



INTERIM REPORT 2006




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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)



## **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**

15/F, Club Lusitano  
16 Ice House Street, Central  
Hong Kong

## **HONG KONG LEGAL ADVISERS**

Chiu & Partners

## **AUDITORS**

ShineWing (HK) CPA Limited

## **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 Fund Services (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**

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 2006 together with the comparative figures for the corresponding period in 2005 as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
	NOTES	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Turnover	(4)	470,703	375,505
Cost of sales		(328,259)	(284,233)
Gross profit		142,444	91,272
Interest income		2,233	892
Selling and distribution expenses		(10,378)	(8,512)
Administrative expenses		(8,911)	(10,309)
Other (expenses)/income, net		(37)	467
Finance costs	(5)	(667)	(21)
Profit before taxation	(6)	124,684	73,789
Taxation	(7)	(28,725)	(16,984)
Profit for the period		95,959	56,805
Attributable to:			
Equity holders of the Company		94,743	56,136
Minority interests		1,216	669
		95,959	56,805
Dividends	(8)	11,843	–
Earnings per share	(9)		
– Basic		8.80 cents	5.69 cents
– Diluted		8.80 cents	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

	NOTES	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
Non-current assets			
Goodwill		200,329	199,715
Property, plant and equipment and construction-in-progress	(10)	551,131	570,046
Prepaid lease payments on land use rights		11,937	12,021
		<b>763,397</b>	781,782
Current assets			
Inventories		219,295	228,391
Accounts and other receivables	(11)	313,470	338,801
Prepayments, deposits and other current assets		234,771	91,150
Prepaid lease payments on land use rights		402	398
Pledged deposits		108,416	327
Cash and bank balances		364,831	153,115
		<b>1,241,185</b>	812,182
Current liabilities			
Accounts payable	(12)	53,900	56,249
Accruals and other payables		40,286	44,115
Amounts due to directors		11,645	11,850
Amount due to a related company		1,499	1,220
Bank borrowings			
– due within one year	(13)	92,233	–
Tax payable		34,082	31,815
		<b>233,645</b>	145,249
Net current assets		<b>1,007,540</b>	666,933
Total assets less current liabilities		<b>1,770,937</b>	1,448,715
Capital and reserves			
Share capital	(14)	118,434	98,695
Reserves		1,632,399	1,331,132
Equity attributable to equity holders of the Company		1,750,833	1,429,827
Minority interests		20,104	18,888
Total equity		<b>1,770,937</b>	1,448,715

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

**For the six months  
ended 30 June**

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Net cash generated from operating activities	<b>147,719</b>	6,101
Net cash used in investing activities	<b>(248,111)</b>	(422)
Net cash generated from/(used in) financing activities	<b>308,312</b>	(19,760)
Net increase/(decrease) in cash and cash equivalents	<b>207,920</b>	(14,081)
Cash and cash equivalents at beginning of the period	<b>153,115</b>	227,000
Effect of changes in exchange rate	<b>3,796</b>	—
Analysis of the balances of cash and cash equivalents at end of the period		
Cash and bank balances	<b>364,831</b>	212,919

## 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 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 and 1 July 2005	98,695	600,922	22,348	59,729	-	3,597	553,312	1,338,603	18,139	1,356,742
Exchange difference directly recognised in equity	-	-	-	-	-	17,153	-	17,153	-	17,153
Profit for the period	-	-	-	-	-	-	74,071	74,071	749	74,820
Total recognised income for the period	-	-	-	-	-	17,153	74,071	91,224	749	91,973
Dividends set aside	-	-	-	-	47,374	-	(47,374)	-	-	-
Appropriations to statutory reserves	-	-	-	11,220	-	-	(11,220)	-	-	-
At 31 December 2005 and 1 January 2006	98,695	600,922	22,348	70,949	47,374	20,750	568,789	1,429,827	18,888	1,448,715
Issue of shares during the period	19,739	252,659	-	-	-	-	-	272,398	-	272,398
Share issue expenses	-	(8,278)	-	-	-	-	-	(8,278)	-	(8,278)
Exchange difference directly recognised in equity	-	-	-	-	-	9,517	-	9,517	-	9,517
Profit for the period	-	-	-	-	-	-	94,743	94,743	1,216	95,959
Total recognised income for the period	-	-	-	-	-	9,517	94,743	104,260	1,216	105,476
Final dividends paid for 2005	-	-	-	-	(47,374)	-	-	(47,374)	-	(47,374)
Dividends set aside	-	-	-	-	11,843	-	(11,843)	-	-	-
Appropriations to statutory reserves	-	-	-	2,305	-	-	(2,305)	-	-	-
At 30 June 2006	118,434	845,303	22,348	73,254	11,843	30,267	649,384	1,750,833	20,104	1,770,937

## Note:

Under the Companies Law (1988 Revision) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

The condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with the Hong Kong Accounting Standard ("HKAS") No.34 "Interim Financial Reporting" of Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

### 2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005.

In the current period, the Group had applied for the first time, a number of new HKFRSs issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2006. The adoption of the new HKFRSs has had no material on how the results and financial position for the current or prior accounting period as prepared and presented.

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the consolidated financial statements of the Group:

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC) – INT 9	Reassessment of embedded derivatives <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2006

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2006

### 3. SEGMENT INFORMATION

Segment information for the six months ended 30 June 2006 and 2005 is as follows:

#### (a) Business segments

	Rare Earth		Refractory		Total	
	For the six months ended 30 June					
	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Turnover	231,712	187,116	238,991	188,389	470,703	375,505
RESULTS						
Segment results	44,715	22,914	82,862	53,520	127,577	76,434
Unallocated corporate expenses					(4,422)	(3,983)
Interest income					2,233	892
Other (expenses)/income, net					(37)	467
Finance costs					(667)	(21)
Profit before taxation					124,684	73,789
Taxation					(28,725)	(16,984)
Profit for the period					95,959	56,805

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 and magnesium grains)



### 3. SEGMENT INFORMATION (Continued)

#### (b) Geographical segments

**Turnover by  
geographical market  
For the six months  
ended 30 June**

	<b>2006</b>	2005
	<b>HK\$'000</b>	<i>HK\$'000</i>
The People's Republic of China ("the PRC")	<b>369,261</b>	295,555
Japan	<b>58,947</b>	47,991
Europe	<b>28,554</b>	15,213
The United States of America	<b>10,379</b>	6,847
Others	<b>3,562</b>	9,899
	<hr/> <b>470,703</b> <hr/>	<hr/> 375,505 <hr/>

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

### 4. TURNOVER

**For the six months  
ended 30 June**

	<b>2006</b>	2005
	<b>HK\$'000</b>	<i>HK\$'000</i>
Sales of rare earth products (including fluorescent products)	<b>231,712</b>	187,116
Sales of refractory products (including high temperature ceramics products and magnesium grains)	<b>238,991</b>	188,389
	<hr/> <b>470,703</b> <hr/>	<hr/> 375,505 <hr/>

## 5. FINANCE COSTS

During the period, bank charges and interest of approximately HK\$200,000 (2005: Nil) and HK\$341,000 (2005: Nil) respectively on bank borrowings were charged and interest on discounted bills of approximately HK\$126,000 (2005: HK\$21,000) was charged.

## 6. PROFIT BEFORE TAXATION

During the period, profit before taxation has been arrived at after charging depreciation on property, plant and equipment of approximately HK\$35,090,000 (2005: HK\$29,860,000) and amortisation of prepaid lease payments on land use rights of approximately HK\$200,000 (2005: HK\$173,000) respectively.

## 7. TAXATION

	For the six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
Enterprise income tax ("EIT")		
– The PRC subsidiaries	<b>28,725</b>	16,984

Hong Kong Profits Tax has not been provided for in the condensed consolidated 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 (2005: two) PRC subsidiaries are entitled to a 50% reduction of EIT and three (2005: two) 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 2006.

**8. DIVIDENDS**

During the period, a final dividend for the previous year of HK\$0.04 (2005: HK\$0.02) per share amounted to approximately HK\$47,374,000 (2005: HK\$19,739,000) was declared and paid.

As at the date of this report, the Board has resolved to declare an interim dividend of HK\$0.01 (2005: Nil) per share amounting to HK\$11,843,000.

**9. 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\$94,743,000 (2005: HK\$56,136,000) and the weighted average number of ordinary shares of 1,076,378,363 (2005: 986,953,059) in issue during the period.

The calculation of the diluted earnings per share is based on the Group's profit attributable to equity holders of the Company of approximately HK\$94,743,000 and the weighted average number of ordinary shares of 1,076,604,314 in issue after adjusting for the effect of all dilutive potential ordinary shares during the period. No dilutive earnings per shares was shown for the six months ended 30 June 2005 as there was no dilutive potential ordinary share for that period.

**10. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION-IN-PROGRESS**

During the period, the Group spent approximately HK\$10,894,000 (2005: HK\$1,772,000) on additions to property, plant and equipment and construction-in-progress.

**11. ACCOUNTS AND OTHER RECEIVABLES**

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

At 30 June 2006, accounts and other receivables comprised:

	<b>30 June 2006 HK\$'000</b>	31 December 2005 HK\$'000
Accounts receivable	<b>305,649</b>	326,865
Other receivables	<b>16,279</b>	20,313
	<hr/>	<hr/>
	<b>321,928</b>	347,178
Less: Allowance for bad and doubtful debts	<b>(8,458)</b>	(8,377)
	<hr/>	<hr/>
	<b>313,470</b>	338,801
	<hr/> <hr/>	<hr/> <hr/>

An ageing analysis of accounts receivable is as follows:

	<b>30 June 2006 HK\$'000</b>	31 December 2005 HK\$'000
Current to less than 6 months	<b>276,512</b>	286,780
6 months to less than 1 year	<b>20,663</b>	26,519
1 to less than 2 years	<b>2,364</b>	5,773
Over 2 years	<b>6,110</b>	7,793
	<hr/>	<hr/>
	<b>305,649</b>	326,865
	<hr/> <hr/>	<hr/> <hr/>

The fair values of the Group's accounts and other receivables at 30 June 2006 approximate to the corresponding carrying amounts.

**12. ACCOUNTS PAYABLE**

An ageing analysis of accounts payable is as follows:

	<b>30 June 2006 HK\$'000</b>	<b>31 December 2005 HK\$'000</b>
Current to less than 6 months	<b>46,118</b>	48,715
6 months to less than 1 year	<b>4,272</b>	4,581
1 to less than 2 years	<b>1,582</b>	1,456
Over 2 years	<b>1,928</b>	1,497
	<b>53,900</b>	56,249

The fair value of the Group's accounts payable at 30 June 2006 approximates to the corresponding carrying amount.

**13. BANK BORROWINGS – DUE WITHIN ONE YEAR**

During the period, the Group obtained new bank borrowings of approximately HK\$92,233,000 (2005: Nil), which was secured by bank deposits of approximately HK\$99,790,000, carrying at fixed interest rate of 4.73% per annum.

**14. SHARE CAPITAL**

	<b>Number of shares</b>	<b>HK\$'000</b>
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 January 2005, 31 December 2005 and 30 June 2006	<u>2,000,000,000</u>	<u>200,000</u>
Issued and fully paid:		
At 1 January 2005 and 31 December 2005	986,953,059	98,695
Issue of new shares ( <i>Note</i> )	<u>197,390,000</u>	<u>19,739</u>
At 30 June 2006	<u>1,184,343,059</u>	<u>118,434</u>

*Note:*

On 10 April 2006, 197,390,000 ordinary shares of HK\$0.10 each were issued. All shares issued during the period rank pari passu with the existing shares in all respects.

**15. COMMITMENTS**

At the balance sheet date, the Group had the following commitments, so far as not provided for in the condensed consolidated financial statements:

- (a) Capital commitments in respect of acquisition of machinery and equipment and construction of buildings:

	<b>30 June 2006 HK\$'000</b>	31 December 2005 HK\$'000
Authorised and contracted for	<b>258,336</b>	67,461

- (b) Operating lease commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	<b>30 June 2006 HK\$'000</b>	31 December 2005 HK\$'000
Within one year	<b>1,274</b>	1,307
In the second to fifth year inclusive	<b>2,785</b>	3,036
Over five years	<b>10,360</b>	10,543
	<b>14,419</b>	14,886

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Results

For the six months ended 30 June 2006, the Group recorded a turnover of HK\$470,703,000, representing an increase of approximately 25% compared with HK\$375,505,000 in the corresponding period of 2005. Contributing approximately 49% of the Group's total turnover, the sales of rare earth products (including fluorescent materials) amounted to HK\$231,712,000, an increase of around 24% compared with HK\$187,116,000 in the corresponding period of last year. Sales of refractory materials (including high temperature ceramics and magnesium grains) was HK\$238,991,000, increased by around 27% from HK\$188,389,000 in the corresponding period of last year. Gross profit margin increased from 24% to around 30%.

The Group's profit before taxation reached HK\$124,684,000, representing an increase of approximately 69% as compared with HK\$73,789,000 in the corresponding period of last year. The Group's subsidiaries Wuxi Xinwei Fluorescent Materials Company Limited and Wuxi Xinwei High Temperature Ceramics Company Limited continued to enjoy 50% reduction of Enterprise Income Tax in the PRC. The Group's profit for the period, after deducting taxation of HK\$28,725,000, was HK\$95,959,000. Net profit margin was approximately 20%. Earnings per share were HK8.80 cents.

In December 2005, the Group acquired the entire equity interest in Haicheng City Suhai Magnesium Ore Co., Ltd. ("Suhai Magnesium") in Liaoning Province, the PRC. This acquisition has not only enabled the Group to secure stable supply of raw materials for its refractory materials business, but has also presented the Group with a new source of profit. The turnover and net profit of Suhai Magnesium, HK\$24,210,000 and HK\$7,669,000 respectively, were reflected in the first half 2006 consolidated financial statements.

## Business Review

### *Rare Earth Business*

In the first half of 2006, the rare earth industry in the PRC continued on the up trend which started in 2005. The strong demand for neodymium, praseodymium, terbium and dysprosium used in the magnetic material industry drove their prices up continuously. For instance, the prices of neodymium oxide and praseodymium oxide increased by 20% to 30% between January and June 2006, while the prices of terbium oxide and dysprosium oxide surged even more by 40% to 50%. However, prices of certain products dropped. For example, prompted by the shrinking color television market (the major consumer of yttrium products), some rare earth manufacturers dumped yttrium products at very low prices. As a result, the sale price of the Group's yttrium oxide during the reporting period dropped around 5% when compared with the same period of last year. Given the substantial increase in prices of rare earth products, despite that the Group sold less of rare earth products to around 2,000 tonnes during the reporting period against the corresponding period of last year, its sales revenue increased by 24% to HK\$231,712,000.

Regarding production cost, because the PRC Government has tightened control on rare earth resources supply and stepped up regulation and standardization of mining of mineral resources, the prices of rare earth resources have been on the rise persistently. For instance, the average price of rare earth oxide resources had increased by around 50% between December 2005 and June 2006. However, having applied its strengths to prepare for the rise in prices of rare earth resources, the Group has been able to effectively mitigate the impact of climbing material prices on its production costs. During the period under review, the gross profit margin of its rare earth business increased to around 20%.

By market, the PRC market accounted for around 75% of the Group's rare earth sales, about the same as in the corresponding period of last year.



### *Refractory Materials Business*

The Group's refractory materials business maintained stable growth during the period, with total sales reaching HK\$238,991,000, around 27% more than that in the same period of last year. As the prices of major products such as fused magnesia-chrome bricks, magnesia-alumina spinel bricks, alumina-graphite bricks and AZS bricks varied no more than 5% when compared with the last corresponding period, the gross profit margin of general refractory materials products was at similar level as in the last corresponding period. The higher margin high temperature ceramics business achieved better performance during the period under review. Although there was no significant changes in the average sales price of the products, thanks to increase in sales volume which brought down average cost, the gross profit margin of the high temperature ceramics business increased by approximately 30%. The magnesium grains business acquired by the Group in late 2005 also recorded a high gross profit margin of 50%. As a result, the gross profit margin of the refractory materials segment grew to approximately 38%. In terms of sales volume, the total sales volume of general refractory materials and high temperature ceramics reached a total of approximately 40,000 tonnes, 18% more than that in the same period of last year. One third of the total sales volume was attributable to high temperature ceramics. The Group also sold about 10,500 tonnes of fused magnesium grains during the period under review.

The PRC is still the Group's principal market for refractory materials. Taking into account the magnesium grains business, which sales primarily attributable to the local market, the PRC market brought in around 80% of the total sales of the Group's refractory materials business. The remaining mainly came from export to Japan.

### **Prospects**

In February 2006, the Group forged strategic alliance with General Electric Company, one of the largest integrated business corporations in the world. Pursuant to the alliance, General Electric will substantially increase order for various rare earth products from the Group. General Electric will also provide technical support to the Group's value-added rare earth business to help it extend the applications and production scale of rare earth products.

Besides, the Group will continue to explore and develop more downstream products for rare earth, such as catalysts for automobile exhaust gas treatment, hopefully to add new products to its portfolio after fluorescent materials and polishing materials for launching in the market. The Group will also continue to look for opportunities to invest in rare earth mines so as to speed up creation of a vertical industrial chain.

As for the refractory materials business, in addition to strengthening investment in and development of its existing businesses, the Group will capitalize on the opportunities arising from the acquisition of Suhai Magnesium in late 2005 to tap the abundant magnesium resources in Liaoning Province. Its aim is to build the high purity magnesium grains business on its solid foundation of fused magnesium grains business. The project will commence in the second half of 2006 with total investment estimated at around HK\$400 million to HK\$500 million. The project construction will take two years to complete. Upon completion, it will enable the Group to secure supply of raw materials for its refractory materials business and thus effectively control costs. It will also be an additional income stream for the Group.

### **Placing of Shares**

The Company conducted a fund raising activity in the first half of 2006. In March to April, the Company placed 197,390,000 new shares at HK\$1.38 per share. Upon the completion of the placing, the total number of issued shares of the Company increased to 1,184,343,059 shares and the public float increased to over 49%. The net proceeds from the placing amounted to approximately HK\$264,120,000. The raised fund will be used as general working capital.

### **Liquidity and Financial Resources**

As at 30 June 2006, the Group had cash and bank balance of approximately HK\$473,247,000 within which there was deposit at about HK\$108,416,000 pledged for business guarantee and banking facilities utilized. With pledged deposit, the Group raised a short term bank loan at RMB95,000,000 in May 2006 and which will be repayable before the end of the year. There was no contingent liabilities. Balance of net current assets rose to HK\$1,007,540,000. Total liabilities to total assets ratio rose to around 12%.

The Group was not exposed to material foreign exchange risk or interest rate risk. Apart from the deposit pledged as stated above, there was no charge on assets of the Group.

## **Staff and Remuneration**

As at 30 June 2006, the Group had a workforce of approximately 1,600 staff. Comprehensive remuneration and welfare packages are offered to them. During the period, HK\$11,901,000 was incurred in staff costs including directors' emoluments.

## **INTERIM DIVIDEND**

The Board has resolved to declare an interim dividend for the six months ended 30 June 2006 of HK 1 cent per share to the shareholders whose names appear on the register of members on 6 October 2006. The dividend will be payable on or before 27 October 2006.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed on 5 October 2006 and 6 October 2006, during these two days no transfer of shares will be registered. To qualify for the above declared interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on 4 October 2006.

## **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 remain outstanding as at 30 June 2006 were as follows:

Grantee	Date of grant	Exercise price	Number of options	
			Held at 1 January 2006	Held at 30 June 2006
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. No option was granted, exercised, cancelled or lapsed during the period.

## DIRECTORS' INTERESTS AND SHORT POSITIONS

As at 30 June 2006, 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. Interests 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/ Interest of controlled corporation	594,400,000 ( <i>Note</i> )	50.19%
Qian Yuanying	Founder of a trust	594,400,000 ( <i>Note</i> )	50.19%
Huang Chunhua	Beneficial owner	2,268,000	0.19%

*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. Ms Qian Yuanying is a founder of YY Trust within the meaning under Part XV of the SFO. Mr Jiang Quanlong is the sole director of YY Holdings Limited.

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

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

Director	Nature of interest/ Capacity	Number and class of issued shares	% in the class of shares in the issued share capital of the Company
Jiang Quanlong	Beneficial owner	7,000,000 non-voting deferred shares	70%
Qian Yuanying	Beneficial owner	3,000,000 non-voting deferred shares	30%

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

Director	Nature of interest/Capacity	% equity interests
Jiang Quanlong	Interest of controlled corporation	5%

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

*(c) YY Holdings Limited*

Director	Nature of interest/ Capacity	Number of issued shares	% in the class of shares in the issued share capital of the Company
Qian Yuanying	Founder of a trust	1 ordinary share	100%
Qian Yuanying	Founder of a trust	25,000 preference shares	100%
Jiang Quanlong	Interest of controlled corporation	1 ordinary share	100%
Jiang Quanlong	Interest of controlled corporation	25,000 preference shares	100%

*Note:* The entire issued share capital of YY Holdings Limited 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. Ms Qian Yuanying is a founder of YY Trust within the meaning under Part XV of the SFO. Mr Jiang Quanlong is the sole director of YYT Limited.

Save as disclosed above, as at 30 June 2006, none of the directors or chief executive of the Company and their associates 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 2006, 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, was holding 594,400,000 shares of the Company, representing approximately 50.19% of the issued share capital of the Company as beneficial owner.
2. YYT Limited was deemed to be interested in 594,400,000 shares of the Company held by YY Holdings Limited the entire issued share capital of which is held by YYT Limited.
3. Mr Hung Kam Biu and Ms Jocelyn Chu, the spouse of Mr Hung Kam Biu, were holding 95,450,000 shares of the Company, representing approximately 8.06% of the issued share capital of the Company, through Trophy Asset Management Limited and Winnington Capital Limited.
4. Trophy Asset Management Limited, which is wholly owned by Mr Hung Kam Biu, was holding 95,450,000 shares of the Company, representing approximately 8.06% of the issued share capital of the Company.
5. Winnington Capital Limited, which is jointly owned by Mr Hung Kam Biu and Ms Jocelyn Chu on a 50:50 basis, was holding 94,500,000 shares of the Company, representing approximately 7.98% of the issued share capital of the Company.
6. Trophy Fund was holding 84,948,000 shares of the Company, representing approximately 7.17% 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 2006.

## **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 2006.

## AUDIT COMMITTEE

The Audit Committee has reviewed, with the assistance of the Company's auditors, 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 2006 which have not been audited.

## CORPORATE GOVERNANCE

The Company is committed to the establishment of good corporate governance practices and procedures. In order to align with the code provisions of the Code of Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Listing Rules, a special resolution was passed at the 2006 annual general meeting of the Company held on 15 June 2006 to alter the Articles of Association of the Company to specify that every director of the Company should be subject to retirement by rotation at least once every three years.

The Company has complied with the code provisions set out in the CG Code throughout the six months ended 30 June 2006.

## 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

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, 19 September 2006