



China Rare Earth Holdings Limited

## INTERIM RESULTS

The Board of Directors (the “Board”) of China Rare Earth Holdings Limited (the “Company”) (formerly known as Yixing Xinwei Holdings Limited) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2000 together with the comparative figures for the corresponding period in 1999 as follows:

**Six months ended 30th June,**

	<b>2000</b>	<b>1999</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover	<b>242,131</b>	216,183
Cost of sales	<b>161,264</b>	147,268
Gross profit	<b>80,867</b>	68,915
Other income	<b>627</b>	512
Distribution costs	<b>4,590</b>	1,773
Administrative expenses	<b>15,410</b>	15,557
Profit from operations	<b>61,494</b>	52,097
Finance costs	<b>2,343</b>	2,265
Profit before taxation	<b>59,151</b>	49,832
Taxation	<b>–</b>	10,925
Profit after taxation	<b>59,151</b>	38,907
Minority interests	<b>2,202</b>	1,239
Profit attributable to shareholders	<b>56,949</b>	37,668
Interim dividends	<b>6,000</b>	6,401
Transfer to reserves	<b>–</b>	4,134
Retained profit for the period	<b>50,949</b>	27,133
Earnings per share		
– Basic	<b>9.49 cents</b>	8.37 cents
– Diluted	<b>9.43 cents</b>	N/A



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*Notes:*

### **1. Basis of consolidation/presentation**

The Company was incorporated in the Cayman Islands on 27th July, 1999 under the Companies Law (1998 Revision) of the Cayman Islands. Pursuant to a group reorganization completed in April 1999, the Company became the holding company of the Group. Details of the group reorganization are set out in the prospectus of the Company dated 5th October, 1999.

The consolidated results incorporate the profit and loss of the Group were made up to the six months ended 30th June, 2000. The results of the Group for the six months ended 30th June, 1999 have been prepared and presented using the merger basis of accounting as if the current group structure had been in existence throughout the period.

### **2. Taxation**

No provision for Hong Kong profits tax has been made as the Group had no assessable profits in Hong Kong during both periods.

Companies within the Group in the People's Republic of China ("PRC") are subject to enterprise income tax at rates ranging from 24% to 33% on assessable profits. Pursuant to the relevant tax laws in the PRC, the two subsidiaries in the PRC are entitled to full exemption from enterprise income tax for two years starting from its first profit-making year, after offsetting all losses brought forward, followed by a 50% reduction for the next three years thereafter (the "Tax Holiday"). The two subsidiaries in the PRC are under the Tax Holiday since 1st January, 2000.

The taxation charge for the six months ended 30th June, 1999 represents PRC enterprise income tax for the period.

### **3. Transfer to reserves**

In accordance with relevant financial regulations of the PRC, a portion of statutory net income of the companies within the Group in the PRC was required to appropriate to statutory surplus reserves. The aggregate appropriations to these reserves during the period ended 30th June, 1999 before the group reorganization were approximately HK\$4,134,000. Appropriation for Year 2000 will be determined by the Board at the end of the year.

### **4. Earnings per share**

Basic earnings per share is calculated based on the profit attributable to shareholders of approximately HK\$56,949,000 (1999: HK\$37,668,000) for the period and the weighted average number of 600,000,000 shares (1999: 450,000,000 shares) in issue during the period. In determining the weighted average number of shares in issue, a total of 450,000,000 shares issued on the establishment of the Company and on the group reorganization were deemed to have been in issue since 1st January, 1999.

Diluted earnings per share is calculated based on the adjusted profit attributable to shareholders of approximately HK\$57,036,000 (1999: N/A) after taking into consideration the potential dilution effect of conversion of convertible bonds and exercise of share options issued, and the weighted average number of 604,760,000 shares (1999: N/A) having been adjusted to reflect all potential dilution effect. It is assumed that the proceeds from exercise of share options were placed on Hong Kong dollars fixed deposit earning interest of 4.5% per annum.



## INTERIM DIVIDENDS

The Board has resolved to declare an interim dividend of HK1 cent per share to the shareholders whose names appear on the register of members on 19th September, 2000 for the six months ended 30th June, 2000 and payable on or before 27th September, 2000.

Dividends of approximate HK\$6,401,000 for the period ended 30th June, 1999 were declared to the then shareholders of the Group prior to the listing of the Company's shares on the Hong Kong Stock Exchange on 15th October, 1999.

## BUSINESS REVIEW

### FINANCIAL RESULTS

For the six months ended 30th June, 2000, the Group recorded a turnover of HK\$242,131,000, which increased by 12% over the figure for the corresponding period in 1999. The growth in turnover was mainly due to the increase in selling prices that were driven up by continuous strong demand. A significant growth in turnover is expected in the second half of the year because of the completion of new production facilities by the end of current period. The profit attributable to shareholders for the period amounted to HK\$56,949,000, which represents a significant increase of 51% over the previous corresponding period. In addition to the increase in gross profit due to the growth in turnover, the two subsidiaries in the PRC are entitled to full exemption from enterprise income tax since 1st January, 2000. This contributed to a substantial increase in net profit. Reduction of or exemption from several statutory payments subsequent to the group reorganization also contributed to a positive impact on the operating results.

### BUSINESS OPERATIONS

As the high-tech and information technology businesses continue to flourish, the demand for rare earth products is rapidly increasing and the price and number of orders are being driven up. The supply of refractory products also falls behind demand. Additionally, the worldwide economy has improved significantly in the first half of 2000. It not only drove up the Group's turnover, but also brought in a number of new opportunities for the Group's business development.

During this period, the Group completed two large construction projects with regard to the expansion of production facilities for rare earth and refractory products. For rare earth business, the inaugural ceremony for the new production plant was held on 28th May, 2000. For refractory products business, the new production plant was completed and commenced operation in June 2000.



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The new production facilities for rare earth products consist of a gross floor area of approximately 9,500 sq.m, comprising of 749 units newly added machineries and equipment. By introducing the latest technology, the production capacity surged 40% from 3,500 tonnes (REO) in 1999 to 4,900 tonnes (REO) this year.

The new production facilities for refractory products have driven up the production capacity from 30,000 tonnes to 50,000 tonnes, increased significantly by 66%. Sales orders requiring the entire year's production were received early this year. Much more new products will be exported overseas, which increases the overseas income of the Group.

With the inauguration of these two new facility lines and the contribution from the R&D department and the veteran management team, technology has been greatly improved, production costs have decreased and the Group's products have become more competitive. These factors have created solid foundations for the Group's business development in the future.

During the period under review, over 70% of rare earth products were exported overseas. Around 10% of refractory products were exported to Japan. The ratio for exports will increase steadily.

The Group has been concentrating on research and development. The professionalism and expertise of the research and development division will enhance the quality of existing products and the ability to develop new products. Maintaining close business relationships with existing clients and exploring the market for potential customers fall on the talented sales and marketing division. The division is committed to make new record of sales for the Year 2000.

Pursuant to the extraordinary general meeting held on 19th May, 2000, the Group changed the company name to China Rare Earth Holdings Limited. It received the Certificate of Incorporation on Change of Name issued by the Registrar of Companies in the Cayman Islands and the new company name is then effective. The new company name not only reflects the Group's core business but also attracts worldwide customer attention.

## FINANCIAL STATUS

The Company raised US\$5 million through the issue of convertible bonds on 13th June, 2000 for general working capital purposes. As at 30th June, 2000, the Group had cash and bank balances of approximately HK\$100 million while bank loan balances was just HK\$43 million. Debt to asset ratio was around 32%.



## PROSPECTS

The PRC will soon join the World Trade Organization and the market will be open up for more businesses and opportunities. At that time, the high-tech and information technology businesses will grow even further that boost the market demand for rare earth products. The Group will grasp every opportunity to enhance the core business and to increase market share.

### EXPANSION OF PRODUCTION FACILITIES

The Group has scheduled the expansion of its rare earth metal and fluorescent powders production lines by the end of this year. At that time, the production volume of rare earth metal and fluorescent powders will surge to 1,000 tonnes and 500 tonnes per annum respectively.

In addition, the Group will expand the separating production line for Lonic Ore. It will be the biggest one in the world, with cutting edge technology, producing cost effective and high quality products.

### REDUCTION OF PRODUCTION COST

To improve cost-effectiveness and to enhance the availability of raw materials, the Group has decided to develop its vertical businesses. This will strengthen the Group's ability to control costs and enhance the Group's profits.

### DEVELOPMENT OF E-COMMERCE

In preparation for the e-Commerce era, the Group is developing an online trading platform. This will improve linkages between suppliers, retailers and customers and promote e-Commerce business through on-line system.

### IMPLEMENTATION OF ENVIRONMENTAL PROTECTION

The Group is committed to environmental protection and will apply for ISO14000 certification in the first half year of 2001.



## DIRECTORS' INTERESTS IN SHARES OR DEBENTURES

As at 30th June, 2000, the interests of the directors and chief executive of the Company in equity or debt securities of the Company and its subsidiaries and associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

### 1. The Company

Director	Nature of interests	Number of shares held
Qian Yuanying	Corporate interests (Note 1)	450,000,000

### 2. Subsidiaries

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

Director	Nature of interests	Number of non-voting deferred shares held
Jiang Quanlong	Personal interests	7,000,000
Qian Yuanying	Personal interests	3,000,000

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

Director	Nature of interests	Equity interests
Jiang Quanlong	Corporate interests (Note 2)	5%

#### Notes:

- These shares are held through YY Holdings Limited, the entire issued share capital of which is held by the trustee of the Jiang family trust, the discretionary object of which is a company wholly owned by Qian Yuanying.
- The equity interest is held by Xinwei Group Limited, a PRC domestic enterprise owned as to 5% by Jiang Quanlong.



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## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

On 14th October, 1999, a Share Option Scheme was approved by the shareholders of the Company, under which the directors may, at the discretion, invite any full time employee or executive director of the Company or its subsidiaries to take up options at HK\$1 each as consideration for option to subscribe for shares in the Company. The exercise price is determined by the Board at not less than 80% of the average closing price of the shares as stated in the daily quotation sheets by The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of offer of the option or nominal value of the shares, whichever is higher.

As at 30th June, 2000, no such options have been granted.

## SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2000, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company has been notified of the following interests, being 10% or more of the Company's issued share capital.

Name	Number of shares held
YY Holdings Limited	450,000,000

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed at 18th September, 2000 and 19th September, 2000, during which period no transfer of shares will be registered. In order to qualify for the above declared interim dividend, all transfers accompanied by the relevant share certificates, must be lodged with the Company's Share Registrars in Hong Kong, Central Registration Hong Kong Limited, Rooms 1712-1716, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on 15th September, 2000.

## 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 30th June, 2000.



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## YEAR 2000 COMPLIANCE

The Group has successfully made a smooth transaction to the Year 2000. All computer system are Y2K compliant and are now functioning as normal.

## CORPORATE GOVERNANCE

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 period covered by the Interim Report, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

On 29th September, 1999, the Company established an Audit Committee comprising Messrs. Liu Yujiu and Wong Yee Sui, Andrew, independent non-executive directors. In establishing the terms of reference for this committee, the directors have made reference to the "Guide for the Formation of Audit Committee" issued by the Hong Kong Society of Accountants in December 1997.

## APPRECIATION

On behalf of the Board, I would like to express our gratitude and sincere appreciation to all management and staff members for their hard work and dedication and the Company's shareholders for their support.

By order of the Board  
**Jiang Quanlong**  
*Chairman*

Hong Kong, 28th August, 2000