



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 2005

CHINA
RARE
EARTH

DIRECTORS

Executive Directors

Mr Jiang Quanlong (*Chairman*)
Ms Qian Yuanying (*Deputy Chairman*)
Ms Xu Panfeng
Mr Jiang Cainan

Independent Non-executive Directors

Mr Liu Yujiu
Mr Huang Chunhua
Mr Jin Zhong

Audit Committee

Mr Liu Yujiu
Mr Huang Chunhua
Mr Jin Zhong

Remuneration Committee

Mr Jiang Quanlong
Mr Liu Yujiu
Mr Huang Chunhua
Mr Jin Zhong

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

15th Floor, Club Lusitano
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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

Butterfield Bank (Cayman) Limited
Butterfield House, Fort Street
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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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 2005 together with the comparative figures for the corresponding period in 2004 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
	NOTES	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited) (Restated)
Turnover	5	375,505	336,471
Cost of sales		(284,233)	(247,894)
Gross profit		91,272	88,577
Interest income		892	1,051
Selling and distribution expenses		(8,512)	(8,391)
Administrative expenses		(10,309)	(10,729)
Other income, net		467	559
Profit from operations	6	73,810	71,067
Finance costs	7	(21)	(1,199)
Profit before taxation		73,789	69,868
Taxation	8	(16,984)	(8,981)
Profit for the period		56,805	60,887
Attributable to:			
Equity holders of the Company		56,136	59,941
Minority interests		669	946
		56,805	60,887
Dividends	9	—	—
Earnings per share	10		
– Basic		5.69 cents	6.24 cents
– Diluted		N/A	6.24 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	NOTES	30 June 2005 HK\$'000 (Unaudited)	31 December 2004 HK\$'000 (Audited) (Restated)
Non-current assets			
Goodwill		136,540	136,540
Property, plant and equipment and construction-in-progress	11	521,659	549,766
Prepaid lease payments on land use rights		9,863	10,037
		<u>668,062</u>	<u>696,343</u>
Current assets			
Inventories		221,849	225,237
Accounts and other receivables	12	295,764	203,556
Prepayments, deposits and other current assets		86,810	73,435
Prepaid lease payments on land use rights		347	347
Pledged deposits		320	1,418
Cash and bank balances		212,919	227,000
		<u>818,009</u>	<u>730,993</u>
Current liabilities			
Accounts payable	13	73,407	55,882
Accruals and other payables		20,670	25,937
Amounts due to directors		11,100	10,067
Amount due to a related company		1,099	8,713
Tax payable		23,053	7,061
		<u>129,329</u>	<u>107,660</u>
Net current assets		<u>688,680</u>	<u>623,333</u>
Total assets less current liabilities		<u><u>1,356,742</u></u>	<u><u>1,319,676</u></u>
Capital and reserves			
Share capital		98,695	98,695
Reserves		1,239,908	1,203,511
Equity attributable to equity holders of the Company		<u>1,338,603</u>	<u>1,302,206</u>
Minority interests		<u>18,139</u>	<u>17,470</u>
Total equity		<u><u>1,356,742</u></u>	<u><u>1,319,676</u></u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT**For the six months
ended 30 June**

	2005	2004
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	6,101	86,277
Net cash used in investing activities	(422)	(68,338)
Net cash used in financing activities	(19,760)	(22,252)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(14,081)	(4,313)
Cash and cash equivalents at beginning of the period	227,000	254,262
	<hr/>	<hr/>
Analysis of the balances of cash and cash equivalents at end of the period		
Cash and bank balances	212,919	249,949
	<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company									
	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	Minority interests HK\$'000	Total HK\$'000
At 1 January 2004										
- as originally stated	81,445	412,485	32,837	46,574	19,739	3,597	400,182	996,859	15,820	1,012,679
- Effect of changes in accounting policy (note 2)	-	-	-	-	-	-	(259)	(259)	(2)	(261)
- as restated	81,445	412,485	32,837	46,574	19,739	3,597	399,923	996,600	15,818	1,012,418
Issue of shares during the period	17,250	189,750	-	-	-	-	-	207,000	-	207,000
Share issue expenses	-	(1,313)	-	-	-	-	-	(1,313)	-	(1,313)
Profit for the period										
- as originally stated	-	-	-	-	-	-	59,834	59,834	946	60,780
- Effect of changes in accounting policy (note 2)	-	-	-	-	-	-	107	107	-	107
- as restated	-	-	-	-	-	-	59,941	59,941	946	60,887
Final dividends paid for 2003	-	-	-	-	(19,739)	-	-	(19,739)	-	(19,739)
At 30 June 2004 and 1 July 2004	98,695	600,922	32,837	46,574	-	3,597	459,864	1,242,489	16,764	1,259,253
Dividends set aside	-	-	-	-	19,739	-	(19,739)	-	-	-
Profit for the period										
- as originally stated	-	-	-	-	-	-	59,590	59,590	705	60,295
- Effect of changes in accounting policy (note 2)	-	-	-	-	-	-	127	127	1	128
- as restated	-	-	-	-	-	-	59,717	59,717	706	60,423
Appropriations to statutory reserves	-	-	-	10,400	-	-	(10,400)	-	-	-
At 31 December 2004	98,695	600,922	32,837	56,974	19,739	3,597	489,442	1,302,206	17,470	1,319,676
Effect of changes in accounting policy (note 2)	-	-	(10,489)	-	-	-	10,489	-	-	-
At 1 January 2005	98,695	600,922	22,348	56,974	19,739	3,597	499,931	1,302,206	17,470	1,319,676
Profit for the period	-	-	-	-	-	-	56,136	56,136	669	56,805
Final dividends paid for 2004	-	-	-	-	(19,739)	-	-	(19,739)	-	(19,739)
Appropriations to statutory reserves	-	-	-	2,755	-	-	(2,755)	-	-	-
At 30 June 2005	98,695	600,922	22,348	59,729	-	3,597	553,312	1,338,603	18,139	1,356,742

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost basis, except for certain buildings, which are measured at revalued amounts, as appropriate.

The accounting policies adopted in the condensed financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (“Int”) (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are effective for the accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. The changes in presentation have been applied retrospectively, as appropriate. The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current or previous accounting periods are prepared and presented:

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Business combinations

In the current period, the Group has applied HKFRS 3, "Business Combinations", the principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions of a subsidiary was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3 from 1 January 2005, and has discontinued amortising such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment at least annually. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current accounting period (see note 3 for the financial impact).

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisition prior to 1 January 2001 was held in reserves. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill at 1 January 2005 of HK\$10,489,000 which was previously recorded in reserves with a corresponding increase to accumulated profits.

Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17, "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interest in land is reclassified to prepaid lease payments on land use rights under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see note 3 for the financial impact).

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Minority interests

In previous periods, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. In the consolidated income statement, minority interests were also separately presented as a deduction before arriving at the profit attributable to equity holders.

With effect from 1 January 2005, in order to comply with HKAS 1, "Presentation of Financial Statements" and HKAS 27, "Consolidated and Separate Financial Statements", minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity holders of the Company, and the profit attributable to minority interests are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the period between the minority interests and the equity holders of the Company.

The presentation of minority interests in the consolidated balance sheet, consolidated income statement and consolidated statement of changes in equity for the comparative period has been restated accordingly (see note 3 for the financial impact).

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES

The effect of the changes in the accounting policies described in note 2 above on the results for the current and previous periods are as follows:

	For the six months ended 30 June	
	2005 HK\$'000	2004 HK\$'000
Arising from adoption of HKAS 17	126	107
Arising from adoption of HKFRS 3	3,577	—
	<hr/>	<hr/>
Increase in profit for the period	3,703	107
	<hr/>	<hr/>
Attributable to:		
Equity holders of the Company	3,703	107
Minority interests	—	—
	<hr/>	<hr/>
	3,703	107
	<hr/>	<hr/>

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES (Continued)

Analysis of increase/(decrease) in profit for the period by line items presented according to their function:

	For the six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
Decrease in depreciation of property, plant and equipment	291	259
Increase in amortisation of prepaid lease payments on land use rights	(173)	(160)
Decrease in amortisation of goodwill	3,585	8
	3,703	107

The accumulated effect of the application of the new HKFRSs on the balance sheet as at 31 December 2004 and 1 January 2005 are summarised as follows:

	As at 31 December 2004		As at 31 December 2004		As at 1 January 2005
	(originally stated)	Adjustments	(restated)	Adjustments	(restated)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Goodwill	136,918	(378)	136,540	–	136,540
Property, plant and equipment and construction-in-progress	559,798	(10,032)	549,766	–	549,766
Prepaid lease payments on land use rights	–	10,384	10,384	–	10,384
Other assets, net	622,986	–	622,986	–	622,986
Net assets	<u>1,319,702</u>	<u>(26)</u>	<u>1,319,676</u>	<u>–</u>	<u>1,319,676</u>
Share capital	98,695	–	98,695	–	98,695
Accumulated profits	489,467	(25)	489,442	10,489	499,931
Capital reserve	32,837	–	32,837	(10,489)	22,348
Other reserves	681,232	–	681,232	–	681,232
Minority interests	–	17,470	17,470	–	17,470
Total equity	<u>1,302,231</u>	<u>17,445</u>	<u>1,319,676</u>	<u>–</u>	<u>1,319,676</u>
Minority interests	<u>17,471</u>	<u>(17,471)</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>1,319,702</u>	<u>(26)</u>	<u>1,319,676</u>	<u>–</u>	<u>1,319,676</u>

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES (Continued)

Potential impact of new standards not yet adopted

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the financial statements of the Group.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining Whether an Arrangement Contains a Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

4. SEGMENT INFORMATION

Segment information for the six months ended 30 June 2005 and 2004 is as follows:

(a) Business segments

	Rare Earth		Refractory		Total	
	For the six months ended 30 June					
	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited) (Restated)	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited) (Restated)	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited) (Restated)
Turnover	187,116	158,574	188,389	177,897	375,505	336,471
RESULTS						
Segment results	22,914	26,008	53,520	50,420	76,434	76,428
Unallocated corporate expenses					(3,983)	(6,971)
Interest income					892	1,051
Other income, net					467	559
Profit from operations					73,810	71,067
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					

4. SEGMENT INFORMATION *(Continued)*
(b) Geographical segments

Turnover by geographical market		
For the six months ended 30 June		
	2005	2004
	HK\$'000	HK\$'000
The People's Republic of China (the "PRC")	295,555	259,900
Japan	47,991	35,942
Europe	15,213	35,467
The United States of America	6,847	3,690
Others	9,899	1,472
	375,505	336,471

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

5. TURNOVER

	For the six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
Sales of rare earth products (including fluorescent products) and refractory products (including high temperature ceramics products)	375,505	336,471

6. PROFIT FROM OPERATIONS

During the period, profit from operations has been arrived at after charging depreciation on property, plant and equipment of approximately HK\$29,860,000 (2004 as restated: HK\$22,767,000).

7. FINANCE COSTS

During the period, no interest (2004: HK\$932,000) on short-term bank loan was charged and interest on discounted bills of approximately HK\$21,000 (2004: HK\$267,000) was charged.

8. TAXATION

	For the six months ended 30 June	
	2005 HK\$'000	2004 HK\$'000
Enterprise income tax ("EIT")		
– The PRC subsidiaries	<u>16,984</u>	<u>8,981</u>

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, two (2004: four) PRC subsidiaries are entitled to a 50% reduction of EIT and two (2004: Nil) PRC subsidiaries are subject to full provision of EIT.

The Group did not have any significant unprovided deferred taxation for the period or at 30 June 2005.

9. DIVIDENDS

During the period, a final dividend for 2004 of HK\$0.02 per share amounted to approximately HK\$19,739,000 was declared and paid. During the six months ended 30 June 2004, a final dividend for 2003 of HK\$0.02 per share amounted to approximately HK\$19,739,000 was declared and paid.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's profit attributable to equity holders of the Company of approximately HK\$56,136,000 (2004 as restated: HK\$59,941,000) and the weighted average number of ordinary shares of 986,953,059 (2004: 960,414,597) in issue during the period.

No diluted earnings per share was shown for the six months ended 30 June 2005 as there was no dilutive potential ordinary share for the period. For the six months ended 30 June 2004, the calculation of the diluted earnings per share is based on the Group's restated profit attributable to equity holders of the Company of approximately HK\$59,941,000 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 that period.

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

During the period, the Group spent approximately HK\$1,772,000 (2004: HK\$61,507,000) on additions to property, plant and equipment and construction-in-progress.

12. ACCOUNTS AND OTHER RECEIVABLES

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

At 30 June 2005, accounts and other receivables comprised :

	30 June 2005 HK\$'000	31 December 2004 HK\$'000
Accounts receivable	294,775	201,124
Other receivables	9,962	10,644
	<hr/>	<hr/>
	304,737	211,768
Less: Provision for bad and doubtful debts	(8,973)	(8,212)
	<hr/>	<hr/>
	295,764	203,556
	<hr/>	<hr/>

12. ACCOUNTS AND OTHER RECEIVABLES (Continued)

An ageing analysis of accounts receivable is as follows:

	30 June 2005 HK\$'000	31 December 2004 HK\$'000
Current to less than 6 months	253,835	180,549
6 months to less than 1 year	31,172	6,785
1 to less than 2 years	3,190	7,581
Over 2 years	6,578	6,209
	294,775	201,124

13. ACCOUNTS PAYABLE

An ageing analysis of accounts payable is as follows:

	30 June 2005 HK\$'000	31 December 2004 HK\$'000
Current to less than 6 months	66,175	50,768
6 months to less than 1 year	4,647	4,549
1 to less than 2 years	1,221	491
Over 2 years	1,364	74
	73,407	55,882

14. COMMITMENTS

At 30 June 2005, 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\$45,384,000 (31 December 2004: HK\$45,434,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the six months ended 30 June 2005, the Group recorded a turnover of HK\$375,505,000, representing an increase of approximately 12% compared with HK\$336,471,000 in the corresponding period of 2004. Contributing approximately 50% of the Group's total turnover, the sales of rare earth products (including fluorescent materials) amounted to HK\$187,116,000, an increase of around 18% compared with HK\$158,574,000 in the corresponding period last year. Sales of refractory materials (including high temperature ceramics) amounted to HK\$188,389,000, as compared with HK\$177,897,000 in the corresponding period last year. Gross profit margin slightly decreased from 26% to around 24%.

After that the Group's subsidiaries Wuxi Xinwei Fluorescent Materials Company Limited and Wuxi Xinwei High Temperature Ceramics Company Limited (formerly Wuxi Pan-Asia High Temperature Ceramics Company Limited) are required to pay a 50% reduced Enterprise Income Tax in the PRC since last year, full amount of Enterprise Income Tax commenced to be levied on Yixing Xinwei Leeshing Rare Earth Company Limited and Yixing Xinwei Leeshing Refractory Materials Company Limited this year. Thus, taxation for the period surged to HK\$16,984,000, representing an increase of approximately 90% as compared with HK\$8,981,000 in the corresponding period last year. Profit before taxation reached HK\$73,789,000, though it was higher than HK\$69,868,000 in the corresponding period last year, profit after taxation dropped around 7% to HK\$56,805,000. Net profit margin was approximately 15%. Earnings per share were HK5.69 cents.

Business Review

Rare Earth Business

In the first half of 2005, development varied for different elements in the rare earth segment. As compared with the same period last year, the price of praseodymium oxide, neodymium oxide and dysprosium oxide, which are applied in magnetic materials, and europium oxide, which is applied in fluorescent materials, grew at different percentages ranging from 5% to 25%, while the price of terbium oxide and yttrium oxide decreased by approximately 15%. During the period under review, while the sales volume of rare earth and related downstream products increased slightly to approximately 2,200 tonnes, sales amount grew 18% to HK\$187,116,000. However, the gross profit margin of rare earth products dropped to approximately 13%. The drop was due mainly to the persistently hefty raw material costs caused by tense supply. Amongst different materials, prices of auxiliary materials including oxalic acid, liquid soda and fuel increased over 10% as compared to the same period last year. Some suppliers in Baotou, Inner Mongolia suspended production and the resultant limited supply of rare earth ore in the Northern region also presented additional pressure. Besides, the cancellation of export tax rebate for rare earth products by the PRC government since 1 May 2005 increased export costs. Polishing materials business is still in its preliminary development stage. As for the fluorescent materials business, the tight power supply in the PRC and government policies aimed at accelerating the building of an energy-efficient nation have continued to support its steady growth.

In terms of market, the amount of overseas orders returned to normal in the first half of 2005. In the last corresponding period, certain overseas customers ordered in advance at the end of 2003 taking into consideration the reduction of export tax rebate for rare earth products in 2004. Boasting faster growth, the PRC market continued to be the dominant contributor of sales accounting for around 75% of total sales.

Refractory Materials Business

Refractory materials business of the Group continued its stable growth and the domestic market was its major focus. Affected by the macro-economic control measures implemented by the PRC government, the growth of the property, metallurgy, construction material industries slowed down, and the demand for refractory materials also softened. In the first half of 2005, the Group sold approximately 33,800 tonnes of refractory materials, approximately 30% of which were high temperature ceramics, leveled the volume of the same period last year. Prices remained stable. The prices of major products such as fused magnesia-chrome bricks, zircon bricks, magnesia-alumina spinel bricks and AZS bricks, varied less than 5% compared with that in last corresponding period. During the period under review, sales reached HK\$188,389,000, representing approximately a 6% increase over the same period last year. The raw material and auxiliary material costs continued to increase, with the prices for fused magnesia clinker and chrome ore over 10% higher than that in the same period last year, and the price for zircon sand even surged over 30%. However, at the Group's efforts to strengthen internal management and cost control, the gross profit margin was maintained at above 30%.

Prospects

Though the shadow of the revaluation in Renminbi suppressed the export growth, the Group targets to maintain stable business growth by flexibly adjusting the production strategies and passing the cost increment onto customers.

In the past few years, the Group obtained strong production capability through expansion of production facilities and technology investment. The Group always sees raw materials resources as vital to its business development in the long term, hence, it has been studying the possibility of investing in the magnesium ore in Northeast China, which is the raw material for refractory materials products, and the rare earth mines in Southern China. Regarding rare earth mines, the Group will continue to negotiate with the relevant authorities and hopefully an investment plan can be implemented in the near future to gain the advantage of resources control.

The Group will continue to strive to develop value-added rare earth products as well. Regarding the fluorescent materials business, illumination accounts for roughly 10% to 15% of the total electricity consumption in the PRC currently. The PRC government plans to promote the use of energy-saving lights in the advent of the 2008 Beijing Olympics. Thus the Group is full of optimism for the future of the fluorescent materials market. To facilitate the business development of the newly-established polishing materials production line, the Group will endeavour to enhance customer recognition and confidence in its products, shorten the market research and analysis cycle, gear up for large-scale production and ultimately maximize the production efficiency. For the refractory materials business, the Group will continue to develop high temperature ceramics and expand the production capacity of Sialon production line. The preliminary installation of highly densified zircon bricks and highly densified chrome bricks production line will be completed soon. Pending fine-tuning of all equipments and techniques, the installation of the entire set of production facilities is expected to complete in the second half of this year or at the beginning of next year, and will commence production thereafter to meet market demands.

Liquidity and Financial Resources

As at 30 June 2005, the Group had cash and bank balances of approximately HK\$213,239,000 within which there was a deposit at about HK\$320,000 pledged as business guarantee. Over 95% of the balance was deposited in banks in the PRC denominated in Renminbi. There was no bank borrowings and no contingent liabilities. Balance of net current assets rose to HK\$688,680,000. Total liabilities to total assets ratio remained below 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

As at 30 June 2005, the Group had a workforce of approximately 1,400 staff. Comprehensive remuneration and welfare packages are offered to them. During the period, approximately HK\$10,010,000 was incurred in staff costs including directors' emoluments.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2005.

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 for the purpose of coping with the amendments introduced to Chapter 17 of 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 remained outstanding as at 30 June 2005 are as follows:

Grantee	Date of grant	Exercise price	Number of options	
			Held at 1 January 2005	Held at 30 June 2005
<i>Director</i>				
Fan Yajun	23 January 2003	HK\$1.10	5,000,000	5,000,000
<i>Employees</i>				
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. No option was granted, exercised, cancelled or lapsed during the period.

DIRECTORS' INTERESTS AND SHORT POSITIONS

As at 30 June 2005, the interests and short positions of the directors and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations as recorded in the register kept by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("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 Issuers 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	Beneficial 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 2005, none of the directors or 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 directors, as at 30 June 2005, 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.
4. Martin Currie Investment Management Limited was holding 65,683,000 shares of the Company, representing approximately 6.65% 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 2005.

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 2005.

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 2005 which have not been audited.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company adopted its own code of corporate governance in August 2005 and a Remuneration Committee was established. The committee consists of all existing independent non-executive directors as members and Mr. Jiang Quanlong as chairman. In addition, the appointment terms of non-executive directors were renewed with a specific term of two years. After that the Company has complied with the code provisions set out in Appendix 14 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standards set out in Appendix 10 of the Listing Rules. Having made specific enquiry, the Company confirms that all directors have complied with the required standards as stated in the code.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained sufficient public float as required under the Listing Rules during the period and up to the date of this report.

MEMBERS OF THE BOARD

On 19 August 2005, Mr. Fan Yajun resigned and each of Ms. Xu Panfeng and Mr. Jiang Cainan was appointed as an executive director. As at the date of this report, the Board consists of Mr. Jiang Quanlong, Ms. Qian Yuanying, Ms. Xu Panfeng and Mr. Jiang Cainan as executive directors and Mr. Liu Yujiu, Mr. Huang Chunhua and Mr. Jin Zhong as independent non-executive directors.

By order of the Board
Jiang Quanlong
Chairman

Hong Kong, 15 September 2005