

[For Immediate Release]

## **China Rare Earth Announces 2010 Annual Results**

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### ***Maintains Diversified Product Strategy and Continues to Strengthen Vertical Integration***

(30 March 2011 – 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 2010.

During the year under review, the Group recorded a turnover of HK\$1,319,504,000, an increase of approximately 9%. The overall gross profit margin rose slightly to about 22% from 19% last year. Net profit was HK\$139,041,000, an increase of approximately 64% from last year. Earnings per share were 8.48 HK cents (2009: 5.75 HK cents).

#### **Rare earth business**

As a result of the Chinese Government's measures to raise the threshold for new entrants to rare earth separating industry, tighten control over upstream rare earth ore output and reduce the export quota as well as the rebound in demand for rare earth products, turnover of the Group's rare earth business increased by approximately 41% to HK\$896,451,000, accounting for 68% of the Group's total turnover. Overall gross profit margin also increased from 6% last year to approximately 19%.

In the Group's rare earth oxides division, the price of rare earth oxides rebounded notably during the year under review. Although the Group's export volume were affected by the reduction in the export quota, the Group still sold about 2,000 tonnes of rare earth oxides within China, more than 30% over last year's volume. Total production volume also increased by approximately 40% to about 3,000 tonnes. The Group also managed to pass on the rise in raw material costs to its customers. As a result, the rare earth oxides business achieved a turnaround with gross profit margins reaching approximately 22%. To capture the opportunities presented by the recovering market and alleviate pressure from the future cost increases, the Group has not only increased production, but has also invested more than HK\$400,000,000 in procurement of raw materials during the year under review.

As for downstream products, the Group's fluorescent powder and polishing powder were mainly for the domestic market, where customers could not digest a significant increase in selling prices. Thus, prices during the year under review remained at a similar level as in 2009.

However, as the increase in the price of rare earth oxides suppressed gross profit margin to less than 10%, the Group reduced the production and sales of downstream products. In 2010, only 350 tonnes were sold, about a 27% drop against 2009.

For upstream products, the selling prices of rare earth salts increased ranging from 30% to 40% because of the limited supply nationwide under the regulatory measures taken by the Chinese Government. However, the gross profit margin shrunk to around 20% only due to rising raw material costs. Besides, increases in material costs exceeded those of rare earth metal prices, thus reducing the gross profit margin of rare earth metals to less than 10%. During the year under review, the Group sold around 5,200 tonnes of rare earth salts and around 360 tonnes of rare earth metals.

### **Refractory materials business**

As the glass and steel industries in China have not yet fully recovered from the economic tsunami, turnover in refractory materials dropped around 26% to HK\$423,053,000, occupying 32% of total turnover. Gross profit margin was approximately 27%.

The Group's ordinary refractory materials recorded sales volume of approximately 45,000 tonnes. Although the price movements of different products varied, the sales amount dropped around 22% after the Group adjusted the product mix. Increases in costs of major raw materials and heavy oil dragged the gross profit margin of this division to around 20%.

The demand for high temperature ceramics has not fully recovered. As the Chinese Government has increased its attention to the policies for energy conservation and emissions reduction, the market demand for thermal power has declined accordingly. To cope with the market trend, the Group has suspended the production lines of related products in the second half year and continued only the operation of workshop for the Sialon product series, resulting in a year-on-year drop of more than 40% in the overall sales volume of high temperature ceramics. The products of the Sialon Series recorded a sales volume of approximately 6,000 tonnes in 2010, similar to that of last year. The average selling price rose by approximately 5% while gross profit margin remained at about 30%.

During the year, the demand for the Group's upstream product - fused magnesium grain resumed at a faster pace, with a sales volume increase exceeding 20% to 15,000 tonnes, a 15% hike in the average selling price and an around 40% surge in the amount of sales. Gross profit margin maintained at about 20%, a level similar to last year. The high purity magnesium grain project invested by the Group has commenced production in 2010 with sales starting in December. The management planned to increase the production volume of high purity magnesium grain gradually to seize growth opportunities in the market and improve the overall profitability of its refractory materials business.

## **Prospects**

The Group expects the demand for rare earth to surge, benefiting from the reviving global economy and the intimate relationship between rare earth and some industries particularly those related to energy saving and environmental protection, alternative energy, new energy vehicles and new materials. These areas are included within the seven strategic emerging industries designated by the Chinese Government. The prices of rare earth materials should also remain in upward trend accordingly. Hence, the Group, as a first-mover in the industry, should benefit from the increased efforts of the Central Government to consolidate the entire rare earth industry. The management has prudently utilised the capital to acquire rare earth resources to fully capture the growth opportunities in the market and enhance domestic sales to offset export declines and the decreasing supply of some rare earth raw materials.

The Group will also adjust its product portfolio strategically by expanding into downstream product businesses such as fluorescent materials and polishing powder and increasing the sales of upstream rare earth salt products to better vertically integrate its industry chain. The construction of Phase I of the production facility for the joint venture fluorescent materials company set up with OSRAM GmbH is accelerating. It is expected to commence operation in June to July 2011 with an annual production capacity of 1,000 tonnes of tri-band phosphors.

As for the refractory materials business, the Group believes that the measures planned by the Central Government such as the provision of low-income housing will drive the demand for refractory materials from industries such as cement, steel and glass. The refractory materials business is expected to remain stable and the development of the cement industry looks to be particularly encouraging. The Group is negotiating with a leading Japanese enterprise, one of the Fortune 500 companies, to set up a new joint venture to build production lines for industrial ceramics used in the cement industry. Moreover, the high purity magnesium grain business commencing in 2011 is expected to generate a satisfactory profit contribution to the Group and become a new growth driver. To streamline operations and reduce operating costs, the Group is also preparing to modify and relocate part of the suspended high temperature ceramics production lines so as to merge with the operations of the ordinary refractory materials production facility.

**Mr Jiang Quanlong, Chairman of China Rare Earth**, concluded, “Looking ahead, by adhering to healthy operating strategies, we will continue to streamline our business structure, improve our research and development capability and enhance our production efficiency. To capture the opportunity presented by the growing demands for rare earth, we will also continue to strengthen the vertical integration of the Group’s business lines and pursue a diversified product strategy to reinforce our leading presence in the rare earth materials processing industry.

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**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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