



# 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)

### ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

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 2007 together with the comparative figures for the corresponding year in 2006 as follows:

#### CONSOLIDATED INCOME STATEMENT

		For the year ended 31 December	
		2007	2006
	Notes	HK\$'000	HK\$'000
Turnover	(3)	1,385,345	1,031,082
Cost of sales		(931,232)	(732,577)
Gross profit		454,113	298,505
Interest income		17,144	10,066
Selling and distribution expenses		(45,015)	(23,802)
Administrative expenses		(32,955)	(22,673)
Other income, net		8,074	14,974
Finance costs	(4)	(5,227)	(2,995)
Profit before taxation	(5)	396,134	274,075
Income tax expense	(6)	(97,054)	(62,384)
Profit for the year		<u>299,080</u>	<u>211,691</u>
Attributable to:			
Equity holders of the Company		295,045	209,255
Minority interests		4,035	2,436
		<u>299,080</u>	<u>211,691</u>
Dividends	(7)	<u>71,057</u>	<u>68,689</u>
Earnings per share	(8)		
– Basic		<u>20.8 cents</u>	<u>18.0 cents</u>
– Diluted		<u>20.8 cents</u>	<u>18.0 cents</u>

## CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	<b>31 December 2007 HK\$'000</b>	31 December 2006 HK\$'000
<b>Non-current assets</b>			
Goodwill		<b>206,705</b>	202,242
Property, plant and equipment and construction-in-progress		<b>744,073</b>	568,837
Prepaid lease payments on land use rights		<b>159,613</b>	138,660
Prepayment on acquisition of property, plant and equipment and construction-in-progress		<b>71,731</b>	170,131
Other asset		<b>54,998</b>	900
Fixed bank deposits		<b>25,000</b>	–
		<b><u>1,262,120</u></b>	<u>1,080,770</u>
<b>Current assets</b>			
Prepaid lease payments on land use rights		<b>3,508</b>	3,002
Inventories		<b>296,254</b>	231,164
Accounts and other receivables	(9)	<b>381,623</b>	344,614
Prepayments and deposits		<b>102,763</b>	42,447
Pledged bank deposit		<b>99,790</b>	99,790
Restricted bank balances		<b>214</b>	2,854
Bank balances and cash		<b>651,992</b>	660,770
		<b><u>1,536,144</u></b>	<u>1,384,641</u>
<b>Current liabilities</b>			
Accounts payable	(10)	<b>62,113</b>	50,384
Accruals and other payables		<b>45,185</b>	35,207
Amounts due to directors		<b>560</b>	10,062
Amount due to a related company		<b>–</b>	550
Bank borrowings due within one year		<b>101,453</b>	95,000
Tax payable		<b>39,029</b>	36,251
		<b><u>248,340</u></b>	<u>227,454</u>
Net current assets		<b><u>1,287,804</u></b>	<u>1,157,187</u>
		<b><u>2,549,924</u></b>	<u>2,237,957</u>
<b>Capital and reserves</b>			
Share capital		<b>142,114</b>	142,114
Share premium and reserves		<b>2,379,578</b>	2,074,519
Equity attributable to equity holders of the Company		<b>2,521,692</b>	2,216,633
Minority interests		<b>28,232</b>	21,324
		<b><u>2,549,924</u></b>	<u>2,237,957</u>

## 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 2006.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants which are effective for accounting periods beginning on or after 1 January 2007. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

### 2. SEGMENT INFORMATION

Segment information for the year ended 31 December 2007 and 2006 is as follows:

#### (a) Business segments

	Rare Earth		Refractory		Total	
	For the year ended 31 December					
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<b>713,630</b>	522,110	<b>671,715</b>	508,972	<b>1,385,345</b>	1,031,082
RESULTS						
Segment results	<b>159,501</b>	98,647	<b>225,998</b>	161,770	<b>385,499</b>	260,417
Unallocated corporate expenses					<b>(9,356)</b>	(8,387)
Interest income					<b>17,144</b>	10,066
Other income, net					<b>8,074</b>	14,974
Finance costs					<b>(5,227)</b>	(2,995)
Profit before taxation					<b>396,134</b>	274,075
Income tax expense					<b>(97,054)</b>	(62,384)
Profit for the year					<b>299,080</b>	211,691

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**

	<b>Turnover by geographical market For the year ended 31 December</b>	
	<b>2007</b>	<b>2006</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
The People's Republic of China ("the PRC")	<b>1,145,394</b>	814,518
Japan	<b>133,098</b>	117,879
Europe	<b>73,482</b>	65,022
The United States of America	<b>26,277</b>	26,901
Others	<b>7,094</b>	6,762
	<b><u>1,385,345</u></b>	<b><u>1,031,082</u></b>

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

**3. TURNOVER**

	<b>For the year ended 31 December</b>	
	<b>2007</b>	<b>2006</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Sales of rare earth products (including fluorescent products)	<b>713,630</b>	522,110
Sales of refractory products (including high temperature ceramics products and magnesium grains)	<b>671,715</b>	508,972
	<b><u>1,385,345</u></b>	<b><u>1,031,082</u></b>

**4. FINANCE COSTS**

	<b>For the year ended 31 December</b>	
	<b>2007</b>	<b>2006</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest expenses and bank charges on bank borrowings wholly repayable within five years	<b>5,199</b>	2,858
Interest expenses on discounted bills	<b>28</b>	137
	<b><u>5,227</u></b>	<b><u>2,995</u></b>

**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\$81,796,000 (2006: HK\$71,269,000) and amortisation of prepaid lease payments on land use rights of approximately HK\$3,201,000 (2006:HK\$617,000).

## 6. INCOME TAX EXPENSE

	For the year ended	
	31 December	
	2007	2006
	HK\$'000	HK\$'000
Enterprise Income Tax ("EIT")		
– The PRC subsidiaries	<b>97,054</b>	62,384

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 both years.

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, EIT has been provided at 12% after a 50% reduction for nil (2006: two) PRC subsidiaries. EIT has been fully provided at 27% and 33% for four (2006: two) and one (2006: one) PRC subsidiaries respectively. The remaining three (2006: three) PRC subsidiaries did not derive any assessable profits.

No provision for deferred taxation has been recognised in the consolidated financial statements as there are no significant temporary differences.

## 7. DIVIDENDS

	For the year ended	
	31 December	
	2007	2006
	HK\$'000	HK\$'000
Interim dividend paid: HK\$0.01 (2006: HK\$0.01) per share	<b>14,211</b>	11,843
Final dividend proposed: HK\$0.04 (2006: HK\$0.04) per share	<b>56,846</b>	56,846
	<b>71,057</b>	68,689

## 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\$295,045,000 (2006: HK\$209,255,000) and the weighted average number of ordinary shares of 1,421,143,059 (2006: 1,162,593,991) 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\$295,045,000 (2006: HK\$209,255,000) and the weighted average number of ordinary shares of 1,421,829,893 (2006: 1,162,917,032) in issue after adjusting for the effect of dilutive potential ordinary shares in respect of share options during the 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:

	<b>31 December 2007 HK\$'000</b>	31 December 2006 HK\$'000
Accounts receivable	<b>387,586</b>	337,443
Other receivables	<b>3,283</b>	15,111
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	<b>390,869</b>	352,554
Less : Allowance for bad and doubtful debts	<b>(9,246)</b>	(7,940)
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	<b>381,623</b>	344,614
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An ageing analysis of accounts receivable is as follows:

	<b>31 December 2007 HK\$'000</b>	31 December 2006 HK\$'000
Current to less than 6 months	<b>368,277</b>	305,513
6 months to less than 1 year	<b>9,212</b>	23,859
1 to less than 2 years	<b>4,232</b>	2,700
Over 2 years	<b>5,865</b>	5,371
	<hr/>	<hr/>
	<b>387,586</b>	337,443
	<hr/> <hr/>	<hr/> <hr/>

The fair values of the Group's accounts and other receivables at 31 December 2007 approximate to the corresponding carrying amounts due to short-term maturities.

## 10. ACCOUNTS PAYABLE

An ageing analysis of accounts payable is as follows:

	<b>31 December 2007 HK\$'000</b>	31 December 2006 HK\$'000
Current to less than 6 months	<b>51,129</b>	42,781
6 months to less than 1 year	<b>6,098</b>	3,425
1 to less than 2 years	<b>2,907</b>	2,173
Over 2 years	<b>1,979</b>	2,005
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	<b>62,113</b>	50,384
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The fair values of the Group's accounts payable at 31 December 2007 approximate to the corresponding carrying amounts due to short-term maturities.

## 11. COMMITMENTS

At 31 December 2007, the Group had capital commitments authorised and contracted for in respect of acquisition and construction of property, plant and equipment and land use right, so far as not provided for in the consolidated financial statements, amounted to approximately HK\$102,398,000 (2006: HK\$247,862,000).

## **FINANCIAL RESULTS**

With its businesses reporting good progress, for the year ended 31 December 2007, the Group recorded a total turnover of HK\$1,385,345,000, about 34% more than the HK\$1,031,082,000 in 2006. The turnover from rare earth products (including fluorescent materials) was HK\$713,630,000, about 37% more than last year's HK\$522,110,000 and accounting for 52% of the Group's total turnover. Refractory materials (including high temperature ceramics and magnesium grains) brought in approximately HK\$671,715,000 in turnover, approximately 32% more than the HK\$508,972,000 recorded in the previous year and accounting for 48% of the Group's total turnover. Overall gross profit margin was boosted to 33% from about 29% last year.

During the year under review, the Group made profit before taxation of HK\$396,134,000, about 45% increase when compared to HK\$274,075,000 last year. Fast appreciation of the Renminbi during the year under review gave the Group an exchange gain of HK\$40,947,000. As a result of interest rate hike and increased bank balance, net interest income of the Group also increased to about HK\$11,917,000 from about HK\$7,071,000 last year. After the tax exemption periods expired for Wuxi Xinwei Fluorescent Materials Company Limited and Wuxi Xinwei High Temperature Ceramics Company Limited, they were required to start paying full Enterprise Income Tax at the rate of 27% during the year, and accordingly the overall effective tax rate for the Group increased. That plus the bigger profit made by the Group for the year caused taxation expense to increase by 56% from HK\$62,384,000 last year to HK\$97,054,000. Excluding taxation, the Group's net profit amounted to HK\$299,080,000, a 41% rise from HK\$211,691,000 last year. Net profit margin rose to about 22%. As the Group undertook two share placements in 2006, the total number of issued shares increased from 986,953,059 to 1,421,143,059, which diluted earnings per share. However, with net profit up substantially, earnings per share for the year increased to HK20.8 cents against HK18 cents last year.

The Chinese Government started implementing the new taxation system applicable to both domestic and foreign enterprises on 1 January 2008, charging 25% Enterprise Income Tax for domestic and foreign enterprises alike. As a result, the Group's Enterprise Income Tax will be reduced and its effective tax rate will also be lower in 2008, which will be conducive to the lifting of net profit margin in the future.

## **DIVIDENDS**

The Board has recommended payment of a final dividend of HK4 cents per share for 2007. Together with the interim dividend of HK1 cent already paid, total dividend for the year was HK5 cents per share. Subject to the approval of shareholders at the forthcoming Annual General Meeting to be held on 30 May 2008, the final dividend will be paid on or before 18 June 2008 to registered shareholders as at 30 May 2008.

The Register of Members will be closed from 27 May to 30 May 2008, 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 certificates 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 26 May 2008.

## **BUSINESS REVIEW**

### **Rare Earth**

During the year under review, new innovative high-tech products hitting the market and rising demand for consumer electronics worldwide as well as energy-saving lightings gaining support in different countries have kept market demand for rare earth, especially magnetic and fluorescent materials, on the rise. During the year, the Group sold approximately 4,800 tonnes of rare earth oxides and downstream products, about 9% more than last year. Turnover increased by 37% to HK\$713,630,000.

Among rare earth oxides, the prices of praseodymium, neodymium, terbium and dysprosium used mainly in magnetic materials continued to increase. For instance, as compared with the previous year, the average price of praseodymium oxide and neodymium oxide in 2007 rose around 60% while the average price of terbium oxide and dysprosium oxide, which have higher unit price, also increased by about 10%. In addition, the average price of mixture of yttrium and europium, which is mainly used in fluorescent materials, made a year-on-year growth of approximately 15% in 2007. The average price of lanthanum oxide, which is commonly used in glass industry, was about 30% higher than last year's.

As for downstream products, with China focusing on environmental protection and energy conservation in recent years and promoting the use of energy-saving lightings in the advent of the 2008 Beijing Olympics, and regions and countries including North America, Australia, Europe, Japan and Korea gradually replacing traditional light bulbs with energy-saving ones, demand for fluorescent materials has also climbed consistently. To meet increasing demand, the Group invested over HK\$30,000,000 in new facilities during the year under review to enhance product quality and production capacity. During the year, the Group sold around 50% more fluorescent materials in volume and around 55% more in value. The proportion of fluorescent materials sales in the total turnover of rare earth business also increased to 23%. Fluorescent materials' gross profit margin rose to approximately 35%.

Regarding production cost, supply of rare earth raw materials has been tight and correspondingly their prices have kept surging as a result of the Central Government as well as local governments of Jiangxi and Baotou, etc., areas with rich rare earth resources, stepping up regulation and control on rare earth resources mining. The average price of rare earth carbonate, rare earth oxide and rare earth chloride, for example, increased by 10% to 60% when compared with 2006. However, implementing effective cost control and price management, we managed to gradually transfer the



increase on to customers. Furthermore, we also improved production workflow, which resulted in reduced production cost and higher efficiency. These endeavors allowed the Group to raise its overall gross profit margin for the rare earth segment to approximately 27% for the year.

As for business performance by market, China continues to be a major consumer of rare earth products. It accounts for around 77% of our total turnover, followed by Europe accounting for 10% and Japan 8%.

### **Refractory Materials**

During the year under review, the Group's refractory materials business continued to develop steadily. Turnover increased by approximately 32% from last year's HK\$508,972,000 to HK\$671,715,000. As the prices of most products during the year were much the same as in the previous year, moving no more than 10%, the increase in turnover was mainly attributable to improved product mix and sales volume. During the year under review, the Group sold around 68,500 tonnes of ordinary refractory materials, 35,000 tonnes of high temperature ceramics and 39,500 tonnes of fused magnesium grains. In all, the Group sold around 30% more refractory materials this year than the previous year. In terms of products, casting materials, which are relatively easy to produce but have high technology content hence command a higher gross profit, boasted sales value reaching HK\$100,000,000. Regarding production costs, material prices varied during this year. The price of brown fused corundum and gray fused corundum was up 10% to 30% while that of zircon grains was down 10% to 30% this year. However, at the Group's effective cost control, the overall gross profit margin of refractory materials business stood at approximately 39%, similar to the previous year. As for investment in equipment, to meet increasing market demand for quality refractory materials and high temperature ceramics, the Group invested over HK\$60,000,000 this year to expand new production facilities and refurbish some of the existing facilities and lay a solid foundation for the business to expand further.

As for business performance by market, since most of the high temperature ceramics and fused magnesium grains produced by the Group were sold to the domestic market and overseas market growth slowed down with export tax rebate abolished by the Chinese Government, the China market accounted for approximately 90% of the total sales of the Group's refractory materials business.

### **PROSPECTS**

The Chinese Government has tightened control over rare earth mining and export on rare earth products. Approved by the Customs Tariff Commission of the State Council, export tariff rates of various rare earth products were increased to 15% or 25% on 1 January 2008. All these policies will see the prices of rare earth product in China on continuous surge in the next few years. Also, as manufacturers of electronics from around the world have been moving production to China, 85% of global output of LCD displays, 90% of that of notebook computers and 40% of that of LCD TVs in 2007 were from China. These production activities will continue to boost demand for rare earth

products from the China market, a trend favourable to the expansion of the Group's rare earth business. The Group will step up effort in enhancing production of value-added downstream rare earth products so as to capture surfacing market opportunities. It targets to increase in phases the proportion of turnover contribution from downstream rare earth products to 50% of the total turnover from rare earth products within the next few years.

Currently, China produces about 90% of the energy-saving lightings in the world and countries around the world are pushing forward the replacement of traditional lightings with energy-saving ones. This means demand for fluorescent materials used to produce energy-saving lightings will continue to mushroom. Furthermore, the National Development and Reform Commission and the Ministry of Finance had implemented the "Provisional Administrative Measures for Financial Subsidy on Promotion of Highly Effective Lighting Products" recently, setting clear guidelines for promoting application of energy-saving lightings using indirect financial subsidy. Considering that less than 20% of the indoor lightings used are energy-saving lightings at present, the government subsidy will brace long-term growth of energy-saving lighting products. Anticipating keen demand for fluorescent materials used to produce energy-saving lightings, the Group is actively considering expansion of production capacity for the materials so as to capture the huge opportunities in the market.

For the refractory materials segment, the Group invested over HK\$200,000,000 in developing the high purity magnesium grains business. Construction of phase one of the high purity magnesium grains production line was due to completion and will commence operation in the first half of 2008 with annual production capacity reaching 50,000 tonnes. This will enable the Group to secure stable raw materials supply for its refractory materials business, facilitating effective cost control. It will also become a new income stream of the Group. After construction of phase one is completed, the Group will start work on the rest of the project. When the entire investment project is completed, the Group will be able to produce up to 150,000 tonnes of high purity magnesium grains.

In addition, the Group will continue to negotiate with major customers to explore opportunities for tightening cooperation and forming strategic alliances. Such endeavors will enhance the Group's market competitiveness and allow it to diversify and expand its business scope. The Group will continue to look for opportunities to invest in mining so as to speed up creation of a vertical industrial chain. It will also work closely with suppliers to secure reliable raw material supply and strive to maximize economies of scale and cost effectiveness.

## **LIQUIDITY AND FINANCIAL RESOURCES**

During the year under review, although the Group started to invest in new equipment, especially for the new high purity magnesium grains project, it was also able to improve capital arrangement for operating activities, hence maintained cash and bank deposits at approximately HK\$776,996,000 (including deposit of approximately HK\$100,000,000

pledged as guarantee for business and banking facilities) as at 31 December 2007. With the deposit as pledge, the Group rolled over a short term bank loan amounted to RMB95,000,000. The Group's balance of net current assets amounted to approximately HK\$1,287,804,000 at the end of the year. Total liabilities to total assets ratio was maintained at around 9%

Except for the stated deposit pledged, the Group had no other charge on assets. There was 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, and the rest are in US dollar or Hong Kong dollar. During the period under review, the Group was not exposed to material foreign exchange risk because of appreciation of the Renminbi. On the contrary, the phenomenon brought an exchange gain upon to the Group in translation of the financial statements into HK dollars. The decrease in proportion of export sales and the relatively stable exchange rate of the US dollar and Hong Kong dollar also reduced exchange risk

#### **STAFF AND REMUNERATION**

As at 31 December 2007, the Group had a workforce of approximately 1,600 including new recruits among university graduates as well as experienced professionals. The Group adopts a comprehensive staff remuneration and welfare system, including a share option scheme, to motivate staff contribution to the Group. During the year, the Group spent approximately HK\$36,204,000 on staff costs including directors' emoluments. The Group also provided regularly on the job training to employees to maintain their professional standards.

#### **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 2007.

#### **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 2007.

#### **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 2007, 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, 26 April 2008