



CHINA RARE EARTH HOLDINGS LIMITED

中國稀土控股有限公司

(Incorporated in the Cayman Islands with limited liability)  
(Stock Code: 769)

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ANNUAL RESULTS ANNOUNCEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2006

The Board of Directors (the “Board”) of China Rare Earth Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2006 together with the comparative figures for the corresponding year in 2005 as follows:

CONSOLIDATED INCOME STATEMENT

		For the year ended 31 December	
		2006	2005
		HK\$'000	HK\$'000
NOTES			
Turnover	(3)	1,031,082	769,370
Cost of sales		(732,577)	(565,407)
Gross profit		298,505	203,963
Interest income		10,066	1,804
Selling and distribution expenses		(23,802)	(21,698)
Administrative expenses		(22,673)	(21,469)
Other income, net		14,974	9,067
Finance costs	(4)	(2,995)	(21)
Profit before taxation	(5)	274,075	171,646
Taxation	(6)	(62,384)	(40,021)
Profit for the year		211,691	131,625
Attributable to:			
Equity holders of the Company		209,255	130,207
Minority interests		2,436	1,418
		211,691	131,625
Dividends	(7)	68,689	47,374
Earnings per share	(8)		
– Basic		18.0 cents	13.2 cents
– Diluted		18.0 cents	N/A

CONSOLIDATED BALANCE SHEET

		31 December 2006	31 December 2005
		HK\$'000	HK\$'000
NOTES			
Non-current assets			
Goodwill		202,242	199,715
Property, plant and equipment and construction-in-progress		568,837	570,046
Prepaid lease payments on land use rights		138,660	12,021
Other asset		900	–
		910,639	781,782
Current assets			
Prepaid lease payments on land use rights		3,002	398
Inventories		231,164	228,391
Accounts and other receivables	(9)	344,614	338,801
Prepayments and deposits		212,578	91,150
Pledged bank deposit		99,790	–
Restricted bank balances		2,854	327
Bank balances and cash		660,770	153,115
		1,554,772	812,182
Current liabilities			
Accounts payable	(10)	50,384	56,249
Accruals and other payables		35,207	44,115
Amounts due to directors		10,062	11,850
Amount due to a related company		550	1,220
Bank borrowings due within one year		95,000	–
Tax payable		36,251	31,815
		227,454	145,249
Net current assets		1,327,318	666,933
		2,237,957	1,448,715
Capital and reserves			
Share capital		142,114	98,695
Reserves		2,074,519	1,331,132
Equity attributable to equity holders of the Company		2,216,633	1,429,827
Minority interests		21,324	18,888
		2,237,957	1,448,715

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES

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

2. SEGMENT INFORMATION

Segment information for the year ended 31 December 2006 and 2005 is as follows:

(a)	Business segments	For the year ended 31 December					
		Rare Earth		Refractory		Total	
		2006	2005	2006	2005	2006	2005
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover		522,110	345,243	508,972	424,127	1,031,082	769,370
RESULTS							
Segment results		98,647	49,441	161,770	118,891	260,417	168,332
Unallocated corporate expenses					(8,387)		(7,536)
Interest income					10,066		1,804
Other income, net					14,974		9,067
Finance costs					(2,995)		(21)
Profit before taxation					274,075		171,646

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)

(b) Geographical segments

		Turnover by geographical market For the year ended 31 December	
		2006	2005
		HK\$'000	HK\$'000
The People's Republic of China (the “PRC”)		814,518	593,733
Japan		117,879	102,567
Europe		65,022	49,601
The United States of America		26,901	13,161
Others		6,762	10,308
		1,031,082	769,370

Over 90% of segment assets and additions to property, plant and equipment and land use rights of the Group are located in the PRC including Hong Kong.

3. TURNOVER

		For the year ended 31 December	
		2006	2005
		HK\$'000	HK\$'000
Sales of rare earth products (including fluorescent products)		522,110	345,243
Sales of refractory products (including high temperature ceramics products and magnesium grains)		508,972	424,127
		1,031,082	769,370

4. FINANCE COSTS

During the year, interest and bank charges on bank borrowings of approximately HK\$2,858,000 (2005: Nil) was charged and interest on discounted bills of approximately HK\$137,000 (2005: HK\$21,000) was charged.

5. PROFIT BEFORE TAXATION

During the year, profit before taxation has been arrived at after charging depreciation on property, plant and equipment of approximately HK\$71,269,000 (2005: HK\$60,985,000) and amortisation of prepaid lease payments on land use rights of approximately HK\$617,000 (2005:HK\$351,000).

6. TAXATION

		For the year ended 31 December	
		2006	2005
		HK\$'000	HK\$'000
Enterprise Income Tax (“EIT”)			
– The PRC subsidiaries		62,384	40,021

Hong Kong Profits Tax has not been provided for in the consolidated financial statements as the Group did not derive any assessable profits in Hong Kong for the year.

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, certain 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 year, 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 remaining three (2005: one) PRC subsidiaries did not derive any assessable profits.

The Group did not have any significant unprovided deferred taxation for the year or at the end of the year.

7. DIVIDENDS

		For the year ended 31 December	
		2006	2005
		HK\$'000	HK\$'000
Dividends for the year:			
– Interim, paid of HK\$0.01 per ordinary share (2005: Nil)		11,843	–
– Final, proposed of HK\$0.04 per ordinary share (2005: HK\$0.04)		56,846	47,374
		68,689	47,374

8. 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\$209,255,000 (2005: HK\$130,207,000) and the weighted average number of ordinary shares of 1,162,593,991 (2005: 986,953,059) in issue during the year.

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\$209,255,000 and the weighted average number of ordinary shares of 1,162,917,032 in issue after adjusting for the effect of dilutive potential ordinary shares in respect of share options during the year. No diluted earnings per share was shown for the year ended 31 December 2005 as there was no dilutive potential ordinary share for that year.

9. ACCOUNTS AND OTHER RECEIVABLES

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

At the balance sheet date, accounts and other receivables comprised:

		31 December 2006	31 December 2005
		HK\$'000	HK\$'000
Accounts receivable		337,443	326,865
Other receivables		15,111	20,313
		352,554	347,178
Less: Allowance for bad and doubtful debts		(7,940)	(8,377)
		344,614	338,801

An ageing analysis of accounts receivable is as follows:

		31 December 2006	31 December 2005
		HK\$'000	HK\$'000
Current to less than 6 months		305,513	286,780
6 months to less than 1 year		23,859	26,519
1 to less than 2 years		2,700	5,773
Over 2 years		5,371	7,793
		337,443	326,865

The fair values of the Group's accounts and other receivables at 31 December 2006 approximate to the corresponding carrying amounts due to short-term maturities.

10. ACCOUNTS PAYABLE

An ageing analysis of accounts payable is as follows:

		31 December 2006	31 December 2005
		HK\$'000	HK\$'000
Current to less than 6 months		42,781	48,715
6 months to less than 1 year		3,425	4,581
1 to less than 2 years		2,173	1,456
Over 2 years		2,005	1,497
		50,384	56,249

The fair values of the Group's accounts payable at 31 December 2006 approximate to the corresponding carrying amounts due to short-term maturities.

11. COMMITMENTS

At 31 December 2006, 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 consolidated financial statements, amounted to approximately HK\$247,862,000 (2005: HK\$67,461,000).

**FINANCIAL RESULTS**

As at 31 December 2006, the Group recorded a total turnover of HK\$1,031,082,000, 34% more than the HK\$769,370,000 in 2005. The turnover from rare earth products (including fluorescent materials) was HK\$522,110,000, 51% more than last year’s HK\$345,243,000 and accounting for 51% of the Group’s total turnover. Refractory materials (including high temperature ceramics and magnesium grains) brought in HK\$508,972,000 in turnover, 20% more than the HK\$424,127,000 recorded in the previous year and accounting for 49% of the Group’s total turnover. Operating in an overall favourable market environment, all business segments reported gross profit growth, bringing the Group’s gross profit margin to about 29% against about 27% last year.

During the year under review, the Group made profit before taxation of HK\$274,075,000, a gain of 60% when compared to HK\$171,646,000 of last year. The turnover and net profit of Haicheng City Suhai Magnesium Ore Co., Ltd. (“Suhai Magnesium”), HK\$68,408,000 and HK\$20,215,000 respectively, were reflected in the 2006 consolidated financial results for the first time. After deducting taxation of HK\$62,384,000, the Group’s net profit was HK\$211,691,000, representing an increase of 61% over last year’s HK\$131,625,000. Net profit margin was 21% against 17% in the previous year. Basic earnings per share for the year were HK18.0 cents against last year’s HK13.2 cents.

**DIVIDENDS**

The Board has recommended the payment of a final dividend of HK4 cents per share for 2006. Together with the interim dividend of HK1 cent already paid, total dividend for the year was HK5 cents. Subject to the approval of shareholders at the forthcoming Annual General Meeting to be held on 1 June 2007, the final dividend will be paid on or before 15 June 2007 to registered shareholders as at 1 June 2007.

The Register of Members will be closed from 29 May to 1 June 2007, 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 28 May 2007.

**BUSINESS REVIEW**

**Rare Earth**

During the year under review, the Chinese Government continued to implement a series of environmental protection and energy conservation measures, and that drove a number of small and sub-standard rare earth manufacturers out of the consolidating market. Furthermore, helped by other Government policies introduced during the year to aid stable growth of the rare earth market including reducing the export quota for rare earth, restricting the output of rare earth mines and imposing a 10% export tax on rare earth oxide products and certain rare earth metals to restrict export of rare earth resources, the market of rare earth products grew steadily and their prices surged notably. Although total sales volume of the Group’s rare earth and downstream products was maintained at the 2005 level of approximately 4,400 tonnes, total sales value surged 51% to HK\$522,110,000.

In 2006, driven by the rapid growth of industries that consume magnetic materials, demand for praseodymium, neodymium, terbium and dysprosium rose and so did their prices. The average prices of praseodymium oxide and dysprosium oxide in 2006 increased by about 70% as compared with 2005, while the price of neodymium oxide surged more than one fold. These four rare earth elements accounted for about half of the sales amount of the Group’s rare earth business. With customers having stocked up on lanthanum and cerium, prices of the two products remained low and they together accounted for only about 5% of the Group’s rare earth sales in 2006. Growing global awareness of the need to protect the environment boosted the demand for the mixture of yttrium and europium which used in energy-saving lighting products. Its sales volume went up about 50% as compared with 2005. The sales volume of fluorescent materials also increased by about 50%. The sales price of fluorescent materials rose about 10%, but benefiting from economy of scale, the gross profit margin of these products increased to over 30%.

Regarding production cost, the Chinese Government has tightened control on rare earth resources supply and stepped up regulation and restrictions on mining of mineral resources. Protectionism of the two major rare earth sources in Jiangxi and Baotou respectively also led to tense supply and in turn continuous rise in prices of rare earth ores. As a result, the average price of various rare earth ores increased by between 20% and 80% when compared with 2005. With economy of scale advantage, good relationship with suppliers and preparation well in advance, the Group was able to secure ore supply and maintain normal operation. However, with rise in product prices partially offset by increase in raw material costs, the gross profit margin of the Group’s rare earth business segment only increased to approximately 19%.

As for business performance by market, all the Group’s different markets reported growth in sales. However, as demand in the PRC for magnetic materials and fluorescent materials surged very rapidly, the PRC market climbed to about 78% of the Group’s rare earth sales.

**Refractory Materials**

The Group’s refractory materials business made progress in terms of perfecting its product profile, with higher margin products such as high temperature ceramics and magnesium grains accounting for a higher proportion of sales. During the year, the Group sold around 52,000 tonnes of ordinary refractory materials, 26,000 tonnes of high temperature ceramics and 31,000 tonnes of fused magnesium grains. The turnover of the segment increased by 20% and reached HK\$508,972,000. Fused magnesia-chrome bricks, alumina-graphite bricks and unshaped casting materials continued to be the Group’s major ordinary refractory material products, which together accounted for turnover of over HK\$150 million. Concerning production costs, the prices of major raw materials, including zircon grains, magnesium grains and chrome concentrates were relatively stable. The gross profit margin of ordinary refractory materials, high temperature ceramics and fused magnesium grains were 34%, 42% and 48%, respectively. Gross profit margin of the whole segment increased to 38%.

Regarding business performance by market, turnover of refractory materials from Japan increased by about 20% and from Europe increased by over 200% to more than HK\$10 million. However, since the Group sells its high temperature ceramics and fused magnesium grains products mainly to the domestic market, the increase in turnover share of these products resulted in the increase in share of the PRC market to account for about 80% of the total sales of refractory materials, while turnover from Japan and Europe increased slightly and together accounted for the remaining 20%.

**PROSPECTS**

Along side the booming global economy, rare earth technology and applications have continued to develop and expand. Market demand for downstream products of rare earth oxide is also increasing quickly. To encourage rare earth suppliers to supply more high value-added rare earth products, the Chinese Government has imposed strict control on rare earth mining and export quotas on rare earth products. These measures will keep rare earth product prices on constant rise in the next few years. The Group will continue to enhance its rare earth products, especially in the production of value-added downstream rare earth products, to help it capture existing market opportunities. It targets to increase the proportion of downstream rare earth products from less than 20% at present to 50% of the turnover of rare earth products in a few years.

Taking fluorescent materials as an example, the Chinese Government’s support of energy saving and environmental protection projects and promotion of energy-saving lightings in the advent of the 2008 Beijing Olympics, the plan to replace conventional light bulbs with energy-saving ones in Australia by 2010 and the resolution of European Union countries in March this year to replace traditional light bulbs by energy-saving ones for household use by 2009 will all translate into rising demand for fluorescent materials. Thus, the Group is very optimistic about the prospects of the product type and will continue to invest in facilities to grow this segment.

The Group is actively pursuing research on other value-added downstream rare earth products including catalysts for automobile exhaust gas treatment, which poses immense market potential, and will strive to launch new products as soon as possible.

In recent years, many multinational enterprises have moved their production bases to China. Some of them are in strategic cooperation with Chinese enterprises to enjoy cost advantage and convenience in tapping the lucrative Chinese market. To fully capture emerging opportunities, the Group has been actively exploring cooperative opportunities with other multinational enterprises after it formed strategic alliance with General Electric Company early last year. Such endeavors will enhance the Group’s market competitiveness and allow it to diversify and expand its business scope. 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, apart from allocating more resources into developing existing business, the Group will also strive to diversify the segment’s product offerings and broaden the range of advanced refractory material products. Riding on its subsidiary Suhai Magnesium’s fused magnesium grains business, the Group will develop high purity magnesium grains business. Construction of the new plant will be in three phases to take place over two to three years with total investment estimated at around HK\$400 million to HK\$500 million. Construction of phase one of the plant had begun with production scheduled for the end of 2007. The planned annual production capacity of phase one will reach 50,000 tonnes of high purity magnesium grains. Upon the completion of the second and third phases subject to the market demand after the first phase is completed, the total annual production capacity of the new plant will be as high as 150,000 tonnes. This will enable the Group to secure stable supply of raw materials for its refractory materials business, and thus effectively control costs. Since the gross profit margin of high purity magnesium grains is higher than the ordinary refractory materials, the new production line is set to become a significant income source of the Group.

Apart from the above large-scale investment project, the Group will continue to enhance its production facilities. For rare earth business, the new pure water production workshop was completed

and commenced operation in the first quarter of 2007. This facility will provide pure water for use in the separation of rare earth at low cost. Furthermore, construction of a new workshop for crushing raw materials of refractory products will be completed in mid 2007, which will also help improve the Group’s production efficiency and save cost.

**PLACING OF SHARES**

The Company conducted two fund raising activities in 2006. In March and April 2006, the Company placed 197,390,000 new shares at HK\$1.38 per share after which the total number of issued shares of the Group was increased to 1,184,343,059 with public float increased to over 49%. The net proceeds from the placing intended for general capital use amounted to approximately HK\$264,120,000.

In November 2006, the Company entered into an agreement to place 236,800,000 new shares at HK\$1.46 per share after which the total number of issued share of the Group was increased to 1,421,143,059 with public float increased to approximately 58%. The net proceeds from the placing amounted to approximately HK\$330,910,000, approximately 70% will be for investing into the construction of the high purity magnesium grains production facility and the balance will be used as general working capital of the Group. As at 31 December 2006, the Group had invested HK\$120 million in the high purity magnesium grains project.

**LIQUIDITY AND FINANCIAL RESOURCES**

After two placing activities, the Group’s liquidity improved markedly. The Group had cash and all bank balances of approximately HK\$763,414,000 as at 31 December 2006, of which bank deposit valued at HK\$99,790,000 was pledged as guarantee for banking facilities and upon which a bank loan of RMB95,000,000 was obtained. The Group had net current assets of approximately HK\$1,327,318,000 as at the end of the year. Total liabilities to total assets ratio was 9%.

Apart from the deposit pledged as stated above, the Group had no other charge on assets. There is no material contingent liability.

The Group was not exposed to material interest rate risk. Regarding foreign exchange, most of the Group’s assets, liabilities and transactions are denominated in Renminbi, while some are in US dollars or Hong Kong dollars. As the exchange rate of US dollars and Hong Kong dollars were relatively stable and export sales settled in US dollars usually has shorter collection period, the Group was not exposed to material foreign exchange risk despite appreciation of the Renminbi. On the contrary, the Group had an exchange gain upon translation of the financial statements into HK dollars.

**STAFF AND REMUNERATION**

As at 31 December 2006, the Group had a workforce of approximately 1,500 including young graduates and experienced professionals. The Group adopts a comprehensive staff remuneration and welfare system, including share option scheme, to motivate staff to contribute to the Group. During the year, approximately HK\$26,829,000 was incurred in staff costs including directors’ emoluments. The Group also provided regular staff training and recruited new talents to maintain competitiveness.

**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 year ended 31 December 2006.

**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 audited consolidated financial statements for the year ended 31 December 2006.

**CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has adopted its own code of corporate governance based on the principles and code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). During the year ended 31 December 2006, 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.

**MEMBERS OF THE BOARD**

As at the date of this announcement, 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, 18 April 2007