

## China Rare Earth Announces 2007 Annual Results Net Profit Up 41% to Reach HK\$299,080,000

### Financial Highlights

- Turnover increased approximately 34% to HK\$1,385,345,000.
  - Sales of rare earth products (including fluorescent materials) amounted to HK\$713,630,000, an increase of around 37% compared with 2006.
  - Sales of refractory materials (including high temperature ceramics and magnesium grains) amounted to HK\$671,715,000, an increase of around 32% compared with 2006.
- Gross profit increased 52% to HK\$454,113,000. Gross profit margin was approximately 33%. Net profit increased 41% to HK\$299,080,000. Net profit margin was about 22%.
- Earnings per share were HK20.8 cents.

(27 April 2008 – Hong Kong) — Rare earth and refractory materials manufacturer **China Rare Earth Holdings Limited** (“China Rare Earth” or the “Group”) (stock code: 769) today announced its annual results for the year ended 31 December 2007.

The Group’s turnover amounted to HK\$1,385,345,000, representing an increase of approximately 34% as compared with last year. Profit before taxation up approximately 45% from last year to HK\$396,134,000. Gross profit margin was further increased to 33% from 29% last year. Due to the expiration of the tax exemption periods, Wuxi Xinwei Fluorescent Materials Company Limited and Wuxi Xinwei High Temperature Ceramics Company Limited 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% to HK\$97,054,000. Net profit was HK\$299,080,000, representing an increase of 41% over last year. Net profit margin rose to about 22%. Earnings per share were HK20.8 cents (2006: HK18.0 cents).

The Board of Directors has declared the 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 would be HK5 cents.

### Rare earth business (including fluorescent materials)

In 2007, the Chinese Government has tightened the measures on rare earth mining and export, the industry was starting to consolidate. Moreover, as various consumer electronics developed rapidly, the demand and price of rare earth products kept rising. 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.

**Mr. Jiang Quanlong, Chairman of China Rare Earth**, said, “Among rare earth oxides, the prices of praseodymium, neodymium, terbium and dysprosium used mainly in magnetic materials

continued to increase, ranging from 10% to 60% in average. 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 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%."

Supply of rare earth raw materials has been tight and correspondingly their prices have kept surging as a result of the Central Government and local governments of Jiangxi and Baotou, etc., areas with rich rare earth resources, stepping up regulation and control on rare earth resources mining. Their average price increased by 10% to 60% when compared with 2006. However, implementing effective cost control and price management, the Group managed to gradually transfer the increase on to customers. Furthermore, improved production workflow 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 business (including high temperature ceramics and magnesium grains)**

Over the year, the Group has proactively seize towards upstream development, focused on increasing the contribution of high value-added products to the total sales as well as cost control, the business developed steadily as a result.

During the year under review, turnover increased by approximately 32% from last year's to HK\$671,715,000, mainly attributable to improved product mix and sales volume. 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 higher technology content hence command a higher gross profit, boasted sales value reaching HK\$100,000,000. Regarding production costs, material prices varied during the 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. Besides, the Group invested over HK\$60,000,000 this year to expand new production facilities and refurbish some of the existing facilities in order to meet increasing market demand for quality refractory materials and high temperature ceramics.

As for business performance by market, 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 with export tariff rates of various rare earth products were increased to 15% or 25% since 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, such production activity 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 and 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. 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. The government indirect financial subsidy will promote long-term growth of energy-saving lighting products, which will result in 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. When the entire investment project is completed, the Group will be able to produce up to 150,000 tonnes of high purity magnesium grains.

**Mr. Jiang** concluded, "We will continue to negotiate with major customers to explore opportunities for tightening cooperation and forming strategic alliances. Such endeavors will enhance our market competitiveness and allow it to diversify and expand its business scope. We 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.”

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**About China Rare Earth Holdings Limited (Stock Code: 769)**

China Rare Earth Holdings Limited has been listed on the Stock Exchange of Hong Kong Limited since October 1999. The Group is engaged in the manufacture and sales of rare earth (including fluorescent materials) and refractory products (including high temperature ceramics and magnesium grains). Rare earth products are widely applied in traditional industries including steel, metallurgy, construction, glass, and petrochemical, and high-tech industries such as electronics, communications, aerospace and medical equipment. Refractory products are used extensively in industrial refractory facilities for petrochemical, metallurgy, non-ferrous metallurgy, construction, glass, chemical fertilizers, ceramics and power industries, etc. For more information, please visit the company's web site at <http://www.creh.com.hk>.

**For press enquiries:**

**Strategic Financial Relations Limited**

Joanne Lam 2864 4816 joanne.lam@sprg.com.hk  
 Jover Wong 2114 4955 jover.wong@sprg.com.hk  
 Linda Pui 2864 4873 linda.pui@sprg.com.hk  
 Fax: 2804 2789 / 2527 1196  
 Website : <http://www.sprg.com.hk>

**Appendix: Consolidated income statement for 2007**

	<b>For the year ended 31 December</b>	
	<u>2007</u>	<u>2006</u>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover	<b>1,385,345</b>	1,031,082
Cost of sales	<b>(931,232)</b>	(732,577)
Gross profit	<b>454,113</b>	298,505
Interest income	<b>17,144</b>	10,066
Selling and distribution expenses	<b>(45,015)</b>	(23,802)
Administrative expenses	<b>(32,955)</b>	(22,673)
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 period	<b>299,080</b>	211,691
Attributable to:		
Equity holders of the Company	<b>295,045</b>	209,255
Minority interests	<b>4,035</b>	2,436
	<b>299,080</b>	211,691
Dividends	<b>71,057</b>	68,689
Earnings per share		
- Basic	<b>20.8 cents</b>	18.0 cents
- Diluted	<b>20.8 cents</b>	18.0 cents