



STRATEGIC FINANCIAL RELATIONS LIMITED  
縱橫財經公關顧問有限公司

[For Immediate Release]

## **China Rare Earth Announces 2009 Interim Results**

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### **Strives to Develop Value-added Downstream Rare Earth Products Capture Business Potentials when Market Revives**

(22 September 2009 – 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 2009.

The Group’s turnover amounted to HK\$499,943,000 (same period last year: HK\$783,880,000). Profit before taxation was HK\$41,042,000 (same period last year: HK\$290,960,000). Overall gross profit margin was around 17%; after deducting taxation of HK\$20,437,000, net profit of the Group amounted to HK\$20,605,000. Earnings per share for the period were 1.48 HK cents. The Board of Directors does not recommend the payment of an interim dividend for the period.

#### **Rare earth business (including fluorescent materials)**

Turnover from rare earth business was HK\$259,670,000, a 25% drop against the same period last year, accounting for 52% of the Group’s total turnover. During the period, the Group sold approximately 1,000 tonnes of rare earth oxides and downstream products, about 67% less than the quantity sold in the same period last year.

Hit hard by the global financial crisis, economies around the world continued to deteriorate and consumer confidence plummeted in the first half of 2009 which affected the demand for various products such as motor vehicles and consumer electronics. Amid the sluggish market, both prices and sales volume of most rare earth oxides products dropped. Turnover for the period decreased by more than 50% when compared with the same period last year. With production volume reduced, average cost was pushed up, thus, the Group recorded operating loss for rare earth oxides business.

For the performance of fluorescent materials, as the majority of lighting factories in China are exporters to overseas markets in Europe and the United States and those economies went into recession, and correspondingly sales of the Group’s fluorescent materials were hampered. With reduced production volume leading to rise in average cost, gross profit margin of the division was squeezed to below 15%.

Nevertheless, the businesses of rare earth salt derived from preliminary separation of rare earth by groups and rare earth metal products which were newly acquired by the Group has bolstered both sales and profit of its rare earth business. During the review period, the Group sold about 1,100 tonnes of rare earth salt and about 180 tonnes of rare earth metal. Their relatively higher gross profit margins helped to partially offset the decrease in sales of rare earth oxides and fluorescent materials. However, eroded by amortisation of intangible assets, the net profit contribution from these two kinds of products amounted to only approximately HK\$20,000,000 in the first half of the year.

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

Turnover from the refractory materials business for the first half year dropped 45% to HK\$240,273,000, accounting for 48% of the Group's total turnover. As for ordinary refractory materials and high temperature ceramics, sales amount and sales volume were dropped by 42% and 48% respectively. Unshaped casting materials which command a higher gross profit margin recorded a relatively bigger drop of around 90% in turnover when compared with the last corresponding period, making it the main attributor to the dwarfed turnover of the segment.

The operating environment of the steel and glass industries was affected by the macro economy under pressure in China. As a result, sales of the refractory materials business were sluggish. The selling price of most of the products, including high temperature ceramics, in this segment also declined. The average price of fused magnesium grains in the ordinary refractory materials category had an approximately 40% rise in average selling price which mitigated the overall reduction. In terms of gross profit margin, that of ordinary refractory materials was maintained at above 30% during the period under review and that of high temperature ceramics was at about 20% because of the drop in selling price and sales volume.

The performance of the fused magnesium grains business was also restricted by the drop in demand for refractory materials. The Group externally sold only approximately 5,000 tonnes of fused magnesium grains during the period, down by more than 70% when compared with the last corresponding period. The drop in sales volume also led to a significant rise in average cost and in turn gross profit margin to narrow to less than 20%.

### **Prospects**

Looking ahead, **Mr. Jiang Quanlong, Chairman of China Rare Earth**, commented, "Entering the second half year, the demand in the rare earth market has been recovering gradually, but it will take time for the prices of products to climb. In around May and June of the year, demand for fluorescent materials started to rise, which indicates that the worst time for the industry has passed. The synergies resulting from the acquisition of Xinghua Rare Earth and Dongye Rare Earth last year will also alleviate the negative impacts from the macro economy. Furthermore, determined to protect strategic national resources and support development of the rare earth industry in the long run, the Chinese Government has been gradually reducing the annual export quotas of rare earth products and tightening control over rare earth mining. All these taken into account, we remain optimistic about the prospects of the rare earth industry."

To keep expanding downstream rare earth business and enhancing the added value of products, the Group is working with a leading overseas lamp company to form a joint venture to research, develop, produce and sell quality fluorescent material products. The joint venture company, which will have an annual production capacity of about 2,000 tonnes, will sell its major products in the PRC as well as international markets.

In addition, the Group intends to invest around RMB200,000,000 in a high-end LCD rare earth polishing powder production line. The new products, when launched, can satisfy the excess demand of such products in the country currently relying mainly on imports. Upon completion of the project, the Group's annual production capacity for polishing powder will reach 2,000 tonnes, and the production is expected to gradually begin in 2010.

As for refractory material business, **Mr. Jiang** further disclosed, "The business started to pick up in the second quarter after the decline in the first quarter of the year, and, stepping into the third quarter, it has shown more apparent signs of recovery. The business of magnesium grains has also warmed up as a result. Thus, the Group intends to start trial production of phase I of the completed high purity magnesium grains line within a month. It expects related production to generate strong returns for the Group."

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

China Rare Earth Holdings Limited 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	<a href="mailto:joanne.lam@sprg.com.hk">joanne.lam@sprg.com.hk</a>
Jover Wong	2114 4955	<a href="mailto:jover.wong@sprg.com.hk">jover.wong@sprg.com.hk</a>
Linda Pui	2864 4873	<a href="mailto:linda.pui@sprg.com.hk">linda.pui@sprg.com.hk</a>
Fax:	2804 2789 / 2527 1196	
Website :	<a href="http://www.sprg.com.hk">http://www.sprg.com.hk</a>	

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