



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 2008

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 2008 together with the comparative figures for the corresponding year in 2007 as follows:

CONSOLIDATED INCOME STATEMENT

		For the year ended 31 December	
	NOTES	2008	2007
		HK\$'000	HK\$'000
Turnover	(3)	1,364,890	1,385,345
Cost of sales		(1,015,603)	(931,232)
Gross profit		349,287	454,113
Other revenue		13,554	18,910
Selling and distribution expenses		(60,139)	(45,015)
Administrative expenses		(105,359)	(29,087)
Other income, net		696	2,440
Finance costs	(4)	(10,288)	(5,227)
Impairment loss on goodwill		(208,804)	—
Impairment loss on property, plant and equipment		(97,498)	—
(Loss)/profit before taxation	(5)	(118,551)	396,134
Income tax	(6)	(53,856)	(97,054)
(Loss)/profit for the year		(172,407)	299,080

		For the year ended 31 December	
		2008	2007
		HK\$'000	HK\$'000
<i>NOTES</i>			
Attributable to:			
Equity shareholders of the Company		(170,972)	295,045
Minority interests		(1,435)	4,035
		<u>(172,407)</u>	<u>299,080</u>
Dividends	(7)	<u>14,211</u>	<u>71,057</u>
(Loss)/earnings per share	(8)		
– Basic		<u>(12.03 cents)</u>	<u>20.76 cents</u>
– Diluted		<u>(12.03 cents)</u>	<u>20.75 cents</u>

CONSOLIDATED BALANCE SHEET

	<i>NOTES</i>	31 December 2008	31 December 2007
		HK\$'000	HK\$'000
Non-current assets			
Goodwill		85,843	206,705
Property, plant and equipment		715,124	744,073
Prepaid lease payments on land			
under operating leases		262,444	159,613
Intangible assets		379,014	—
Deposits for acquisition of property,			
plant and equipment		—	71,731
Deposits for acquisition of interests in land			
under operating leases		—	54,998
Pledged bank deposit		15,000	—
Restricted bank balance		22,678	—
Fixed bank deposits		—	25,000
Deferred tax assets		20,432	—
		1,500,535	1,262,120
Current assets			
Prepaid lease payments on land			
under operating leases		5,746	3,508
Inventories		308,837	296,254
Trade and other receivables	(9)	412,019	381,623
Prepayments and deposits		70,042	102,763
Tax recoverable		27,799	—
Pledged bank deposits		119,797	99,790
Restricted bank balances		4,309	214
Cash and cash equivalents		765,252	651,992
		1,713,801	1,536,144

	<i>NOTES</i>	31 December 2008	31 December 2007
		HK\$'000	HK\$'000
Current liabilities			
Trade payables	(10)	116,189	62,113
Accruals and other payables		97,120	56,592
Amounts due to directors		667	560
Bank borrowings due within one year		140,123	101,453
Tax payable		9,712	27,622
Deferred consideration payables for acquisition of subsidiaries		115,659	—
		479,470	248,340
Net current assets		1,234,331	1,287,804
Total assets less current liabilities		2,734,866	2,549,924
Non-current liabilities			
Bank borrowings		155,000	—
Deferred tax liabilities		106,337	—
		261,337	2,549,924
NET ASSETS		2,473,529	2,549,924
CAPITAL AND RESERVES			
Share capital		142,114	142,114
Reserves		2,302,253	2,379,578
Equity attributable to equity shareholders of the Company		2,444,367	2,521,692
Minority interests		29,162	28,232
TOTAL EQUITY		2,473,529	2,549,924

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 2007.

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 2008. 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 2008 and 2007 is as follows:

(a) Business segments

	Rare Earth		Refractory		Total	
	For the year ended 31 December					
	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	<u>618,637</u>	<u>713,630</u>	<u>746,253</u>	<u>671,715</u>	<u>1,364,890</u>	<u>1,385,345</u>
RESULTS						
Segment results	<u>(14,960)</u>	<u>169,692</u>	<u>(94,771)</u>	<u>219,675</u>	<u>(109,731)</u>	<u>389,367</u>
Unallocated corporate expenses					(12,782)	(9,356)
Other revenue					13,554	18,910
Other income, net					696	2,440
Finance costs					<u>(10,288)</u>	<u>(5,227)</u>
(Loss)/profit before taxation					(118,551)	396,134
Income tax					<u>(53,856)</u>	<u>(97,054)</u>
(Loss)/profit for the year					<u>(172,407)</u>	<u>299,080</u>

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	
	2008	2007
	HK\$'000	HK\$'000
The People's Republic of China (the "PRC")	1,071,975	1,145,394
Japan	191,564	133,098
Europe	82,000	73,482
The United States of America	15,998	26,277
Others	3,353	7,094
	1,364,890	1,385,345

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

3. TURNOVER

	For the year ended 31 December	
	2008	2007
	HK\$'000	HK\$'000
Sales of rare earth products (including fluorescent products)	618,637	713,630
Sales of refractory products (including high temperature ceramics products and magnesium grains)	746,253	671,715
	1,364,890	1,385,345

4. FINANCE COSTS

	For the year ended 31 December	
	2008	2007
	HK\$'000	HK\$'000
Interest expenses on bank borrowings wholly repayable within five years	10,288	5,199
Other borrowing costs	—	28
	10,288	5,227

5. (LOSS)/PROFIT BEFORE TAXATION

During the year, (loss)/profit before taxation has been arrived at after charging depreciation on property, plant and equipment of approximately HK\$91,956,000 (2007: HK\$81,796,000) and amortisation of prepaid lease payments on land under operating leases of approximately HK\$4,515,000 (2007: HK\$3,201,000) respectively.

6. INCOME TAX

	For the year ended 31 December	
	2008	2007
	HK\$'000	HK\$'000
Current tax – PRC Enterprise Income Tax (“EIT”)	55,758	97,054
Deferred taxation	(1,902)	–
	<u>53,856</u>	<u>97,054</u>

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of the Cayman Islands and, accordingly, is exempted from payment of the Cayman Islands income tax.

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 and reduced corporate profits tax rate from 17.5% to 16.5% which is effective from the year of assessment 2008/2009. Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year. No provision for Hong Kong profits tax has been made as the Group had no assessable profits subject to Hong Kong profits tax during the year ended 31 December 2008 (2007: HK\$ Nil).

The PRC subsidiaries of the Group are subject to PRC EIT at 25% (2007: 27% and 33%).

On 16 March 2007, the People’s Republic of China promulgated the Law of the People’s Republic of China on Enterprise Income Tax (the “New Tax Law”) by Order No. 63 of the President of the People’s Republic of China. On 6 December 2007, the State Council issued Implementation Regulation of the New Tax Law. The New Tax Law and Implementation Regulation changed the tax rate of the PRC subsidiaries to 25% from 1 January 2008 onwards.

The PRC subsidiaries of the Group, Yixing Wellfire Nonmetal Materials Co., Ltd. and Hai Cheng Xinwei Leeshing Magnesium Resources Co., Ltd., are entitled to the exemptions from PRC EIT for two years starting from 2008, followed by a 50% tax relief for the next three years. Both companies have no estimated assessable profit for the year ended 31 December 2008 (2007: HK\$ Nil).

7. DIVIDENDS

	For the year ended 31 December	
	2008	2007
	HK\$'000	HK\$'000
Interim dividend paid: HK\$0.01 (2007: HK\$0.01) per ordinary share	14,211	14,211
Final dividend proposed: Nil (2007: HK\$0.04) per ordinary share	–	56,846
	<u>14,211</u>	<u>71,057</u>

8. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of HK\$170,972,000 (2007: profit of HK\$295,045,000) and the weighted average of 1,421,143,000 (2007: 1,421,143,000) ordinary shares in issue during the year.

Diluted loss per share for the year ended 31 December 2008 is the same as the basic loss per share as the potential additional ordinary shares in respect of outstanding share options are anti-dilutive. The calculation of the diluted earnings per share for the year ended 31 December 2007 is based on the profit attributable to equity shareholders of the Company of HK\$295,045,000 and the weighted average number of ordinary shares of 1,421,830,000 in issue after adjusting for the effect of all dilutive potential ordinary shares during the year.

9. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 to 180 days to its trade customers.

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

	31 December 2008 HK\$'000	31 December 2007 HK\$'000
Trade receivables	402,751	379,605
Other receivables	9,268	2,018
	<u>412,019</u>	<u>381,623</u>

An ageing analysis of trade receivables is as follows:

	31 December 2008 HK\$'000	31 December 2007 HK\$'000
Current to less than 6 months	324,764	368,277
6 months to less than 1 year	82,510	9,212
1 to less than 2 years	17,603	4,232
Over 2 years	4,840	5,865
	<u>429,717</u>	<u>387,586</u>
Less: Impairment loss	(26,966)	(7,981)
	<u>402,751</u>	<u>379,605</u>

The fair values of the Group's trade and other receivables at 31 December 2008 approximate to the corresponding carrying amounts due to short-term maturities.

10. TRADE PAYABLES

An ageing analysis of trade payables is as follows:

	31 December 2008 HK\$'000	31 December 2007 HK\$'000
Current to less than 6 months	104,530	51,129
6 months to less than 1 year	6,854	6,098
1 to less than 2 years	3,329	2,907
Over 2 years	1,476	1,979
	<hr/>	<hr/>
	116,189	62,113
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The fair values of the Group's trade payables at 31 December 2008 approximate to the corresponding carrying amounts due to short-term maturities.

11. CAPITAL COMMITMENTS

At 31 December 2008, 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\$57,220,000 (2007: HK\$102,398,000).

FINANCIAL RESULTS

For the year ended 31 December 2008, the Group recorded a total turnover of approximately HK\$1,364,890,000, similar to the HK\$1,385,345,000 in 2007. The turnover from rare earth products (including fluorescent materials) was approximately HK\$618,637,000, about 13% lower than last year's HK\$713,630,000 and accounting for 45% of the Group's total turnover. Refractory materials (including high temperature ceramics and magnesium grains) brought in approximately HK\$746,253,000 in turnover, slightly increased approximately 11% against the HK\$671,715,000 recorded in the previous year and accounting for 55% of the Group total. Excluding the on average around 6% appreciation of the Renminbi, the value of total sales was actually down by around 7% against last year. Although overall sales volume for the year had increased, the weakened market was not sold on the higher margin products. Moreover, the Group was also compelled to increase inventory provision substantially because of the economic downturn. All these factors together led to a drop in the overall gross profit margin of the Group from about 33% last year to approximately 26% this year.

The Group recorded a loss for the year of HK\$172,407,000 (2007 profit after taxation: HK\$299,080,000). Apart from the lower gross profit because of the deteriorating operating environment, the loss was mainly attributable to the Group having to make significant impairment provisions for certain major assets during the economic downturn. These provisions included approximately HK\$22,089,000 for receivables, approximately HK\$37,551,000 for inventories, approximately HK\$127,144,000 in total of one-off impairment loss and revaluation deficit for property, plant and equipment as re-evaluated by professional surveyors, approximately HK\$208,804,000 for goodwill impairment loss in view of the decrease in earnings, and booking for damaged and obsolete production equipment. The increased export tariff rates of rare earth products, from 10% in 2007 to 15% or 25% in 2008, also added to the selling expenses of the Group. After the new uniform 25% Enterprise Income Tax rate for both domestic and foreign enterprises took effect on 1 January 2008, the effective tax rate for the Group dropped slightly. Loss per share for the year amounted to approximately HK12.0 cents (2007 earnings per share: approximately HK20.8 cents).

DIVIDENDS

The Board did not recommend payment of final dividend for the year of 2008 (2007: HK4 cents per share).

BUSINESS REVIEW

Rare Earth Business

During the year under review, the rare earth market was relatively quiet in general and in the second half year impacted by the global economic downturn. Turnover of the segment dropped by around 13% to HK\$618,637,000 against the previous year. Excluding the effect of the 6% appreciation of the Renminbi, the drop in turnover would be 19%. The Group sold around 5,300 tonnes of rare earth and downstream products, which was 11% more than last year. The average gross profit margin was down from approximately 27% to approximately 17%.

Regarding rare earth oxides, with market demand starting to shrink in the first half of 2008, most products reported drop in sales volume in various extent. Praseodymium oxide, neodymium oxide, terbium oxide and dysprosium oxide that used mainly in magnetic materials recorded a year-on-year decrease of approximately 25% to 45% in sales volume. The sales volume of products sold at lower unit prices, such as cerium oxide priced on average below HK\$15,000 per tonne, increased by more than 1,000 tonnes. The selling prices of some products came down as well, within a 20% range, whereas the average price of individual products such as lanthanum oxide, yttrium oxide and europium oxide climbed by 28% to 63% when compared with the previous year. Although the overall sales volume of rare earth oxides for the year was around 12% higher than in the previous year, because of the change in product mix, turnover was down by more than 25%. Regarding raw material supply, heeding the surge of protectionism in source areas including Baotou and Jiangxi which require most of their rare earth resources to be reserved for local use, the Group has secured supply from Guangdong and Hunan. Thus, it has had reliable raw material supply although the unit price of material remained steady despite the economic downturn. Furthermore, the unit price of auxiliary materials, such as chemical solvents like oxalic acid, was up by approximately 10% to 20% and impairment provisions for part of the inventory had to be increased by approximately HK\$34,659,000 due to the macroeconomic factor. All the different conditions led to the fall in average gross profit margin of rare earth oxides to below 10% for the year.

As for downstream product business, demand for fluorescent materials reported satisfactory growth in the first half of 2008, but as the macroeconomic environment turned for the worse in the second half year, so did the demand for downstream products. As the majority of lighting factories in China are exporters to overseas markets in Europe and the United States and the economies in these areas went into recession in the fourth quarter, their production also shrank and in turn sales of the Group's fluorescent materials were affected. Attributable to the marked decline in selling price and sales volume in the last quarter of the year, turnover of the segment in 2008 only grew by about 5% when compared with 2007. However, instead of coming down, the price of raw materials for producing fluorescent materials surged during the year, which resulted in a decrease of the product's profit margin from 35% in 2007 to 30% in 2008.

Apart from operating rare earth oxides and fluorescent materials businesses, the Group made a stride upstream the rare earth industry via the acquisition of Jianghua Yao Nationality Autonomous County Xinghua Rare Earth Company Limited (“Xinghua Rare Earth”). Xinhau Rare Earth is based in Hunan Province, which is close to the source of rare earth minerals. It specialises in preliminary separation of rare earth by groups. In 2008, about one-third of the rare earth resources used by the Group was purchased from Xinghua Rare Earth. Given the long-term supply agreements reached between Xinghua Rare Earth and the local rare earth mining company, the acquisition has assured the Group of steady supply of rare earth materials.

On the product front, the acquisition of Heping County Dongye Rare Earth Company Limited (“Dongye Rare Earth”) has enabled the Group to broaden its product mix. Dongye Rare Earth is in Guangdong Province and produces and sells rare earth metal. With Dongye Rare Earth in the family and filling the metal products gap, the Group now boasts a more complete product portfolio, which provides us with a solid foundation for further development in downstream rare earth business.

In terms of market coverage, the rare earth business of the Group continued to sell mainly to the domestic market. China accounted for approximately 71% of its total rare earth sales, whereas Europe and Japan accounted for 12% and 14% respectively.

Refractory Materials Business

Although the business segment saw commendable growth in the first half year, business slowed down in the second half year under the shadow of the global financial crisis. Major steel and glass plants in China had to cut production and that posed challenge on the refractory material business of the Group especially in the last quarter of the year. Thus, the total turnover from the segment for the year only increased by 11% to HK\$746,253,000 from HK\$671,715,000 last year, and barring appreciation of the Renminbi, the segment grew by 4%. Except for alumina-graphite bricks and magnesia-chrome bricks, which selling price climbed 15%, the selling prices of other major products fluctuated within the 10% range. During the year, the Group sold approximately 67,000 tonnes of ordinary refractory materials, 35,500 tonnes of high temperature ceramics and 37,000 tonnes of fused magnesium grains. Sales volume of ordinary refractory materials and fused magnesium grains both decreased, whereas that of high temperature ceramics increased slightly.

Regarding costs, the prices of raw materials increased markedly with major materials like brown fused corundum and carbonated silicon used in the Sialon series up by about 20% and more than 70% respectively. Entering the second half year, affected by the macroeconomic situation, the prices of raw materials came down, but because of the high prices in the first half year, the overall profit margins of ordinary refractory materials and high temperature ceramics were squeezed to around 32% and 37% respectively.

As for the business of fused magnesium grains, with the furnaces upgraded and improved, the production volume increased and it led to that sales and turnover both reported growth in the first half of the year and selling price climbed from RMB1,750 per tonne at the beginning of 2008 to RMB2,050 per tonne in July and August. However, starting in September, with the economic environment deteriorating, demand for the product dropped and so did its selling price. By October, the product was selling at less than RMB1,500 per tonne. The price of major raw materials like magnesium ores, however, increased by over 30% during the year, hence the profit margin of the business was down to an average of around 36% in 2008.

In addition to operating ordinary refractory materials, high temperature ceramics and fused magnesium grains businesses, the Group kicked off the new raw material crushing business in August 2008. Apart from enabling the Group to improve its own raw material crushing process, with the new plant in operation, the Group can also provide crushed raw materials to other manufacturers. In other words, it has a new income stream.

Development of phase 1 of the high purity magnesium grains project of the Group with the investment of more than HK\$200,000,000 was completed. However, market demand for refractory materials was affected by the global financial crisis that hit after the Beijing Olympics. To better manage resources and avoid loss from rushing into the business in the slump market, the Group decided to postpone production at the new plant until market conditions are deemed appropriate. The Group will closely monitor the market and adjust the production plan of the new plant accordingly.

China remained as the major refractory material market of the Group. However, as the turnover from the Japan market grew by more than 30% during the year, the share of turnover contribution from Japan and Europe increased to around 15% and China claimed an approximately 85% share.

MERGERS AND ACQUISITIONS

The Group made two strategic acquisitions during the year. On 3 October 2008, through its 95%-owned subsidiary Yixing Xinwei, it signed an agreement to acquire the entire issued share capital of Xinghua Rare Earth. The acquisition was completed by the end of 2008. Calculated based on Xinghua Rare Earth's audited profit after taxation but before extraordinary items of RMB47,469,000 in 2008, the total consideration of the acquisition was RMB210,000,000, of which RMB135,000,000 was basic consideration and paid in cash in December 2008. The remaining earn-out of RMB75,000,000 will be paid in cash in 2009.

On 16 October 2008, the Group, again through Yixing Xinwei, acquired the entire issued share capital of Dongye Rare Earth at a basic consideration of RMB100,000,000 and an extra earn-out. The acquisition was also completed by the end of 2008. Based on Dongye Rare Earth's audited profit after taxation but before extraordinary items of RMB25,401,000 in 2008, the total consideration of the acquisition was set at RMB127,000,000 and the basic consideration portion was already paid in cash. The remaining earn-out portion of RMB 27,000,000 will be paid in 2009.

Upon completion of the two acquisitions, the Group has made a step further in its effort to develop its rare earth industry chain. In addition, the Group will continue to look for investment opportunities in refractory materials resources in order to further strengthen the Group's business development.

PROSPECTS

The economic stimulus packages launched by the Chinese government are expected to bear results including helping to support domestic demand in the mid-to long-term. And, as different countries are stepping up R&D efforts on energy saving technologies for such as energy-saving lightings and hybrid vehicles with rare earth as essential materials, global demand for rare earth will continue to rise. Thus, China, boasting the largest rare earth reserves and output and trading volume of rare earth, will gain strategic influence as a leader in the global rare earth market. Recognising the need to support development of the industry in the long run, the government has substantially reduced the annual rare earth export quotas and tightened control over rare earth mining. The Group thus remains optimistic about the long-term prospect of the rare earth industry.

The global financial turmoil is expected to continue in 2009 affecting different industries and the overall market sentiment. The economies in Europe, the US and Japan will hamper the business of export enterprises in China. Although the Group sells rare earth products mainly to the domestic downstream enterprises, with these enterprises operating mainly export business, its business will be indirectly impacted. Due to the quiet market sentiment around Chinese New Year in 2009, certain time has been spent on researching production technologies and adjusting workflow of the Group's rare earth production line to prepare for the market recovery. In the first quarter of 2009, the market for rare earth products used in fluorescent materials improved when compared with the fourth quarter of 2008. The Group expects the synergies resulting from the acquisition of Xinghua Rare Earth and Dongye Rare Earth to help alleviate part of the impact brought by the macroeconomic environment.

Regarding the refractory materials segment, with the steel and glass industries in the country facing tough business conditions, the Group sees continuous pressure for the segment in the coming year. However, it expects to see a faster rebound for the products used in the glass and cement sector while a slower recovery is predicted for the products used in the steel industries.

The Group will adopt prudent business strategies in combating the short term challenges in the industry. It will streamline its operational structure and seek to increase the utilisation rate of its production lines. The Group is in active negotiation with a major customer about potential cooperation on aspects in relation to production and the technology of downstream rare earth products. Apart from benefiting both parties, the cooperation, if materialized, will enhance the Group's competitiveness and business coverage.

Capitalising on its strong position in the China market and with the support of prudent business and financial strategies and broadened income streams and asset base, the Group is confident of its ability to weather the testing market conditions and grow into a stronger enterprise.

LIQUIDITY AND FINANCIAL RESOURCES

During the year, the Group utilised part of its capital to pay the basic consideration of over RMB200,000,000 for the acquisition of Xinghua Rare Earth and Dongye Rare Earth. The Group was able to secure a three-year fixed rate bank loan in the amount of US\$20,000,000 before the financial crisis hit, thus will have abundant capital to tackle the times of uncertainty ahead. The Group hold cash and bank deposits at approximately HK\$927,036,000 (including deposit of approximately HK\$160,000,000 pledged as guarantee for business and banking facilities) as at 31 December 2008. With the deposit as pledge, the Group rolled over short-term bank loans in the amounts of RMB95,300,000 and HK\$22,500,000. The Group had a balance of net current assets valued at approximately HK\$1,234,331,000 at the end of the year with total liabilities to total assets ratio increased to around 23%.

Except for the stated deposit pledged, the Group had no other charge on assets. There was no material contingent liability.

The Group did not hold any financial derivative products. Except for the interest rate differential in bank deposits with the stated bank loans, it 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 dollars or Hong Kong dollars (including the stated US\$20,000,000 bank loan). During the year, the Group was not exposed to material foreign exchange risk because of appreciation of the Renminbi. The exchange rate of the US dollar and Hong Kong dollar was relatively stable.

STAFF AND REMUNERATION

As at 31 December 2008, the Group had a workforce of approximately 1,600 including new recruits among university graduates as well as experienced professionals. The Group was able to offset the increase in overhead from the acquisition of new businesses by streamlining its human resources structure. The Group provides a comprehensive staff remuneration and welfare system, including a share option scheme, to motivate staff contribution. During the year, the Group spent approximately HK\$39,894,000 on staff costs including directors' emoluments. It also provided regular on the job training to employees to help them maintain 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 2008.

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 2008.

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 2008, 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, 24 April 2009