

## China Rare Earth Announces 2011 Interim Results

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### Supported by Vigorous Development of Rare Earth Market; Net Profit Surges Fourfold

#### Financial Highlights

	For the Six Months Ended 30 June		Change
HK\$'000	2011	2010	
Turnover	<b>1,028,138</b>	598,723	↑ 72%
- Rare Earth Products	<b>819,455</b>	383,726	↑ 114%
- Refractory Materials Products	<b>208,683</b>	214,997	↓ 3%
Gross Profit	<b>539,480</b>	138,560	↑ 289%
Gross Profit Margin (%)	<b>52%</b>	23%	29 points
Net Profit after Taxation	<b>331,209</b>	63,519	↑ 421%
Net Profit Margin (%)	<b>32%</b>	11%	21 points
Earnings per Share – Basic (cents)	<b>18.64</b>	3.96	↑ 371%

(29 August 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 unaudited interim results for the six months ended 30 June 2011.

Supported by the vigorous demand of domestic and overseas markets for rare earth products, the Group’s turnover increased 72% to HK\$1,028,138,000. The overall gross profit margin substantially rose from 23% in the last corresponding period to around 52%, attributable to the higher sales amount and gross profit of the rare earth business. Net profit increased about fourfold to HK\$331,209,000. Earnings per share were 18.64 HK cents (1H2010: 3.96 HK cents). As at 30 June 2011, the Group had cash and bank deposits of HK\$1,394,905,000. Balance of net current assets was valued at HK\$2,553,175,000, with the total liabilities to total assets ratio at around 11%. No interim dividend was proposed.

#### **Rare earth business**

The Chinese Government has launched a series of protective policies related to rare earth resources, most notably the “National Guideline to Support the Sustainable and Healthy Development of Rare Earth Industry from the State Council”. The Group’s total turnover of the rare earth business increased more than 1.1 times to HK\$819,455,000 with a gross profit margin at around 60%.

With a limited supply and increasing demand, the product prices of rare earth oxides skyrocketed. Domestically, the average prices ranged two to seven times higher. Facing export quota limits, export prices exceeded domestic sales prices by two to three times. While the prices rose significantly, the Group sold only around 1,100 tonnes of rare earth oxides, around 20% less than the corresponding period last year. However the sales amount increased twofold with the gross profit margin up by more than 60%.

As for the downstream products, the price of fluorescent powder also regained growth momentum with a year-on-year increase of 50% to 100%. The factory jointly invested with OSRAM GmbH started trial production this July. However, the Group has proactively reduced the output of its existing products to

facilitate the trial production of the new project, so the sales volume dropped to less than 100 tonnes.

For rare earth metals, the product price increases offset this negative influence of sales volume decrease. Thus, the turnover remained similar to last year's level and the gross profit margin returned to around 20%. As for rare earth salts, the Chinese Government's tighter control on mining affected the supply, so the sales volume of these products decreased. However, the increasing selling prices mitigated this impact, hence turnover decreased only by less than 20%, while the gross profit margin dropped to about 10% because of rising costs.

By market segment, even though export volume was less than half of domestic sales, the export prices far exceeded domestic prices. Therefore, the proportion of turnover of the export market still increased to around 38%, while the Chinese market accounted for the remaining 62%.

### **Refractory materials business**

Subsequent to the financial crisis, glass and steel industries recovered slowly. Moreover, market competition was also getting more intense. Total turnover of the Group's refractory materials business dropped slightly by 3% to HK\$208,683,000. Gross profit margin stood at about 22%.

For ordinary refractory materials, total sales volume decreased 16% to less than 20,000 tonnes, while the Group rationalised the product mix. The Group has strategically produced less refractory materials for the glass industry and switched its focus on the production of materials for steel industry to maximise its competitive advantages. Prices of these products were at similar levels to the same period last year, while some of them recorded an increase ranging from 10% to 20%. However, the surge in costs and reduction in production volume have caused gross profit margin to further drop to below 20%.

The Group also revised its high temperature ceramics offerings with only the workshop for the Sialon product series remaining in operation during the period under review as the others have been shut down. The Group sold a total of 2,600 tonnes of its Sialon product series in the first half of 2011, a slight increase of 5%. However, turnover remained at a similar level as that of last year because of the adjustment in price. The gross profit margin has dropped to 26%.

Sales volume of the Group's magnesium grain business was up by about 20%, selling 9,000 tonnes of fused magnesium grain. As the average selling price has also climbed, thus the sales amount rose by about 26%. However, the limited electricity supply this year has hindered production, hence the number of defective goods was also higher during the period, with gross profit margin dropping to less than 20%. The Group's high purity magnesium grain project, commencing production late last year, has manufactured 21,000 tonnes of high purity magnesium grain. However, as the project is still at an early production stage and has not yet entered full operation, its gross profit margin was 24%.

Market distribution in the first half of this year remained unchanged from the same period last year, with domestic sales and exports in the proportion of 80% and 20% respectively.

### **Joint Venture Projects**

Construction of Phase I at the production facility of OSRAM (China) Fluorescent Materials Co., Ltd., a joint venture set up with OSRAM GmbH, has been completed and has started trial production in July 2011. A small amount of qualified products have been produced. The Group is looking forward to a profit contribution from the project in the second half of the year.

In April this year, the Group has embarked on another joint venture, signing an agreement with Asahi Glass Ceramics Co., Ltd. to jointly establish Yixing AGC Ceramics Co., Ltd. The venture is to introduce Japanese technologies to China and to construct a plant to produce shaped and sintered refractory materials for cement industry. Its annual production target is 34,000 tonnes and the total investment cost is US\$29,800,000. Established on 7 June this year, the joint venture company is presently undergoing plant design and foundation construction. It is expected to commence production in the first half of 2012.

### **Prospects**

The prices of rare earth materials are expected to remain particularly sensitive to the increasing market demand as well as changes in the policies of the Chinese Government. The Chinese Government also closely monitors the environmental protection measures of rare earth enterprises to safeguard against pollution. Enterprises which fail to meet operating standards would be forced to suspend operations until the improvements implemented are in compliance with specified standards. The net effects of the policy may lead to a reduction of the supply of certain types of rare earths. The Group has been granted an export quota of 869 tonnes during the year, a similar level to what it was assigned last year.

On the other hand, the Central Government has also implemented stricter regulatory controls in the mining of upstream resources. These measures have required some mining units to close or suspend operation for improvement. This policy has affected the supply of raw materials at the Group's rare earth salts production line in Hunan. In view of the difficulty in acquiring adequate supply of raw materials in the region and in order to protect the investors' interest, the Group, after due consideration, decided to dispose of all of its interest in Jianghua Yao Nationality Autonomous County Xinghua Rare Earth Company Limited, the subsidiary in Hunan, at a consideration of RMB257,000,000 in August this year.

**Mr Jiang Quanlong, Chairman of China Rare Earth**, commented, "Leveraging the prosperous demand of rare earth products all over the world, the Group will adjust its product portfolio according to Government policies. Besides, OSRAM (China) Fluorescent Materials Co., Ltd., is expected to generate profit contribution in the next half year, which will broaden our revenue sources. And we believe when the production operations of high purity magnesium grain project runs smoothly, the profitability of refractory materials business will also be improved."

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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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