

[For Immediate Release]

## China Rare Earth Announces 2007 Interim Results Net Profit Up 30% to Reach HK\$124,523,000

### Financial Highlights

- Turnover increased approximately 32% to HK\$619,848,000
  - Sales of rare earth products (including fluorescent materials) amounted to HK\$338,793,000, an increase of around 46% compared with 1H2006
  - Sales of refractory materials (including high temperature ceramics and magnesium grains) amounted to HK\$281,055,000, an increase of around 18% compared with 1H2006
- Gross profit increased 34% to HK\$190,486,000. Gross profit margin was approximately 31%. Net profit increased 30% to HK\$124,523,000. Net profit margin was about 20%
- Earnings per share were HK8.65cents

(14 September 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 interim results for the six months ended 30 June 2007.

The Group’s turnover amounted to HK\$619,848,000, representing an increase of approximately 32% compared with HK\$470,703,000 in the corresponding period last year. Profit before taxation up approximately 36% from HK\$124,684,000 in the corresponding period last year to HK\$169,921,000. Gross profit margin was about 31%. Net profit was HK\$124,523,000, representing an increase of 30% over same period last year. Net profit margin was maintained at about 20%. Earnings per share were HK8.65 cents (1H 2006: HK8.80 cents).

In view of these positive results, the Board of Directors has declared the payment of an interim dividend of HK[1] cent per share for 2007 (1H 2006: HK1 cent).

### Rare earth business (including fluorescent materials)

The turnover of rare earth products (including fluorescent materials) amounted to approximately HK\$338,793,000, an increase of around 46% compared with the corresponding period last year. The total sales volume of the Group’s rare earth and downstream products was approximately 2,490 tonnes, representing a rise of 25% as compared with the same period last year.

**Mr. Jiang Quanlong, Chairman of China Rare Earth**, said, “Driven by rapid development of high-tech products and consumer electronics, demand for rare earth products increased substantially. The average prices of praseodymium oxide and neodymium oxide in this first half year leaped around 120% when compared with the same period last year, and lanthanum oxide also increased by almost 20%. Concerning heavy rare earth elements, like erbium oxide and gadolinium oxide, also surged around 60% to 80% on average, while mixture of yttrium and europium, which are used in the manufacture of fluorescent materials, rose 5%.”

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“As for downstream products, the sales of polishing powder came on track after the Group improved related technologies. The Group also recorded a 67% increase in fluorescent powder sales volume, driven by the huge demand for energy-saving lightings. The product accounted for 22% of overall rare earth turnover and its gross profit margin increased to 35%.”

Starting from 1 February 2007, the Ministry of Land and Resources of the Chinese Government changed its guidance for mining of rare earth to instructions, representing tightening of control and regulation on rare earth mining. The move led to tense supply and in turn continuous price hikes for rare earth products. For instance, the average prices of carbonated rare earth, oxidized rare earth and chlorinated rare earth increased by approximately 40% to 130% when compared with the same period last year. However, through effective control of costs or transfer of increased costs onto customers, the average gross profit margin of our Group’s rare earth business steadily increased to approximately 24%.

By market, contribution from the PRC market to total sales of rare earth increased to 77%, while markets in Europe and Japan accounted for 12% and 7% respectively. There was an increasing demand for rare earth products in both the PRC and overseas markets. However, as the authority delayed granting of export quotas this year, export sales were affected to some extent.

### **Refractory materials business**

During the period, the Group’s refractory materials business grew steadily with an overall turnover reached HK\$281,055,000, a gain of 18% against the same period last year. Within which, sales of ordinary refractory materials and high temperature ceramics reached HK\$247,862,000. Up to 46,600 tonnes of the product was sold, around 17% more than in the same period last year.

Product prices were similar to those in the last corresponding period. The prices of major products, such as fused magnesia-chrome bricks, magnesia-alumina spinel bricks and unshaped casting materials, varied no more than 10%. However, since another major product alumina-graphite bricks were mainly for export overseas, as a result of cancellation of export tax rebate starting this year, the average book price of the product less value-added tax dropped and accordingly the gross profit margin of ordinary refractory materials was down slightly to 32%.

With price of high temperature ceramics relatively stable, its gross profit margin was maintained at over 40%. Regarding fused magnesium grains, with power shortage alleviating, its sales volume increased by 40% to approximately 14,700 tonnes against the last corresponding period. In addition, its average price rose slightly, hence its turnover for the first half year increased to HK\$33,193,000 and gross profit margin was stable at around 50%.

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By market, since the high temperature ceramics and fused magnesium grains the Group focused on developing in recent years are mainly for domestic sales, rise in sales of these products accordingly increased the share of contribution from the domestic market to about 85% of the segment's overall sales.

### **Prospects**

As the Chinese Government will continue to place strict control on rare earth mining and tighten rare earth export quotas, the rare earth product prices are expected to be pushed up in the next few years. In order to capture rising market opportunities, the Group will step up effort to enhance production of value-added downstream rare earth products. The Group targets to increase in stages the proportion of turnover contribution from downstream rare earth products to 50% of the total turnover from rare earth products in the coming few years.

**Mr. Jiang** pointed out, "In the advent of the 2008 Beijing Olympics, the Chinese Government has been encouraging use of environmental friendly and energy saving lightings. Countries and regions including North America, Australia, Europe, Japan and Korea are also gradually replacing conventional lightings with energy saving lightings. Therefore, our Group will continue to expand this segment including actively consider expansion of production capacity so as to satisfy this immense market demand. As for refractory materials business, construction of phase one of our Group's new high purity magnesium grains production line has begun. Foundation work of the plant is progressing smoothly and equipment will be installed in the fourth quarter for production to begin by the end of this year. When the plant commences operation, our Group will have reliable material supply and also a new major income source."

Furthermore, the Group will continue to forge strategic alliances with major customers like it had with General Electric Company early last year. Such alliances will allow the Group to gain competitiveness and expand business scope. 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**

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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**Appendix: Consolidated income statement for the first half of 2007**

	<b>For the six months ended 30 June</b>	
	<u>2007</u>	<u>2006</u>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Turnover	<b>619,848</b>	470,703
Cost of sales	<b>(429,362)</b>	(328,259)
Gross profit	<b>190,486</b>	142,444
Interest income	<b>9,489</b>	2,233
Selling and distribution expenses	<b>(17,622)</b>	(10,378)
Administrative expenses	<b>(18,079)</b>	(12,326)
Other income, net	<b>8,159</b>	3,378
Finance costs	<b>(2,512)</b>	(667)
Profit before taxation	<b>169,921</b>	124,684
Taxation	<b>(45,398)</b>	(28,725)
Profit for the period	<b>124,523</b>	95,959
Attributable to:		
Equity holders of the Company	<b>122,900</b>	94,743
Minority interests	<b>1,623</b>	1,216
	<b>124,523</b>	95,959
Dividends	<b>14,211</b>	11,843
Earnings per share		
- Basic	<b>8.65 cents</b>	8.80 cents
- Diluted	<b>8.64 cents</b>	8.80 cents