



中國稀土控股有限公司  
China Rare Earth Holdings Limited

*Incorporated in the Cayman Islands with limited liability*



Interim Report 2004

## **DIRECTORS**

### **Executive Directors**

Mr Jiang Quanlong (*Chairman*)  
Ms Qian Yuanying (*Deputy Chairman*)  
Mr Fan Yajun

### **Independent Non-executive Directors**

Mr Liu Yujiu  
Mr Huang Chunhua

## **AUDIT COMMITTEE**

Mr Liu Yujiu  
Mr Huang Chunhua

## **COMPANY SECRETARY**

Mr Law Lap Tak

## **REGISTERED OFFICE**

Century Yard  
Cricket Square  
Hutchins Drive  
George Town  
Grand Cayman  
British West Indies

## **HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS**

Dapu, Yixing  
Jiangsu Province, PRC

## **PLACE OF BUSINESS IN HONG KONG**

Room 618, Hutchison House  
10 Harcourt Road, Central  
Hong Kong

## **HONG KONG LEGAL ADVISERS**

Chiu & Partners

## **AUDITORS**

Ho and Ho & Company  
*Certified Public Accountants*

## **PRINCIPAL BANKERS**

### **PRC**

Bank of China  
Industrial & Commercial Bank  
of China  
China Construction Bank

### **Hong Kong**

Standard Chartered Bank  
Bank of China  
Nanyang Commercial Bank, Limited

## **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

Bank of Butterfield International  
(Cayman) Limited  
Butterfield House, Fort Street  
P.O. Box 705, George Town  
Grand Cayman  
Cayman Islands

## **HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

Computershare Hong Kong Investor  
Services Limited  
17th Floor, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## **INTERNET WEBSITE**

[www.creh.com.hk](http://www.creh.com.hk)

## **STOCK CODE ON THE STOCK EXCHANGE OF HONG KONG LIMITED**

769

## **PUBLIC RELATIONS CONSULTANT**

Strategic Financial Relations Limited

## 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

		<b>For the six months ended 30 June</b>	
		<b>2004</b>	<b>2003</b>
	<i>NOTES</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
Turnover	(4)	<b>336,471</b>	196,549
Cost of sales		<b>(247,992)</b>	(156,960)
Gross profit		<b>88,479</b>	39,589
Interest income		<b>1,051</b>	1,112
Selling and distribution expenses		<b>(8,391)</b>	(6,028)
Administrative expenses		<b>(10,738)</b>	(10,126)
Other income, net		<b>559</b>	547
Profit from operations	(5)	<b>70,960</b>	25,094
Finance costs	(6)	<b>(1,199)</b>	(93)
Profit before taxation		<b>69,761</b>	25,001
Taxation	(7)	<b>(8,981)</b>	(2,842)
Profit before minority interests		<b>60,780</b>	22,159
Minority interests		<b>(946)</b>	(336)
Net profit for the period		<b>59,834</b>	21,823
Dividends	(8)	–	–
Earnings per share	(9)		
– Basic		<b>6.23 cents</b>	2.68 cents
– Diluted		<b>6.23 cents</b>	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

		<b>30 June 2004</b>	31 December 2003
	<i>NOTES</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
		<b>(Unaudited)</b>	<b>(Audited)</b>
Non-current assets			
Goodwill	(10)	<b>140,506</b>	–
Property, plant and equipment and construction-in-progress	(11)	<b>522,984</b>	391,898
		<b>663,490</b>	391,898
Current assets			
Inventories		<b>199,548</b>	204,299
Accounts and other receivables	(12)	<b>183,398</b>	138,280
Prepayments, deposits and other current assets		<b>102,154</b>	102,291
Amount due from a related company		–	46
Cash and bank balances		<b>249,949</b>	254,262
		<b>735,049</b>	699,178
Current liabilities			
Accounts payable	(13)	<b>44,925</b>	43,255
Accruals and other payables		<b>17,873</b>	21,296
Amounts due to directors		<b>9,206</b>	8,436
Amount due to related companies		<b>8,434</b>	46
Tax payable		<b>11,524</b>	5,364
Short-term bank loan – unsecured	(14)	<b>47,170</b>	–
		<b>139,132</b>	78,397
Net current assets		<b>595,917</b>	620,781
Total assets less current liabilities		<b>1,259,407</b>	1,012,679
Minority interests		<b>(16,766)</b>	(15,820)
		<b>1,242,641</b>	996,859
Capital and reserves			
Share capital		<b>98,695</b>	81,445
Reserves		<b>1,143,946</b>	915,414
		<b>1,242,641</b>	996,859

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

**For the six months  
ended 30 June**

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Net cash generated from operating activities	<b>86,277</b>	61,945
Net cash used in investing activities	<b>(68,338)</b>	(864)
Net cash used in financing activities	<b>(22,252)</b>	(93)
Net (decrease)/increase in cash and cash equivalents	<b>(4,313)</b>	60,988
Cash and cash equivalents at beginning of the period	<b>254,262</b>	332,915
Analysis of the balances of cash and cash equivalents at end of the period		
Cash and bank balances	<b>249,949</b>	393,903

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Statutory reserves HK\$'000	Dividend reserve HK\$'000	Exchange translation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1 January 2003	81,445	412,485	32,837	41,684	8,144	3,597	358,233	938,425
Net profit for the period	-	-	-	-	-	-	21,823	21,823
Appropriations to statutory reserves	-	-	-	132	-	-	(132)	-
At 30 June 2003 and 1 July 2003	81,445	412,485	32,837	41,816	8,144	3,597	379,924	960,248
Net profit for the period	-	-	-	-	-	-	44,755	44,755
Appropriations to statutory reserves	-	-	-	4,758	-	-	(4,758)	-
Dividends set aside	-	-	-	-	19,739	-	(19,739)	-
Final dividends paid for 2002	-	-	-	-	(8,144)	-	-	(8,144)
At 31 December 2003 and 1 January 2004	81,445	412,485	32,837	46,574	19,739	3,597	400,182	996,859
Issue of shares during the period	17,250	189,750	-	-	-	-	-	207,000
Share issue expenses	-	(1,313)	-	-	-	-	-	(1,313)
Net profit for the period	-	-	-	-	-	-	59,834	59,834
Final dividends paid for 2003	-	-	-	-	(19,739)	-	-	(19,739)
<b>At 30 June 2004</b>	<b>98,695</b>	<b>600,922</b>	<b>32,837</b>	<b>46,574</b>	<b>-</b>	<b>3,597</b>	<b>460,016</b>	<b>1,242,641</b>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### 2. PRINCIPAL ACCOUNTING POLICIES/ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain buildings of the Group.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s financial statements for the year ended 31 December 2003.



### 3. SEGMENT INFORMATION

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

#### (a) Business segments

	Rare Earth		Refractory		Total	
	For the six months ended 30 June					
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
TURNOVER	158,574	97,365	177,897	99,184	336,471	196,549
RESULTS						
Segment results	25,999	9,818	50,330	19,419	76,329	29,237
Unallocated corporate expenses					(6,979)	(5,802)
Interest income					1,051	1,112
Other income, net					559	547
Profit from operations					70,960	25,094

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



### 3. SEGMENT INFORMATION *(Continued)*

#### (b) Geographical segments

	Turnover by geographical market For the six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
The People's Republic of China ("the PRC")	259,900	112,838
Japan	35,942	49,277
Europe	35,467	29,396
The United States of America	3,690	2,430
Others	1,472	2,608
	<b>336,471</b>	196,549

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

### 4. TURNOVER

	For the six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Sales of rare earth products, refractory products, fluorescent products and high temperature ceramics products	<b>336,471</b>	196,549

### 5. PROFIT FROM OPERATIONS

During the period, profit from operations has been arrived at after charging depreciation on property, plant and equipment of approximately HK\$23,058,000 (2003: HK\$17,586,000) and amortisation of goodwill arising on acquisition of subsidiaries of approximately HK\$2,989,000 (2003: Nil).

## 6. FINANCE COSTS

During the period, interest on short-term bank loan and discounted bills of approximately HK\$932,000 (2003: Nil) and HK\$267,000 (2003: HK\$93,000) was charged respectively.

## 7. TAXATION

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

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.

## 8. 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.

## **9. 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.

## **10. GOODWILL**

On 29 January 2004, there was goodwill arising on acquisition of subsidiaries amounted to approximately HK\$143,495,000 with net book value of approximately HK\$140,506,000 as at 30 June 2004. During the period, amortisation on goodwill was amounting to approximately HK\$2,989,000.

Goodwill is amortised over its estimated useful life of 20 years.

## **11. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION-IN-PROGRESS**

During the period, the Group spent approximately HK\$61,507,000 (2003: HK\$1,975,000) on additions to property, plant and equipment and construction-in-process. During the period, the net book value of property, plant and equipment acquired on acquisition of subsidiaries was amounting to approximately HK\$92,638,000.



## 12. ACCOUNTS AND OTHER RECEIVABLES

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

At 30 June 2004, accounts and other receivables comprised:

	<b>30 June 2004 HK\$'000</b>	<b>31 December 2003 HK\$'000</b>
Accounts receivable	<b>184,147</b>	131,753
Other receivables	<b>8,147</b>	15,216
	<b>192,294</b>	146,969
Less: Provision for bad and doubtful debts	<b>(8,896)</b>	(8,689)
	<b>183,398</b>	138,280

An ageing analysis of accounts receivable is as follows:

	<b>30 June 2004 HK\$'000</b>	<b>31 December 2003 HK\$'000</b>
Current to less than 6 months	<b>166,886</b>	112,556
6 months to less than 1 year	<b>6,954</b>	9,896
1 to less than 2 years	<b>4,701</b>	4,058
Over 2 years	<b>5,606</b>	5,243
	<b>184,147</b>	131,753

## 13. ACCOUNTS PAYABLE

An ageing analysis of accounts payable is as follows:

	<b>30 June 2004 HK\$'000</b>	<b>31 December 2003 HK\$'000</b>
Current to less than 6 months	<b>37,828</b>	35,439
6 months to less than 1 year	<b>3,597</b>	5,678
1 to less than 2 years	<b>2,228</b>	2,120
Over 2 years	<b>1,272</b>	18
	<b>44,925</b>	43,255

#### 14. SHORT-TERM BANK LOAN – UNSECURED

During the period, the average interest rate charged on the short-term bank loan was amounting to approximately 4.87% (2003: Nil) per annum.

#### 15. COMMITMENTS

At 30 June 2004, the Group had capital commitments authorised and contracted for in respect of acquisition and construction of property, plant and equipment, so far as not provided for in the financial statements, amounted to approximately HK\$68,936,000 (31 December 2003: HK\$60,124,000).

#### 16. ACQUISITION OF SUBSIDIARIES

On 29 January 2004, the Group acquired the entire issued share capital of Dynamic Goal Worldwide Inc. which in turn owns the entire equity interest in Wuxi Pan-Asia High Temperature Ceramics Co., Ltd. for a non-cash consideration of HK\$207,000,000 by means of issuing 172,500,000 shares at HK\$1.20 per share. This transaction has been accounted for using the purchase method of accounting.

The effect of the acquisition is summarised as follows:

	HK\$'000
Net assets acquired	63,505
Goodwill arising on acquisition	143,495
Non-cash consideration	207,000
Net cash inflow arising on acquisition:	
Cash and bank balances acquired	3,405

#### 17. COMPARATIVE FIGURES

Certain comparative figures had been reclassified in conformity to the presentation of the financial statements for the 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 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 Sialon 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 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 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.

### **Authorised Share Capital**

Pursuant to the resolutions passed at the extraordinary general meeting held on 29 January 2004, the authorised share capital of the Company was increased from HK\$100,000,000 to HK\$200,000,000 by the creation of 1,000,000,000 additional ordinary shares of HK\$0.10 each in the capital of the Company.

### **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.

## SHARE OPTION SCHEME

On 4 June 2004, the shareholders of the Company approved the termination of the share option scheme adopted on 14 October 1999 (the "Old Scheme") and the adoption of a new scheme as a result of the amendments of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Upon the termination of the Old Scheme, no further options would be offered pursuant to the Old Scheme but the Old Scheme would in all other respects remain in force to the extent necessary to give effect to the exercise of the outstanding options granted under it prior to its termination, and such outstanding options will continue to be valid and exercisable in accordance with the provisions of the Old Scheme.

Details of options which have been granted under the Old Scheme and remain outstanding as at 30 June 2004 were as follows:

Grantee	Date of grant	Exercise price	Number of options	
			Held at 1 January 2004	Held at 30 June 2004
Director				
Fan Yajun	23 January 2003	HK\$1.10	5,000,000	5,000,000
Employees				
In aggregate	23 January 2003	HK\$1.10	1,500,000	1,500,000

The options granted are exercisable between 27 January 2003 to 26 January 2013, provided that 50% of the options granted shall not be exercised prior to 27 January 2004. The options granted are not recognized in the financial statements until they are exercised. No option was granted, exercised, cancelled or lapsed during the period.

## DIRECTORS' INTERESTS AND SHORT POSITIONS

As at 30 June 2004, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

### 1. Interest in shares of the Company

Director	Nature of interest/Capacity	Number of shares	% to the issued share capital of the Company
Jiang Quanlong	Interest of spouse (Note)	592,550,000	60.04%
Qian Yuanying	Beneficiary of a trust (Note)	592,550,000	60.04%
Huang Chunhua	Beneficial owner	2,868,000	0.29%

Note: These shares are held through YY Holdings Limited, the entire issued share capital of which is held by YYT Limited, the trustee of YY Trust, the discretionary object of which is a company wholly owned by Ms. Qian Yuanying, the spouse of Mr. Jiang Quanlong, and her children.

### 2. Interests in shares, underlying shares or equity interests in associated corporations

#### (a) Xinwei Rare Earth Group (Hong Kong) Limited

Director	Capacity	Number of issued shares
Jiang Quanlong	Beneficial owner	7,000,000 non-voting deferred shares
Qian Yuanying	Beneficial owner	3,000,000 non-voting deferred shares

(b) *Yixing Xinwei Leeshing Rare Earth Company Limited*

Director	Nature of interest	Equity interests
Jiang Quanlong	Interests of a controlled corporation (Note)	5%

(c) *YY Holdings Limited*

Director	Capacity	Number of issued shares
Qian Yuanying	Beneficiary of a trust	1 ordinary share
Qian Yuanying	Beneficiary of a trust	25,000 preference shares

*Note:* The equity interest is held by Yixing Xinwei Group Co. Ltd., a PRC domestic enterprise 90% owned by Mr. Jiang Quanlong, with remaining 10% owned by his son. Mr. Jiang is also the legal representative of the enterprise.

### 3. Interests in underlying shares of the Company

Director	Capacity	Number of shares issuable under options granted	% to the issued share capital of the Company
Fan Yajun	Beneficiary owner	5,000,000	0.51%

Details of the options granted to the above director were disclosed in "Share Option Scheme" above.

Save as disclosed above, as at 30 June 2004, none of the directors or the chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations as recorded in the register kept under Section 352 of the SFO.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

So far as is known to the Board, as at 30 June 2004, the interests and short positions of shareholders, other than the directors or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register kept by the Company pursuant to Section 336 of the SFO were as follows:

1. YY Holdings Limited, the entire issued share capital of which is held by YYT Limited, the trustee of YY Trust, the discretionary object of which is a company wholly owned by Ms. Qian Yuanying, the spouse of Mr. Jiang Quanlong, and her children, was holding 592,550,000 shares of the Company, representing approximately 60.04% of the issued share capital of the Company as beneficial owner.
2. YYT Limited, the trustee of YY Trust, was deemed to be interested in 592,550,000 shares of the Company held by YY Holdings Limited the entire issued share capital of which is held by YYT Limited.
3. Martin Currie China Hedge Fund Limited was holding 56,778,000 shares of the Company, representing approximately 5.75% of the issued share capital of the Company as investment manager.

Save as disclosed above, no other party, other than the directors or chief executive of the Company, had notified the Company that he had any interest or short position in the shares or underlying shares of the Company as recorded in the register kept under Section 336 of the SFO as at 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 Listing Rules, except that the appointments of non-executive directors have been renewed without a specific term.

By order of the Board

**Jiang Quanlong**

*Chairman*

Hong Kong, 9 September 2004

