

“ 致各位股東：

本人謹代表董事會向各位股東提呈
中國稀土控股有限公司截至二零零四年
十二月三十一日止之全年業績報告。

To Shareholders,

On behalf of the Board of Directors, I would like to
present the annual results of China Rare Earth
Holdings Limited for the year ended
31 December 2004. ”

蔣泉龍 - 集團主席
Jiang Quanlong - Chairman



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二零零四年，隨著中國稀土行業逐漸走出谷底，有助本集團的稀土業務復甦。而本集團的耐火材料業務亦由於新開拓的高溫陶瓷業務而有所增長。

過去數年，本集團經歷了經濟低潮、行業整合及市場競爭的嚴峻考驗，有賴全體員工及董事會上下一心、群策群力，讓本集團克服種種挑戰，並在二零零四年度取得佳績，反映本集團的競爭實力。

財務業績

截至二零零四年十二月三十一日止年度，本集團錄得營業額665,320,000港元，較二零零三年之457,077,000港元，增長46%。當中稀土產品(包括熒光材料)之銷售額佔45%，達300,984,000港元，較去年之208,281,000港元

In 2004, the recovery of the PRC's rare earth industry fuelled the revival of the Group's business. The Group's refractory materials business was also benefited by the growth of its newly expanded high temperature ceramics business.

The persistent economic downturn in the past few years posted many challenges to the Group, as well as prompted consolidation of the industry and intensified market competition. However, with its staff and the Board committed to overcoming difficulties and achieving operational excellence, the Group achieved fruitful results in 2004. This also reflected the Group's competitiveness.

FINANCIAL RESULTS

For the year ended 31 December 2004, the Group recorded a turnover of HK\$665,320,000, representing an increase of 46% compared with HK\$457,077,000 in 2003. Sales of rare earth products (including fluorescent materials) contributed 45% of the Group's total turnover, reaching HK\$300,984,000, an approximately

增長約45%。而耐火材料產品(包括高溫陶瓷)方面，本年度之銷售額為364,336,000港元，佔營業額55%，較去年之248,796,000港元上升約46%。由於本集團於本年度的業務表現較去年佳，本年度的淨溢利回升至119,424,000港元，與去年比較增長約79%。每股盈利亦由去年之8.2港仙上升至12.3港仙。毛利率亦進一步回升至27%。

除業務好轉的因素外，由本年度開始，本集團旗下附屬公司無錫新威熒光材料有限公司及新收購的無錫泛亞高溫陶瓷有限公司開始需要繳交減半之中國企業所得稅。因此，本年度的稅項為17,973,000港元，較去年之9,246,000港元為高，上升逾90%。

45% increase compared with HK\$208,281,000 last year; the sales of refractory products (including high temperature ceramics) during the year amounted to HK\$364,336,000, which accounted for 55% of total turnover, representing an increase of approximately 46% over HK\$248,796,000 in 2003. The Group obtained better results this year with net profit rebounded to HK\$119,424,000, representing an increase of approximately 79% over that of last year. Basic earnings per share rose from last year's HK8.2 cents to HK12.3 cents this year. Gross profit margin also surged to 27%.

Besides the above favourable factors, Wuxi Xinwei Fluorescent Materials Company Limited, a subsidiary of the Group, started during the year to pay a 50% reduced Enterprise Income Tax in the PRC. The same applies for Wuxi Pan-Asia High Temperature Ceramics Co., Ltd. ("Wuxi Pan-Asia"), which the Group recently acquired. Thus, taxation for the year amounted to HK\$17,973,000, representing an increase of over 90% compared with HK\$9,246,000 last year.



派息

董事會建議派發二零零四年度之股息每股2港仙。倘若股東於二零零五年六月十六日舉行的股東週年大會中通過有關動議，末期股息將於二零零五年六月二十四日或以前派發給於二零零五年六月十六日登記冊上的股東。

本公司將於二零零五年六月十三日至二零零五年六月十六日，包括首尾兩天，暫停辦理股份過戶手續，期間將不會進行任何股份之過戶登記。如欲獲得建議之末期股息及出席本公司的股東大會，所有股份之過戶文件連同有關之股票須於二零零五年六月十日下午四時前送達本公司股份過戶處香港分處香港中央證券登記有限公司。

DIVIDEND

The Board has recommended the payment of a final dividend of HK 2 cents per share for 2004. Subject to the approval of shareholders at the forthcoming Annual General Meeting to be held on 16 June 2005, the final dividend will be paid on or before 24 June 2005 to registered shareholders as at 16 June 2005.

The Register of Members will be closed from 13 June to 16 June 2005, both days inclusive. During this period, no transfer of shares will be registered. To qualify for entitlement of the proposed final dividend and to attend the Annual General Meeting, all transfer documents accompanied by the relevant share certificate must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, for registration not later than 4:00 p.m. on 10 June 2005.

業務回顧

稀土

二零零四年度，稀土市場基本上已由二零零三年的低谷逐步回升。市場上各種稀土元素發展各有不同。北方礦偏重的輕稀土元素如鐳、鈾等由於大量產品充斥市場，售價仍然於低位徘徊。本集團為避免惡性競爭，已減少銷售該等稀土產品，其銷售僅佔全年度的稀土銷售量不足10%。另一方面，應用在磁性材料的輕稀土元素氧化釹，售價則較二零零三年上升了約30%。而價格較高的稀土元素如鎳、鉕等亦由於經濟好轉而有不同程度的升幅，氧化鎳的售價更上升一倍。中國政府因對稀土資源極為重視，自二零零



BUSINESS REVIEW

Rare Earth

In 2004, the rare earth market gradually picked up after bottoming in 2003. The development of different rare earth elements varied in the market. Selling prices on the major rare earth elements from rare earth mines in Northern China, such as lanthanum and cerium remained low due to excessive supply. To avoid price competition, the Group lowered the sales of these products to less than 10% of the sales volume of rare earth products for the whole year. While price of neodymium oxide, which is applied in magnetic materials, grew 30% over that in 2003. Prices of elements with higher value, such as europium and terbium, saw more significant increases as the economy improved. The price of dysprosium oxide even surged a fold. Furthermore, seeing rare earth as very important resources, the PRC government has lowered

四年一月一日起降低對稀土氧化物及稀土金屬的出口退稅率，使該等產品之出口價格有所增長。



回顧年內，本集團對稀土產品的銷售結構

進行調整，減少出售價格較低的鐳、鈾等元素而增加售價較高如鈮鎔共沉等產品的銷售量。故即使本集團於二零零四年只售出稀土產品約3,900噸，比去年略為下降，但銷售額的增長卻達45%。成本方面，縱然原輔材料價格上升，如南方礦價格上漲了約15%，燃料價格的升幅更達40%，但二零零四年全年之稀土業務的毛

the export tax rebate for rare earth oxides and rare earth metals since 1 January 2004, which led to rise in export prices of these rare earth products.

During the year, the Group restructured the sales mix of rare earth products by lowering the sales volume of elements with lower prices, such as lanthanum and cerium, while increasing the sales volume of higher price

products, such as mixture of yttrium and europium. As a result, though the Group sold about 3,900 tonnes of rare earth products, slightly lower than last year's figure, sales amount increased by 45%. As for production cost, the prices of both raw and auxiliary materials rose, for example, the prices of ores from rare earth mines in Southern China and fuel increased by approximately 15% and 40% respectively. Despite these, the gross profit margin of the Group's rare earth business in 2004 still rose to 16% from

利率仍然從去年的約10%提高至16%。市場方面，由於本集團在二零零四年開發了若干國內新客戶，加上稀土氧化物出口退稅的消滅使部份外國客戶提前於二零零三年採購庫存，令國外市場在二零零四年所佔比例略為下調，日本地區的銷售比重下調幅度較大，於回顧年內只佔銷售額的9%。歐洲的出口額維持約20%。由於國內稀土氧化物延伸產品的開發及稀土應用領域的擴大，使國內市場的需求快速增長，令內銷比例從去年的60%提升至66%。

稀土應用材料三基色熒光粉生產技術不斷得到完善，產品的產量和品質均有所提高。現時本集團生產的熒光粉仍然是燈用為主，又由於國內電力供應的緊張狀況促使公眾節約用電，推行使用省電的稀土三基色熒光節能燈具，為本集團帶來極大商機。回顧年內，本集團銷售的熒光粉比去

approximately 10% last year. In terms of market performance, the Group secured several local new customers. In addition, due to the reduction of export tax rebate on rare earth products by the PRC government in 2004, several of the Group's major overseas customers ordered in advance in 2003. Hence the proportion of export sales lowered in 2004. In particular, sales to the Japanese market dropped significantly and contributed only 9% of the turnover, while sales to Europe was maintained at 20%. Following the development of downstream products and broadened rare earth applications in the PRC, domestic market demand grew rapidly. The proportion of local sales surged to 66% this year from 60% last year.

The Group's continuous efforts to improve the production technology of trichromatic phosphor resulted in the improvement in both quantity and quality of products. Lighting has remained as the major application of the Group's fluorescent powder. As electricity supply is growingly tense in China, the public has been urged to cut electricity consumption. Encouragement to the public to use energy-saving rare earth trichromatic lights brings immense

年增長約50%，其毛利率保持約20%。售價方面，由於現時仍在積極開拓市場，故在二零零四年仍然保持平穩，但對於要添加氧化鈮的綠色熒光粉，由於氧化鈮價格的大幅上升，其售價亦已有所上漲。新開發的LED粉和PDP等離子顯示粉在技術上已逐漸成熟，樣本已開始送交潛在客戶認証，即將推出市場。

由於氧化鈮的市場持續低迷，本集團已積極改變市場策略，研究將氧化鈮加工成拋光材料，以增加其價值達數倍後再行出售。本集團的精密稀土拋光粉生產線已於二零零四年第四季度建設完成並開始試產，現已得到部份客戶認可及採用。現時產品主要應用在集成電路板、液晶顯示屏及精密光學玻璃等領域。雖然目前尚未形

opportunities to the Group. During the year, the Group's sales of fluorescent powder increased by around 50% compared with 2003. Its gross profit margin remained at around 20%. Serving an expanding market, the Group kept the price of its trichromatic phosphor in 2004. However, the price of green fluorescent powder rose due to the significant increase in the price of one of the ingredients, terbium oxide. The production technology development of the newly developed LED powders and PDP powders reached the final stage. Samples were sent to potential customers for ratification. New products are expected to be launched soon.

As the market for cerium oxide remained weak, the Group adjusted its strategy to produce polishing powder materials – the better-priced downstream product of cerium oxide. The construction of polishing powder production line was completed in the fourth quarter of 2004 and trial production had commenced, and orders were received from some customers. These products are mainly used in integrated circuit board, LCD monitor and precision optical glass. Though the sales of these materials has yet to be expanded,

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成大規模的銷售，但由於中國市場對於高質素的稀土拋光粉需求量大，而國內同業的技術水平一般未能滿足市場要求，以至中國市場一直依賴外國入口優質稀土拋光粉，故本集團的優質稀土拋光粉前景樂觀。

耐火材料

相對稀土業務來說，本集團的另一主要業務耐火材料業務則較為穩定。經過二零零三年非典型肺炎疫情影响國內銷情之後，二零零四年本集團耐火材料的總銷售量已回升至約57,500噸，比去年上升逾20%。售價方面維持去年相若水平。雖然銷售量上升帶來了規模效益，但原輔材料及煤油運輸等價格的上

the demand for quality polishing powder materials is high in the PRC market. As the majority of local manufacturers are unable to match the technology standard required in producing high quality polishing powder materials, the PRC market has been relying on import, which implies that quality polishing powder materials has great market potential.

Refractory Materials

Compared with the rare earth business, the refractory materials business, another major business segment of the Group, showed more stable growth. Total sales recovered to approximately 57,500 tonnes in 2004, after the drop in domestic sales resulted from the outbreak of the Severe Acute Respiratory Syndrome in 2003. It increased by over 20% when compared with last year though selling price was similar to that of last year. Despite the economies of scale brought by the increase in sales volume, due to price



漲，使本年的毛利率基本上只能與去年持平，保持在30%以上。市場方面仍以中國國內為主。本集團亦積極拓展國際市場，除日本市場外，本年亦有產品遠銷歐洲。出口總額約佔銷售總額達27%。

本集團的高溫陶瓷是屬於耐火材料的特殊類別，主要應用在電力行業。隨著中國城市化及工業急速發展，電力需求旺盛卻供應不足，令電力建設增長迅速，加上有色金屬等行業的發展均為本集團的高溫陶瓷業務帶來機遇。由於高溫陶瓷的品質要



surges of raw and auxiliary materials, fuel, oil and transportation, the Group's gross profit margin remained at the similar level as last year at over 30%. Other than serving its major market – the PRC, the Group also actively explored other international markets. In addition to the Japanese market, the Group also marketed its products to Europe. Total export value accounted for 27% of turnover.

High temperature ceramics fall within the category of special refractory materials and are used primarily for electricity power industry. With urbanization speeding up and rapid development of different industries in the PRC, electricity supply constantly falls short of growing domestic demand, prompting the building of more electricity supply facilities. In addition, the development of industries such as non-ferrous metals brings abundant

求比一般的耐火材料嚴格，利潤亦比普通耐火材料可觀，其平均毛利率維持約40%，部份產品更高達50%以上。二零零四年本集團共銷售高溫陶瓷產品約13,700噸。

展望

稀土

雖然稀土市場已有復甦跡象，但競爭仍然激烈。預期二零零五年度稀土市場仍是偏向個別元素發展。本集團將繼續調整產品銷售結構，以迎合市場需要。展望未來，本集團將憑藉在稀土分離技術上的優勢，繼續投放資源向深加工項目發展，例如三基色熒光粉範疇下開發的LED粉和PDP等離子顯示粉期望能早日獲得客戶認可採納並展開銷售。對於新開發的拋光粉業務，本集團將繼續加大市場開拓力度，並爭取出口市場；另一方面亦打算再投入資源，

opportunities to the Group's high temperature ceramics business. As the specification requirements of high temperature ceramics are stricter than conventional refractory materials, their gross profit margin averaging at approximately 40%, topping at over 50%. In 2004, the Group sold a total of approximately 13,700 tonnes of high temperature ceramics products.

PROSPECTS

Rare Earth

The rare earth market has shown signs of recovery although competition is still intense. It is expected that the growth of rare earth market in 2005 will be dominated by individual elements. The Group will continuously adjust its product mix to meet market needs. Looking ahead, with technological advantage in rare earth separation, the Group will strive to broaden and deepen the development of value-added products such as the brand new LED powders and PDP powders under the category of trichromatic phosphor, aiming to gain customer recognition and commence sale. As for the newly developed polishing powder business, besides expanding the customer base and exploring the export

擴充設備，以生產不同系列的拋光粉，務求創立品牌效益。

除向下游發展外，本集團亦非常重視上游資源的開拓，本集團將繼續留意中國政府對稀土礦山的管理政策，尋找合適投資契機，務求組成縱向產業鏈。

耐火材料

耐火材料的市場需求雖然相對穩定，但本集團仍然不斷提升本身的技術及生產設



market, the Group also plans to invest resources to strengthening its production facilities for producing different kinds of polishing powder, hoping to establish a renowned brand.

In addition to downstream development, the Group will also place special emphasis on the development of upstream resources.

It will continue to place an eye on the policies implemented by the PRC government on rare earth mines and continue to devote itself in seeking opportunity to create a vertical industrial chain.

Refractory Materials

Although market demand for refractory materials is relatively stable, the Group will continue to enhance its technology and production

備，強化員工質素，發展多元化產品系列，以保持在行業中的優越地位。本集團將繼續利用本身在設備和技術方面的優勢，改善現有的生產設施，以加強本集團的市場競爭能力。

本集團耐火材料業務的發展方針一直是擴闊不同的高檔產品系列。本集團除了繼續開發高溫陶瓷業務外，主要應用在玻璃纖維生產設備的緻密鎂磚和緻密鎳磚生產線現已進入最後組裝階段，預期將於二零零五年第二季度完成並開始投產，為本集團耐火材料的業務帶來新增長動力。



facilities, strengthen the quality of staff and diversify its products so as to maintain its prestigious position in the industry. The Group will continue to ride on its advanced equipment and technology to improve its existing production facilities and boost its market competitiveness.

The Group used to develop its refractory materials business by producing different kinds of high-end products. Besides the continuous exploration of the high temperature ceramics business, the production lines for the highly densified zircon and highly densified chrome bricks, which are mainly used in the production facilities of glass fibre, entered the final assembly stage. It is expected to be completed and commence operation in the second quarter of 2005, after which the Group will have a new growth driver for its refractory materials business.

另一方面，本集團一直正積極尋找與耐火材料原料供應基地的合作機遇。現時本集團已確定投資目標並進行研究商討，希望可於短期內達成投資方案，務求令原料供應更有保證及成本控制更具效益。

兼併收購

根據於二零零四年一月二十九日召開的股東特別大會通過的決議案，本集團收購了Dynamic Goal Worldwide Inc.及其附屬專營高溫陶瓷業務的無錫泛亞高溫陶瓷有限公司。收購代價為207,000,000港元，以配發新股方式，以每股股份1.20港元發行172,500,000股新增股份支付。收購對象資產淨值為63,505,000港元，產生商譽143,495,000港元。

收購行動使本集團的耐火材料業務延伸至高溫陶瓷類別，有助擴闊本集團之市場領域及產品系列。無錫泛亞高溫陶瓷有限公司的業務正在

Furthermore, the Group continues to seek opportunity to co-operate with raw material suppliers of refractory materials. The Group has started negotiation with identified target, hoping to reach agreement within a short time, in order to ensure stable raw material supplies and maximize cost efficiency.

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 HK\$1.20 per share. Net asset value of the acquired object amounted to HK\$63,505,000 that led to goodwill at HK\$143,495,000.

The acquisition allowed the Group to extend the reach of its refractory materials business to cover high temperature ceramics and broaden its product category. With a rapidly growing business

迅速發展，加上其較高的毛利率，能夠為本集團創造更高的利潤。

公司管治

隨著業務發展，本公司多年前已將董事會主席與行政總裁職務分開。於二零零四年九月，本公司更增聘了一名獨立非執行董事金重先生，使獨立非執行董事人數佔整個董事會的一半。希望憑藉金先生在耐火材料的豐富經驗，能對本集團在該方面的業務發展提供寶貴意見。現時本集團的兩個主要業務—稀土及耐火材料業務均已各有一位專家加入成為獨立非執行董事。而為了加強董事會的實力，本公司亦有意增加董事會成員。

and relatively high gross profit margin, the business of Wuxi Pan-Asia will generate higher profit for the Group.

CORPORATE GOVERNANCE

Following to the growth of business, the Company separated the roles of the Chairman of the Board and the CEO many years ago. In September 2004, the Company appointed Mr Jin Zhong as an independent non-executive director, increasing the number of independent non-executive directors to half of the total number of Board members. The Group's refractory materials business will definitely benefit from Mr Jin's extensive experience in the refractory materials industry and his invaluable advice. At present, there is an expert in each of the Group's business aspect, rare earth and refractory materials, who joined the Company as an independent non-executive director. Aiming at improving the Group's strengths, the Company also intends to further increase the number of the Board members.

此外，為進一步加強本集團與投資者的聯繫，本公司管理層除了經常與一眾基金經理及投資分析員會面，介紹本集團的業務發展外，於二零零四年，更邀請了傳媒及投資者到宜興的廠房作實地參觀，希望能提高投資者對本集團的認識，增加投資信心。

法定股本

根據於二零零四年一月二十九日召開的股東特別大會通過的決議案，本公司的法定股本以新增每股面值0.10港元的普通股1,000,000,000股，由100,000,000港元增加至200,000,000港元。

流動資金及財務資源

於二零零四年十二月三十一日，本集團持有現金及銀行存款約228,418,000港元。其中約1,418,000港元的存款已抵押作為業務擔保。從收購的無錫泛亞高溫陶瓷有限公司的資產負

To facilitate communication with investors, the management not only had regular meetings with fund managers and analysts to brief them on the Group's business development, but also arranged a site visit for the media and investors to the plant in Yixing in 2004 to enhance their understanding of and confidence in 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.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2004, the Group had cash and bank balances of approximately HK\$228,418,000, within which there was a deposit at about HK\$1,418,000 pledged as business guarantee. From the assets and liabilities of the newly acquired Wuxi Pan-

債中，本集團增加了一筆50,000,000人民幣的短期銀行貸款，但已在當年償還給銀行。故於年末時維持零貸款結餘。

本集團於年末的流動資產淨額約為622,986,000港元。總負債對總資產的比率約為8%。

匯率風險

本集團大部份之資產、負債及交易均以人民幣、美元及港元列值。鑑於人民幣、美元及港元之匯率於年內相對穩定，故本集團並無面臨重大的外匯風險。

Asia, there was a short term bank loan of RMB50,000,000 added to the Group. The Group repaid it in the year and had nil bank loan as at 31 December 2004.

The Group had net current assets of approximately HK\$622,986,000 as at the end of the year. Total liabilities to total assets ratio was 8%.

EXCHANGE RATE EXPOSURE

Most of the Group's assets, liabilities and transactions are denominated either in Renminbi, US dollars and Hong Kong dollars. As the exchange rates of Renminbi, US dollars and Hong Kong dollars remained stable during the year, the Group was not exposed to material foreign exchange risk.

或然負債

於二零零四年十二月三十一日，本集團並無重大或然負債。

僱員及薪酬

於二零零四年十二月三十一日，本集團僱用員工約1,400人，包括年青大學畢業生及經驗豐富的專業翹楚。本集團為員工提供完善的薪酬及福利制度。回顧年內，僱員成本扣除董事酬金後約為17,298,000港元。本集團的購股權計劃經二零零四年六月四日召開的股東大會的決議案通過後已重新訂立，將適時授與表現出眾的員工，以鼓勵其對本集團的貢獻。

致謝

本集團能克服過去的困難而有今天的成績，實有賴全體員工的努力，以及得到各股東、投資者、客戶、供應商及業務夥伴一直以來對本集

CONTINGENT LIABILITY

As at 31 December 2004, the Group had no material contingent liability.

STAFF AND REMUNERATION

As at 31 December 2004, the Group had a workforce of approximately 1,400 staff including young graduates and experienced professionals. Comprehensive remuneration and welfare packages are offered to them. During the year, approximately HK\$17,298,000 was incurred in staff costs excluding 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. It will be granted to outstanding staff accordingly to encourage their contribution to the Group.

APPRECIATION

The Group overcomes the difficulties in the past and succeeds today. It is due to the dedication of the staff and the continuous trust and support from the shareholders, investors, customers,

團的信賴與支持。在此，本人謹代表董事會及管理層向彼等致以最衷心的謝意。

suppliers and business partners. On behalf of the Board and the management, I would like to extend my gratitude to all of them.

主席
蔣泉龍

Jiang Quanlong
Chairman

二零零五年四月七日

7 April 2005