



中國稀土控股有限公司
China Rare Earth Holdings Limited
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 769)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011**

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 2011 together with the comparative figures for the corresponding year in 2010 as follows:

CONSOLIDATED INCOME STATEMENT

		For the year ended	
		31 December	
	<i>Note</i>	2011	2010
		HK\$'000	HK\$'000
			(restated)
Continuing operations			
Turnover	(3)	2,213,354	1,116,755
Cost of sales		(1,159,922)	(863,718)
Gross profit		1,053,432	253,037
Other revenue		7,008	4,849
Selling and distribution expenses		(214,900)	(49,600)
Administrative expenses		(122,892)	(59,482)
Other income, net		11,377	6,663
Profit from operations		734,025	155,467
Finance costs	(4)	(5,698)	(8,438)
Share of losses of jointly controlled entities		(12,244)	(832)
Profit before taxation	(5)	716,083	146,197
Income tax	(6)	(176,285)	(30,824)
Profit for the year from continuing operations		539,798	115,373
Discontinued operation			
Profit for the year from discontinued operation	(7)	15,661	23,668
Profit for the year		555,459	139,041

		For the year ended	
		31 December	
		2011	2010
		HK\$'000	HK\$'000
			(restated)
		Note	
Attributable to:			
Owners of the Company			
From continuing operations		508,598	110,874
From discontinued operation		14,878	22,485
		<u>523,476</u>	<u>133,359</u>
Non-controlling interests			
From continuing operations		31,200	4,499
From discontinued operation		783	1,183
		<u>31,983</u>	<u>5,682</u>
Earnings per share			
	(9)	HK cents	HK cents
Basic			
From continuing operations		30.41	7.05
From discontinued operation		0.89	1.43
		<u>31.30</u>	<u>8.48</u>
Diluted			
From continuing operations		30.41	7.05
From discontinued operation		0.89	1.43
		<u>31.30</u>	<u>8.48</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended	
	31 December	
	2011	2010
	HK\$'000	HK\$'000
		(restated)
Profit for the year	555,459	139,041
Other comprehensive income for the year (net of tax)		
Exchange differences on translation of financial statements of foreign operations	168,481	93,121
Share of other comprehensive income of jointly controlled entities	4,659	3,861
Surplus on revaluation of buildings held for own use	–	19,063
Deferred tax on revaluation of buildings held for own use	–	(4,055)
Deferred tax arising on change in tax rate	–	1,537
Fair value loss on available-for-sale equity securities	(7,520)	(15,760)
Reclassification adjustments relating to impairment loss on available-for-sale equity securities included in the consolidated income statements	23,280	–
Reclassification adjustments relating to disposed of foreign operations during the year	(21,063)	–
Total comprehensive income for the year	<u>723,296</u>	<u>236,808</u>
Attributable to:		
Owners of the Company	689,773	229,545
Non-controlling interests	33,523	7,263
Total comprehensive income for the year	<u>723,296</u>	<u>236,808</u>
Total comprehensive income attributable to owners of the Company		
From continuing operations	674,895	207,060
From discontinued operation	14,878	22,485
	<u>689,773</u>	<u>229,545</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31 December 2011 HK\$'000	31 December 2010 HK\$'000 (restated)
	<i>Note</i>		
Non-current assets			
Goodwill		21,776	88,971
Property, plant and equipment		469,568	601,165
Prepaid lease payments on land under operating leases		205,885	260,094
Intangible assets		88,198	329,921
Interest in jointly controlled entities		110,940	72,026
Available-for-sale equity securities		6,720	14,240
Pledged bank deposits		52,547	99,777
Deferred tax assets		8,223	23,876
		963,857	1,490,070
Current assets			
Prepaid lease payments on land under operating leases		4,874	5,956
Inventories		1,296,256	606,013
Trade and other receivables	(10)	603,405	369,972
Prepayments and deposits		101,961	89,751
Tax recoverable		1,450	8,586
Pledged bank deposits		52,177	–
Restricted bank balances		–	2,868
Cash and cash equivalents		1,530,123	1,192,774
		3,590,246	2,275,920
Current liabilities			
Trade payables	(11)	94,964	80,723
Accruals and other payables		106,713	39,920
Amounts due to directors		519	270
Bank borrowings due within one year		98,680	99,389
Tax payable		56,721	9,793
		357,597	230,095
Net current assets		3,232,649	2,045,825
Total assets less current liabilities		4,196,506	3,535,895
Non-current liabilities			
Deferred tax liabilities		31,505	94,960
NET ASSETS		4,165,001	3,440,935
CAPITAL AND RESERVES			
Share capital		167,264	167,194
Reserves		3,927,652	3,237,179
Equity attributable to owners of the Company		4,094,916	3,404,373
Non-controlling interests		70,085	36,562
TOTAL EQUITY		4,165,001	3,440,935

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 2010, except for the change in accounting policy for jointly controlled entities.

During the year, the Group has changed its accounting policy for jointly controlled entities. Previously, the Group accounted for jointly controlled entities using proportionate consolidation. During the year, the management adopted a new base to prepare budget, perform operation analysis and make administrative decision. As such, the Group changed its accounting policy for accounting of jointly controlled entities by using equity method. In the view of management, applying such new accounting policy can provide reliable and more relevant information on the Group's financial position and financial performance. This change in accounting policy has been applied retrospectively, and the comparative information has been restated as if the new accounting policy had always been applied. The change in accounting policy has no impact on the Group's net profit and net assets in the consolidated financial statement for each period presented.

The effect of change in accounting policy for jointly controlled entities on the Group's financial position and results for 2011 and 2010 are as follows:

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
For the year ended 31 December		
Increase in income	15,890	5,616
Increase in expenses	(3,864)	(5,062)
Increase in share of losses of jointly controlled entities	(12,244)	(832)
Decrease in income tax	218	278
	<hr/>	<hr/>
Change in net profit	–	–
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At 31 December		
Increase in interest in jointly controlled entities	110,940	72,026
Decrease in property, plant and equipment	(121,277)	(12,758)
Decrease in prepaid leases payments on land under operating leases – non-current portion	(18,143)	(10,941)
Decrease in deferred tax assets	(520)	(282)
Decrease in prepaid leases payments on land under operating leases – current portion	(480)	(228)
Decrease in inventories	(18,221)	(5,714)
Decrease in trade and other receivables	(9,521)	(2,018)
Decrease in prepayments and deposits	(3,391)	(4,753)
Decrease in cash and cash equivalents	(30,050)	(36,154)
Decrease in trade payables	434	–
Decrease in accruals and other payables	48,373	822
Decrease in bank borrowings due within one year	8,003	–
Decrease in bank borrowings – non-current portion	33,853	–
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Change in net assets	–	–
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Except for the above, the Group also applied the new standards, amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants which are effective for accounting periods beginning on or after 1 January 2011. The application of these new standards, amendments and interpretations has no material impact on the results and the financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment is required.

2. SEGMENT INFORMATION

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to Chief Executive Officer, who has been identified as the Group's chief operating decision maker, for the purposes of resource allocation and performance assessment, the Group has identified two reportable segments as follows:

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)

(a) Segment revenue and results

Continuing operations

	Rare Earth		Refractory		Total	
	2011	2010	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(restated)		(restated)		(restated)
REVENUE						
Revenue from external customers	1,765,808	693,702	447,546	423,053	2,213,354	1,116,755
Inter-segment revenue	–	15	–	–	–	15
Reportable segment revenue	<u>1,765,808</u>	<u>693,717</u>	<u>447,546</u>	<u>423,053</u>	<u>2,213,354</u>	<u>1,116,770</u>
RESULTS						
Reportable segment profit	<u>697,014</u>	<u>94,646</u>	<u>56,274</u>	<u>64,053</u>	<u>753,288</u>	<u>158,699</u>

Discontinued operation

	Rare Earth	
	2011	2010
	HK\$'000	HK\$'000
REVENUE		
Revenue from external customers	82,434	208,365
Inter-segment revenue	—	—
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Reportable segment revenue	82,434	208,365
	<hr/> <hr/>	<hr/> <hr/>
RESULTS		
Reportable segment profit	4,432	31,734
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(b) Geographical information

Revenue from external customers:

	Continuing operations		Discontinued operation	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The People's Republic of				
China (the "PRC")	1,449,758	856,182	82,434	208,365
Japan	229,100	142,025	—	—
Europe	355,428	80,026	—	—
The United States of America	164,164	30,401	—	—
Others	14,904	8,121	—	—
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	2,213,354	1,116,755	82,434	208,365
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

3. TURNOVER

	2011	2010
	HK\$'000	HK\$'000
		(restated)
Sales of rare earth products (including fluorescent products)	1,765,808	693,702
Sales of refractory products (including high temperature ceramics products and magnesium grains)	447,546	423,053
	<hr/>	<hr/>
	2,213,354	1,116,755
	<hr/> <hr/>	<hr/> <hr/>

4. FINANCE COSTS

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i> (restated)
Interest expenses on bank borrowings wholly repayable within five years	5,698	8,409
Other borrowing costs	–	29
	<u>5,698</u>	<u>8,438</u>

5. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i> (restated)
Depreciation of property, plant and equipment	85,529	88,264
Amortisation of prepaid lease payments on land under operating leases	5,456	5,278
Amortisation of intangible assets	12,295	11,799
Impairment loss on available-for-sale equity securities	23,280	–
	<u>126,560</u>	<u>115,341</u>

6. INCOME TAX

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i> (restated)
Current tax – PRC Enterprise income tax (“EIT”) – Provision for the year	179,839	36,957
Deferred taxation – Origination and reversal of temporary differences	(3,554)	(6,133)
Income tax charge	<u>176,285</u>	<u>30,824</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.

No provision for Hong Kong Profits Tax has been made as the Group had no net assessable profits subject to Hong Kong Profits Tax during the year.

The PRC subsidiaries of the Group are subject to PRC EIT at 25% (2010: 25%), except for two PRC subsidiaries of the Group, which 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, and except for one PRC subsidiary of the Group, which is entitled to a preferential income tax rate of 15%.

7. DISCONTINUED OPERATION

During the year, the Group disposed of its entire interest in Jianghua Yao Nationality Autonomous County Xinghua Rare Earth Company Limited at a consideration of RMB257,000,000 for cash. The disposal was completed on 12 August 2011. The profit for the year from discontinued operation which have been included in the consolidated income statement are as follows:

	1 January 2011 to 12 August 2011 HK\$'000	1 January to 31 December 2010 HK\$'000
Turnover	82,434	208,365
Cost of sales	(76,643)	(173,328)
Gross profit	5,791	35,037
Other revenue	–	2
Administrative expenses	(1,359)	(3,551)
Other income, net	–	313
Profit before income tax	4,432	31,801
Income tax	(1,108)	(8,133)
Profit for the year	3,324	23,668
Gain on disposal	20,823	–
Attributable income tax on disposal	(8,486)	–
Profit for the year from discontinued operation	15,661	23,668

8. DIVIDENDS

A final dividend of HK2 cents per share amounting to approximately HK\$33,453,000 was proposed by the directors for the year ended 31 December 2011 and is subject to approval by shareholders at the forthcoming annual general meeting (2010: nil).

9. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the earnings attributable to owners of the Company of approximately HK\$508,598,000 (2010: HK\$110,874,000) for continuing operations and approximately HK\$14,878,000 (2010: HK\$22,485,000) for discontinued operation and the weighted average number of ordinary shares of 1,672,329,000 (2010: 1,572,688,000) in issue during the year.

The calculation of the diluted earnings per share is based on the earnings attributable to owners of the Company of approximately HK\$ 508,598,000 (2010: HK\$110,874,000) for continuing operations and approximately HK\$14,878,000 (2010: HK\$22,485,000) for discontinued operation and the weighted average number of ordinary shares of 1,672,541,000 (2010: 1,573,349,000) in issue after adjusting for the effect of all dilutive potential ordinary shares during the year.

10. TRADE AND OTHER RECEIVABLES

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

At 31 December 2011, trade and other receivables comprised:

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i> (restated)
Trade and bills receivables	370,354	345,053
Amount due from a joint venture partner	21,318	7,169
Amount due from a former subsidiary	166,380	—
Other receivables	45,353	17,750
	<hr/>	<hr/>
	603,405	369,972
	<hr/> <hr/>	<hr/> <hr/>

An ageing analysis of trade and bills receivables is as follows:

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i> (restated)
Current to less than 6 months	332,690	314,178
6 months to less than 1 year	33,507	26,974
1 to less than 2 years	15,924	12,602
Over 2 years	23,777	18,120
	<hr/>	<hr/>
	405,898	371,874
Less: Impairment loss	(35,544)	(26,821)
	<hr/>	<hr/>
	370,354	345,053
	<hr/> <hr/>	<hr/> <hr/>

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

11. TRADE PAYABLES

An ageing analysis of trade payables is as follows:

	2011 HK\$'000	2010 HK\$'000 (restated)
Current to less than 6 months	81,152	70,868
6 months to less than 1 year	8,455	7,691
1 to less than 2 years	4,161	868
Over 2 years	1,196	1,296
	<u>94,964</u>	<u>80,723</u>

The fair values of the Group's trade payables at end of the year approximate to the corresponding carrying amounts due to short-term maturities.

12. COMMITMENTS

At 31 December 2011, the Group had capital commitments authorised and contracted but not provided for in the consolidated financial statements as follows:

	2011 HK\$'000	2010 HK\$'000
Acquisition and construction of property, plant and equipment	<u>8,531</u>	<u>6,212</u>

13. CONTINGENT LIABILITIES

At 31 December 2011, a jointly controlled entity of the Group is covered by a guarantee issued by a subsidiary of the Group to a bank in respect of banking facilities granted to the jointly controlled entity to the extent of HK\$271,370,000 (2010: nil). The maximum liability of the Group under the guarantee is the amount of the facilities drawn down by the jointly controlled entity, being HK\$49,340,000 (2010: nil). No recognition of the guarantee was made because the fair value of it was insignificant and that the director did not consider it probable that a claim will be made against the Group under the guarantee.

FINANCIAL RESULTS

For the financial year ended 31 December 2011, the Group has disposed of its entire interest in Jianghua Yao Nationality Autonomous County Xinghua Rare Earth Company Limited, a subsidiary of the Group, and, in turn, has caused the rare earth salts business within the rare earth sector to be a discontinued operation. During the year under review, the Group's turnover from continuing operations reached approximately HK\$2,213,354,000, a jump of 98% when compared with that of HK\$1,116,755,000 in 2010. The turnover from rare earth products increased by more than 150% to approximately HK\$1,765,808,000 compared to that of HK\$693,702,000 in 2010, accounting for about 80% of the Group's total turnover. The refractory materials business brought in approximately HK\$447,546,000, at a similar level compared to HK\$423,053,000 in 2010 and accounting for about 20% of the Group's total. The overall gross profit margin substantially increased from around 23% last year to around 48%, attributable to the outstanding performance of the rare earth sector. The discontinued operation, the rare earth salts business, contributed a profit of HK\$15,661,000 for the year, less than the profit of HK\$23,668,000 recorded in 2010.

Net profit for the year under review amounted to approximately HK\$555,459,000, nearly a four-fold surge compared to last year's HK\$139,041,000. Earnings per share for this year were about HK31.30 cents (2010: HK8.48 cents).

FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK2 cents per share for the year (2010: nil). Subject to the approval of shareholders at the forthcoming annual general meeting ("2012 AGM") to be held on 8 June 2012, the final dividend will be paid on or before 28 June 2012 to registered shareholders whose names appear on the Company's register of members as at the close of business on 14 June 2012.

CLOSURE OF REGISTER OF MEMBERS AND RECORD DATE

For determining the entitlement to attend and vote at the 2012 AGM

The Company's register of members will be closed from 5 June 2012 to 8 June 2012, both days inclusive, during which period no transfer of shares will be registered. To ensure that shareholders are entitled to attend and vote at the 2012 AGM, shareholders must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 4 June 2012 for registration of the relevant transfer.

For determining the entitlement to the proposed final dividend

The proposed final dividend is subject to the approval of shareholders at the 2012 AGM. For determining the entitlement to the proposed final dividend for the year ended 31 December 2011, the record date is fixed on 14 June 2012. Shareholders must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to the Company's branch registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on 14 June 2012 for registration of the relevant transfer.

BUSINESS REVIEW

Rare Earth Business

The turnover of the Group's continuing operations of rare earth business increased by over 150% from HK\$693,702,000 last year to HK\$1,765,808,000 while gross profit margin also increased to more than 50%.

Rare earths are becoming increasingly important in the wide range of industrial applications, and their role in the global economy has become more widely appreciated around the world. These trends, together with Chinese Government's protective policies, especially the "National Guideline to Support the Sustainable and Healthy Development of Rare Earth Industry from the State Council", have driven the strong domestic and overseas demand for rare earths and led to an unprecedented surge in rare earth prices in the first half of 2011. Prices of some of the rare earth elements have seen growth in multiples of up to five to seven times during the first half of 2011. Although the prices of rare earth products have started to reduce from their peak last July to August due to the reduction of inventory by traders and deferred procurement by customers, prices still registered substantial hikes in annualised terms. Domestically, the average selling prices of most rare earth products were several times higher than in 2010. The prices of praseodymium oxide and neodymium oxide tripled while those of dysprosium oxide, ytterbium oxide and yttrium-europium co-precipitates were four-to-five times higher. Prices of samarium oxide, gadolinium oxide and cerium oxide soared more than six-fold. Facing stricter export quota limits, export prices have been significantly higher than domestic sales prices. The average export prices of ytterbium oxide, gadolinium oxide and holmium oxide have been nearly doubled those of domestic prices during the year under review, while those of samarium oxide, yttrium oxide and neodymium oxide were more than three times higher.

During the year under review, various responsible authorities in China conducted large scale environmental protection inspections on all the rare earth enterprises in the country. Enterprises which failed to meet the relevant standards would be forced to suspend operations. These requirements and their subsequent enforcement show the determination of the Government to protect the environment of the nation and all the rare earth enterprises attached importance to this move. The Group has constantly promoted environmental protection and has already complied with environmental protection standards. However, as a leading enterprise in China's rare earth industry, it has devoted more resources in upgrading its production facilities and sacrificed part of the production time to continually conduct self-evaluation exercises on its environmentally-friendly production. Despite of the decrease in production volume during the year under review, the Group's achievement in environmental protection has gained recognition from responsible Government authorities. Apart from the drop in production volume, the gradual decline in the average selling price of domestic rare earth materials in China in the second half of the year and the intervention of the China's customs on the export price of rare earth products have also affected the export market. In response to the rising price trend, some of the overseas customers have decided to take a wait-and-see attitude and reduced their inventory. As a result, most of the rare earth enterprises in the country did not fully utilise their export quotas in 2011. Nevertheless, the Group has used all of its allocated export quota through its Hong Kong arm. During the year under review, the Group sold approximately 2,000 tonnes of rare earth oxides, down by more than 30% compared to last year.

As for downstream products, Wuxi Xinwei Fluorescent Materials Company Limited, one of the Group's wholly-owned subsidiary, completely suspended production of fluorescent materials in the second half of 2011. Alternatively, Phase I of the production facility of OSRAM (China) Fluorescent Materials Co., Ltd., which was jointly invested by the Group and OSRAM GmbH, commenced trial production in July 2011, with some output placed on the market. As some of the equipment requires a longer time for the production team to complete testing for full operation, the factory has not commenced mass production and is expected to generate notable profit contribution for the Group after it ramps up for full production later in 2012. This facility, deploying some of the world's most advanced equipment, will ensure that its operation and procedures are executed in an environmentally-friendly manner.

For rare earth metals, since rare earth oxides are a key raw material of rare earth metals yet the price rises of rare earth metals lagged behind that of rare earth oxides, hence the Group concentrated its effort to boost the sales of rare earth oxides which enjoys higher gross profit margins. This shift caused a drop in sales of rare earth metals of approximately 80% to less than 100 tonnes for the Group's subsidiary – Heping County Dongye Rare Earth Company Limited. Nevertheless, as the average selling price of its products more than tripled when compared to last year, the turnover decreased by only about 30%.

Geographically, as the export prices were far higher than domestic prices, the proportion of turnover generated by the export market increased from 18% on average to around 37%, with Europe, Japan and the US occupying 20%, 9% and 7% respectively, and the PRC market accounting for the remaining 63%.

As for upstream rare earth salts business, the Chinese Central Government has stepped up efforts to implement stronger restrictions on the mining of rare earth resources, leading to the dominance of state-owned large enterprises in the market. This policy has adversely affected the Group's supply of raw materials at its rare earth salts production lines in Hunan. From January to July 2011, Jianghua Yao Nationality Autonomous County Xinghua Rare Earth Company Limited, a subsidiary of the Group, has produced less than 1,500 tonnes of rare earth salts products. In view of the Chinese Government's tighter controls in the extraction of rare earth mines, the Group adjusted its development strategy to match the national policy by disposing of its entire interest in the subsidiary at a consideration of RMB257,000,000 in August 2011, an increase of RMB47,000,000 over the acquisition price of RMB210,000,000 in 2008. This move led such business to become discontinued operation. After factoring in the appreciation of Renminbi in the past few years, such discontinued operation presented a profit of HK\$15,661,000 in the financial statements of the year, less than the profit of selling 5,200 tons of rare earth salts products last year. After disposal, the Group has managed to restructure its business by focusing more on the development of its middle and downstream businesses.

Refractory Materials Business

Total turnover of the Group's refractory materials business rose slightly by around 6% from HK\$423,053,000 in 2010 to HK\$447,546,000 and the gross profit margin was about 21%.

During the year under review, the demand from the glass and steel industries has slowed down and therefore the demand for refractory materials has lagged behind that of other businesses. In 2011, the average selling price of the Group's ordinary refractory materials increased slightly when compared with last year. For example, the price of alumina-graphite bricks rose by about 10% against last year while the price of magnesia-alumina spinel bricks and fused magnesium-chrome bricks grew by less than 20%. Total sales volume decreased by around 10% to about 40,000 tonnes over last year. The drop of sales volume has pushed up the average cost of the products and the gross profit margin of refractory materials for export to Japan has also declined. As a result, overall gross profit margin of the ordinary refractory materials has shrunk to about 17%.

As for high temperature ceramics, after several production lines were shut down in mid-2010, only the workshop for the Sialon product series remained in operation in the whole year of 2011. During the year under review, the Group sold a total of approximately 4,500 tonnes of products, a drop of approximately 60% when compared with last year. The average selling price remained at a level similar to last year's, fluctuating within a 10% range and the gross profit margin was about 20%.

Regarding the magnesium grain business, the sales volume of the Group's fused magnesium grain slightly increased by about 5% over last year to 16,000 tonnes, with the average selling price remaining at a similar level to that of 2010. The gross profit margin was about 16%. The Group's high purity magnesium grain project commenced production in late 2010. It has sold approximately 43,000 tonnes in the year, with sales amount exceeding HK\$60,000,000 and a gross profit margin of around 24%.

In June 2011, the Group set up another joint venture, Yixing AGC Ceramics Co., Ltd., with Asahi Glass Ceramics Co., Ltd. from Japan to construct a plant to produce shaped and sintered refractory materials for the cement industry. Introducing advanced Japanese technologies to China, the major part of the factory, including a high temperature tunnel kiln, is to be completed soon. A trial run is scheduled in April 2012. Its annual production target is 34,000 tonnes and the total investment cost is US\$29,800,000.

By market segment, the total turnover of the refractory materials business was similar to that of the previous year, with 78% for the domestic market in China and 22% for export.

PROSPECTS

Rare earths are strategically important industrial resources that can be widely used in high-tech applications such as electronics, communication, energy saving technologies and super conductivity. The hydrogen storage materials, also made from rare earth, widely used in emerging industries such as alternative energy vehicles, represents a market segment with huge potential for expansion. According to market data, 62% of the total consumption of rare earths are used in new materials including permanent magnet, illumination, hydrogen storage and catalysts in 2010, a rise of nearly 34% when compared with 2009.

The domestic market for rare earths has in fact gradually slowed down during the first quarter of 2012, in particularly the selling price of rare earth oxides. However, after the Chinese Government further imposed regulatory controls over the rare earth industry and supported the emerging industries, the supply in upstream operations became tight and the downstream demand began to increase. It is believed that the performance in 2012 may be weaker compared with the strong growth for the year under review, but we remain prudently optimistic about the future development of the rare earth market.

In late 2011, the Ministry of Commerce of the PRC announced the 2012 first batch of export quotas totalling 10,546 tonnes of rare earths. As one of the eleven companies that passed the environmental protection examination conducted by the Ministry of Environmental Protection of the PRC, we have secured our share of export quota and have become an exemplary enterprise within the industry. The quota was granted as a result of the environmental protection examination. In addition, the introduction of "Emission Standard for Pollutants from Rare Earth Production" has also highlighted the importance of environmental protection to this industry. Besides, there is the possibility that a special value-added tax invoice for the rare earth sector may be launched in

2012. This is expected to eliminate the SMEs and unqualified enterprises in the rare earth industry, and to suppress unsupervised production, so ultimately the supply in the industry would be better regulated.

On the other hand, the fluorescent materials produced by OSRAM (China) Fluorescent Materials Co., Ltd. are important elements for the manufacture of energy-saving lighting, so its business is expected to rapidly grow under those favourable policies once full production ramps up. Yixing AGC Ceramics Co., Ltd. should also turn into a significant new profit contributor after it is completed and starts production in 2012. The adjusted high temperature ceramics production line is to focus on the production of the Sialon product series. Samples provided to overseas customers have received positive feedback, and the high temperature ceramics line is expected to increase the Group's export sales.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has continued to maintain prudent capital arrangements, and has sufficient cash on hand. As at 31 December 2011, the Group had cash and bank deposits of approximately HK\$1,634,847,000, of which RMB84,900,000 was pledged to a domestic bank to secure a RMB80,000,000 short-term loan for its subsidiaries in the PRC. As at the end of 2011, the Group had a balance of net current assets valued at approximately HK\$3,232,649,000, with the total liabilities to total assets ratio at around 9%.

During the year, Yixing Xinwei Leeshing Refractory Materials Co., Ltd., a wholly owned subsidiary of the Group, provided certain corporate guarantee to a bank in the PRC to facilitate OSRAM (China) Fluorescent Materials Co., Ltd., a 49.9% owned joint venture of the Group, to obtain loan financing from the bank. As at the end of the year, OSRAM (China) Fluorescent Materials Co., Ltd. had drawn loans of RMB40,000,000 in total from the bank with the guarantee.

Except for the deposits pledged as aforesaid, the Group had no other charge on assets. Except for the guarantee as stated above, there was no other material contingent liability. The Group did not hold any financial derivative products. Except for the interest rate differential in bank deposits with the aforementioned bank loans, it was not exposed to material risk from interest rate fluctuations. 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. During the year, the Group was not exposed to material foreign exchange risks caused by appreciation of the Renminbi. The exchange rate of the US dollar and Hong Kong dollar was stable.

STAFF AND REMUNERATION

As at 31 December 2011, the Group had a workforce of approximately 1,100 including new recruits among university graduates as well as experienced professionals. The Group provided a comprehensive staff remuneration and welfare system, including a share option scheme, to motivate staff to contribute their best efforts. During the year, the Group spent approximately HK\$55,796,000 on staff costs including directors' emoluments. It has also provided regular on-the-job training to employees to help them maintain professional standards. In 2011, the Group has engaged external professionals to explain the importance of internal control to the staff at our Yixing headquarters.

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 2011.

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 2011.

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 under review, the Company has complied with the code provisions set out in Appendix 14 of the Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has devised its own code of conduct regarding directors' dealing in the Company's securities (the "Company Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Specific enquiry has been made to all directors and the directors have confirmed that they have complied with the Company Code and the Model Code throughout the year under review.

ANNUAL GENERAL MEETING

The 2012 AGM of the Company will be held on 8 June 2012. A notice convening the annual general meeting will be published and dispatched to shareholders of the Company in accordance with the requirements of the Listing Rules in due course.

MEMBERS OF THE BOARD

As at the date of this announcement, the Board consists of Mr. Jiang Quanlong, Ms. Qian Yuanying 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, 30 March 2012