



[For Immediate Release]

China Rare Earth Announces 2006 Annual Results
Net Profit Up 61% to Reach HK\$ 211,691,000

Financial Highlights

	<u>2006</u>	<u>2005</u>	<u>Change %</u>
Turnover (HK\$)	1,031,082,000	769,370,000	34%
Net Profit (HK\$)	211,691,000	131,625,000	61%
Dividend per share (HK cents)	5	4	25%

(19 April 2007 – 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 2006.

Turnover surged to HK\$1,031,082,000, 34% more than the HK\$769,370,000 in 2005. Profit before taxation was HK\$274,075,000, a gain of 60% when compared to HK\$171,646,000 of last year. Gross profit margin was 29%. Net profit was HK\$211,691,000, representing an increase of 61% over last year's. Net profit margin was 21%. Basic earnings per share for the year were HK18.0 cents. (2005: HK13.2 cents).

The Board has recommended payment of a final dividend of HK4 cents per share for 2006. Together with the interim dividend of HK1 cent already paid, total dividend for the year would be HK 5 cents.

As at 31 December 2006, the Group had cash and bank balances, including pledged deposit, of approximately HK\$763,414,000. Net current assets amounted to approximately HK\$1,327,318,000. Total liabilities to total assets ratio was 9%.

Mr. Jiang Quanlong, Chairman of China Rare Earth, said, “The Group actively expanded its business in 2006. It forged strategic alliance with one of the world's largest business corporations General Electric Company and a major Korean fluorescent materials user. These moves are expected to see the Group expand its downstream product portfolio, improve production technology, open up more export markets and lay a solid foundation for further development. For its refractory materials business, the Group acquired Haicheng City Suhai Magnesium Ore Co. in December 2005 and took the first step to enter the upstream business. The deal has assured the Group's access to raw material supply for its refractory material products and presented the Group with a new source of profit for 2006.”

Rare earth business (including fluorescent materials)

In 2006, the Chinese Government introduced a series of policies to reinforce control over export and supply of rare earth materials, including reducing the export quota for rare earth products, restricting the output of rare earth mines and imposing a 10% export tax on rare earth oxide products and certain rare earth metals. All these measures together have put the rare earth products market on the steady growth track and their prices surged notably during the year. The total sales volume of the Group's rare earth and downstream products was maintained at the 2005 level of approximately 4,400 tonnes, but total sales value surged 51% to HK\$522,110,000, accounting for 51% of the Group's turnover.

Driven by the rapid growth of industries that consume magnetic materials in 2006, demand for praseodymium, neodymium, terbium and dysprosium rose and so did their prices. The average prices of praseodymium oxide and dysprosium oxide in 2006 increased by about 70% as compared with 2005, while the price of neodymium oxide surged more than one fold. These four types of rare earth products accounted for about half of the sales of the Group's rare earth business.

Growing global awareness of the need to protect the environment has boosted demand for the yttrium and europium mixture used in energy-saving lighting products. The sales volume of such mixture went up about 50% as compared with 2005. As for fluorescent materials, sales volume also increased by about 50%. The sales price of fluorescent materials rose about 10% but the gross profit margin of these products increased to over 30% as a result of economy of scale.

The Chinese Government has tightened control on rare earth resources supply and stepped up regulation and restrictions on mining of mineral resources resulting in constant surge in the average price of various rare earth ores by between 20% and 80% when compared with 2005. With good relationship with suppliers and having done relevant preparation to assure rare earth supply, the Group was able to maintain normal operation. However, with rise in product prices partially offset by increase in raw material costs, the gross profit margin of the Group's rare earth business segment only increased to approximately 19%.

By market, all the Group's different markets reported growth in sales. However, as demand in the PRC for magnetic materials and fluorescent materials surged very rapidly, the PRC market's share of rare earth sales climbed to about 78% of the Group's total rare earth sales.

Refractory materials business (including high temperature ceramics and magnesium grains)

The Group's refractory materials business saw its product profile perfected, with higher margin products such as high temperature ceramics and magnesium grains accounting for a higher proportion of sales.

During the year, the Group sold around 52,000 tonnes of ordinary refractory materials, 26,000 tonnes of high temperature ceramics and 31,000 tonnes of fused magnesium grains. The turnover of the segment increased by 20% and reached HK\$508,972,000, accounting for 49% of the Group's total turnover. Fused magnesia-chrome bricks, alumina-graphite bricks and unshaped casting materials continued to be the Group's major ordinary refractory material products, which together accounted for turnover of over HK\$150 million. Regarding production costs, the prices of major raw materials, including zircon grains, magnesium grains and chrome concentrates were relatively stable. The gross profit margin of ordinary refractory materials, high temperature ceramics and fused magnesium grains were 34%, 42% and 48%, respectively. Gross profit margin of the segment increased to 38%.

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

Prospects

The Group will continue to enhance its rare earth products, especially in the production of value-added downstream rare earth products. It targets to increase the proportion of downstream rare earth products from less than 20% at present to 50% of the turnover of rare earth products in a few years.

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

The Group is actively pursuing research on other value-added downstream rare earth products including catalysts for automobile exhaust gas treatment, which poses immense market potential, and will strive to launch new products as soon as possible. The Group will also continue to explore cooperative opportunities with other multinational enterprises to enhance the Group's market competitiveness and expand its business scope. It will also seek opportunities to invest in rare earth mines so as to speed up creation of a vertical industrial chain.

As for the refractory materials business, the Group will develop high purity magnesium grains business by riding on its subsidiary Suhai Magnesium's fused magnesium grains business. Construction of the new plant will be in three phases to take place over two to three years. Total investment is estimated at around HK\$400 million to HK\$500 million. Construction of phase one of the plant had begun with production scheduled for the end of 2007. The planned annual production capacity of phase one of the plant will be 50,000 tonnes of high purity magnesium grains. When the whole project is completed, the new plant will have a total annual production capacity of 150,000 tonnes. This will enable the Group to secure stable supply of raw materials for its refractory materials business, and thus effectively control costs. Since the gross profit margin of high purity magnesium grains is higher than the ordinary refractory materials, the new production line is set to become a significant income source of the Group.

The Group will continue to enhance its production facilities. For the rare earth business, a pure water production workshop was completed and commenced operation in the first quarter of 2007. This facility will provide pure water for use in the separation of rare earth at low cost. Furthermore, construction of a new workshop for crushing raw materials of refractory products will be completed in mid 2007 to help the Group improve production efficiency and save cost.

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About China Rare Earth Holdings Limited

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>.

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Enclosed: Consolidated income statement for 2006

Consolidated Income Statement for 2006

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