-term bank loan of RMB50,000,000 added to the Group. Although there was such a bank loan, the Group still had net current assets of approximately HK\$595,917,000 as at the end of the period. Total liabilities to total assets ratio increased to 10%.

The Group was not exposed to material foreign exchange risk or interest rate risk. There was no charge on assets of the Group.

Staff and remuneration

At 30 June 2004, the Group had a workforce of approximately 1,350 staff. Comprehensive remuneration and welfare packages are offered to them. During the period under review, HK\$9,095,000 was incurred in staff costs including directors' emoluments. The share option scheme has been re-established pursuant to the resolutions passed at the annual general meeting held on 4 June 2004.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2004.

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 2004.

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 interim financial statements for the six months ended 30 June 2004 which have not been audited.

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 six months ended 30 June 2004, in compliance 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 (the "Listing Rules"), except that the appointments of non-executive directors have been renewed without a specific term.

DIRECTORS OF THE COMPANY AS AT THE DATE OF THIS ANNOUNCEMENT

Executive Directors:

Jiang Quanlong  
Qian Yuanying  
Fan Yajun  
Liu Yujun  
Huang Chunhua

Independent non-executive Directors:

PUBLICATION OF INTERIM RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

All the information of the Company required by paragraph 46 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.

By order of the Board  
Jiang Quanlong  
Chairman  
Hong Kong, 9 September 2004