

[For Immediate Release]

## **China Rare Earth Announces 2009 Annual Results Broadens Product Mix for Wider Range of Income Sources**

(19 April 2010 – 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 2009.

The Group recorded a turnover of approximately HK\$1,211,683,000 (2008: HK\$1,364,890,000). As products’ selling price was adjusted and production volume was reduced which pushed up the average cost, overall gross profit margin dropped to about 19%. The Group has managed to turn around to profitability, net profit after taxation amounted to approximately HK\$84,683,000 (2008: loss of HK\$172,407,000), primarily due to the provision of more than HK\$300,000,000 made for the impairment of goodwill and machinery and equipment during the economic downturn last year and no similar provision was made during the year under review. Earnings per share for this year were about HK 5.75 cents (2008: loss per share of about HK 12.03 cents).

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

Economies around the world were challenged by recession in the first half of 2009, which in turn depressed the demand for rare earths. Despite the slight improvement in market sentiment starting from the third quarter of the year, the demand for rare earth products was still sluggish and the price of rare earth materials remained low. The businesses of rare earth salts (derived by preliminary separation of rare earth ore by groups) together with rare earth metal products which were newly acquired by the Group, bolstered both sales and profit of the Group’s rare earth business. The Group sold about 7,000 tonnes of rare earth and downstream products, a growth of about 32% against last year. Turnover of overall rare earth business increased by about 3% to HK\$637,725,000 against the same period last year and accounted for 53% of the Group’s total turnover. The average gross profit margin decreased from about 17% to about 6%.

For rare earth oxides division, total sales volume dropped by about 30% in the face of prevailing sluggish market conditions. Most of the products reported a decreased selling price. The Group’s sales revenues of rare earth oxides fell by about 35%. Regarding raw materials, given the overall weak market for rare earths in the first half of the year, most of manufacturers deferred procurement and therefore some mines in southern China partly suspended their production lines. With the overall market situation reviving in the second half of the year, the selling price of rare earth raw materials, by then in slightly short supply, rose. Rare earth oxide business recorded an operating loss during the year.

As for downstream product business, market demand started to rebound in mid-2009 and the Group strived to prospect for new customers. Sales volume of fluorescent materials in 2009 remained nearly the same as in 2008. However, with selling price down ranging from 25% to 35%, annual sales revenue were reduced by approximately 33% and the gross profit margin was squeezed to approximately 17%.

The Group broadened its product mix via the acquisition of Jianghua Yao Nationality Autonomous County Xinghua Rare Earth Company Limited (“Xinghua Rare Earth”) and Heping County Dongye Rare Earth Company Limited (“Dongye Rare Earth”), it sold about 2,800 tonnes of rare earth salts and about 380 tonnes of rare earth metals. With gross profit margins higher than those of the other rare earth products, they 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 divisions amounted to approximately HK\$44,000,000 in the year under review.

To enhance the value of its fluorescent material products, the Group entered into a joint venture agreement in China with OSRAM, a leading global lighting manufacturer, on 18 October 2009 to engage in research, development, production and sale of high quality fluorescent materials. The major products of the joint venture are tri-band phosphors for the lighting industry which will be sold both within China and abroad. The joint venture will have an annual production capacity of 2,000 tonnes when in full operation.

The Group has also finalised the planning of construction of the high-end LCD rare earth polishing powder production line which will be located in the existing plant in Yixing. Upon completion of the project, the Group’s annual production capacity of polishing powder will reach 2,000 tonnes.

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

The refractory materials business was affected by the slack economy, with the Group’s sales revenue from refractory materials segment dropped by approximately 23% to HK\$573,958,000 against HK\$746,253,000 in 2008, accounting for 47% of total turnover.

As for ordinary refractory materials and high temperature ceramics, the Group sold approximately 76,000 tonnes of products in 2009, a drop of about 25% from 2008. Price movements of products vary, with prices of major products experienced fluctuations of less than 10%. Costs of raw materials also varied individually. Fuel costs increased in step with international trends, as the year-end price of heavy oil increased by more than 50% from the beginning of the year. The gross profit margins of ordinary refractory materials and high temperature ceramics remained at over 30%.

Regarding the fused magnesium grain business, the average selling price was able to maintain a similar level to last year's price. But sales volume dropped over 60% also led to a rise in average cost, and, in turn, gross profit margin narrowed to approximately 20%. Besides, the Group took the advantage of the recovery in the refractory materials market in the fourth quarter of 2009 and started the trial production of phase I of the high purity magnesium grains line.

### **Prospects**

With the economic stimulus packages launched by governments around the world, more signs of recovery were observed. At present, demand for rare earth products picked up slightly, but customers are still conservative in placing orders. China will continue to implement a series of measures to protect these strategic resources as well as the natural environment of the country which would tighten control over rare earth mining, raise the entry barrier and reduce export quotas. These moves are intended to facilitate the sustainable development of the industry and maintain the prices of rare earth leveling an upward trend. So the Group is confident about the long-term business prospects.

To make the most of the revival of the industry in line with the Central Government's policy to encourage the development of high value-added rare earth businesses, the Group has strived to develop the downstream rare earth business. The joint venture with OSRAM to manufacture tri-band phosphors would benefit the Group by enhancing its research and development technology for fluorescent materials and enlarging its presence in the growing global energy-saving lighting market. Required documents are submitting to the Government for the approval of the joint venture with production lines expected to be completed and in operation by the end of the year.

The Group is preparing to build a high-end LCD rare earth polishing powder production line, and to start production in 2010 to satisfy rising domestic demand. To secure sufficient raw materials for the expansion of downstream products manufacturing, the Group also considers increasing the capacity of rare earth separation in due course.

For the refractory materials business, benefiting from the growing needs for more infrastructures in China, the demand for the refractory materials is expected to increase at a faster pace. The Group will step up research and development efforts to introduce more quality refractory products, thus creating better solutions for various industrial needs.

**Mr. JIANG Quanlong, Chairman of China Rare Earth**, concluded, "Adhering to our prudent business strategies, the Group will continue to streamline operational structure and enhance the utilisation rate of production lines. Leveraging our leading presence in China and through our ongoing efforts to become a vertically integrated products producer, we are ready to grasp the opportunities presented by the reviving market and to scale new heights of success for China Rare Earth."

**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>.

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**Appendix: Consolidated income statement for 2009**

	<b>For the year ended 31 December</b>	
	<u>2009</u>	<u>2008</u>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover	<b>1,211,683</b>	1,364,890
Cost of sales	<b>(980,246)</b>	(1,015,603)
Gross profit	<b>231,437</b>	349,287
Other revenue	<b>19,310</b>	13,554
Selling and distribution expenses	<b>(38,306)</b>	(60,139)
Administrative expenses	<b>(58,314)</b>	(105,359)
Other income, net	<b>8,183</b>	696
Finance costs	<b>(17,968)</b>	(10,288)
Impairment loss on goodwill	—	(208,804)
Impairment loss on property, plant and equipment	—	(97,498)
Profit/ (loss) before taxation	<b>144,342</b>	(118,551)
Income tax	<b>(59,659)</b>	(53,856)
Profit/ (loss) for the year	<b>84,683</b>	(172,407)
Attributable to:		
Owners of the Company	<b>84,593</b>	(170,972)
Minority interests	<b>90</b>	(1,435)
	<b>84,683</b>	(172,407)
Dividends	—	14,211
Earnings/ (loss) per share		
- Basic	<b>5.75 cents</b>	(12.03) cents
- Diluted	<b>5.75 cents</b>	(12.03) cents

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