

China Rare Earth Announces 2011 Annual Results

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Benefits from Robust Growth of Rare Earth Business; Net Profit Achieves Fourfold Increase to HK\$555,459,000

Financial Highlights

	For the Year Ended 31 December		Change
HK\$'000	2011	2010	
Turnover*	2,213,354	1,116,755	↑98%
- Rare Earth Products	1,765,808	693,702	↑ 155%
- Refractory Materials Products	447,546	423,053	↑ 6%
Gross Profit	1,053,432	253,037	↑316%
Gross Profit Margin (%)	48%	23%	↑25 points
Net Profit	555,459	139,041	↑299%
Net Profit Margin (%)	25%	12%	13 points
Earnings per Share –Basic (cents)	31.30	8.48	↑ 269%
Dividend	HK2 cents	Nil	

*Turnover from continuing operations during the year

(1 Apr 2012 – 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 2011.

Supported by the outstanding performance of the rare earth business, the Group’s turnover from continuing operations reached HK\$2,213,354,000, a jump of 98% when compared with HK\$1,116,755,000 in 2010. The overall gross profit margin substantially increased from 23% last year to 48% this year. Net profit surged by approximately four folds to HK\$555,459,000. Net profit margin reached 25%. Earnings per share were approximately HK\$31.30 cents (2010: HK\$8.48 cents). In 2011, the Group disposed of its entire interest in Jianghua Yao Nationality Autonomous County Xinghua Rare Earth Company Limited (“Xinghua Rare Earth”). As at 31 December 2011, the Group had cash and bank deposits of HK\$1,634,847,000, and a balance of net current assets valued at HK\$3,232,649,000, with total liabilities to total assets ratio at around 9%.

The Directors have recommended the payment of a final dividend of HK2 cents per share (FY2010: Nil).

Business Review

Rare earth business

Benefitted from strong global demand for rare earth materials and continued support from the Chinese Government, turnover of the Group’s rare earth business increased by 155% to HK\$1,765,808,000, accounting for 80% of overall revenue, while gross profit margin also increased to more than 50%.

For rare earths oxides, tightened upstream supply plus vigorous domestic and overseas demand led to an unprecedented surge in rare earth prices in the first half of 2011. Prices of certain rare earth elements have seen growth of up to five to seven folds. Although the prices of rare earth products

have started to decline from their peaks – experienced last July to August – due to a reduction in inventory by traders and deferred procurement by customers, prices still registered substantial hikes in annualized terms. Domestically, the average selling prices of most rare earth products were several times higher than in 2010. Export prices have been significantly higher than domestic sales prices, the result of stricter export quota limits.

To comply with the Chinese Government's large-scale environmental protection inspections on rare earth enterprises, which China Rare Earth has already met all relevant standards, the Group sacrificed part of the production time to continually conduct self-evaluation exercises. Despite the decrease in production volume, the Group's achievements in environmental protection have gained recognition from government authorities. Having been affected by Chinese customs' intervention on export prices during the second half year, as well as some overseas customers deciding to adopt a wait-and-see attitude thus reducing their inventory, most of the rare earth enterprises in the country did not fully utilize their export quotas in 2011. The Group however used its entire allocated export quota through its Hong Kong arm. During the year under review, the Group sold 2,000 tonnes of rare earth oxides, down by more than 30% compared to last year.

In respect of downstream fluorescent material products; phase one of the production facility that is jointly invested by the Group and OSRAM GmbH – OSRAM (China) Fluorescent Materials Co., Ltd. – commenced trial production in July 2011, with some output placed on the market. Since certain equipment requires longer time to complete testing, the factory is expected to generate notable profit contributions to the Group after full production is reached later in 2012.

Concerning the rare earth metals business, the price rise of rare earth metals lagged behind that of rare earth oxides; hence the Group concentrated its efforts on boosting the sale of rare earth oxides which also enjoys higher gross profit margins. This shift caused a drop in sales of rare earth metals by 80% to less than 100 tonnes for the Group's subsidiary, Heping County Dongye Rare Earth Company Limited. Nevertheless, with the average selling price of its products more than tripled, turnover decreased by roughly 30%.

In view of the Chinese Government's tighter controls over the extraction of rare earth resources, the Group disposed of its entire interest in Xinghua Rare Earth, which mainly produces upstream rare earth salts. Such discontinued operation contributed profit of HK\$15,661,000 to the Group during the year.

As export prices were far higher than domestic prices, turnover generated by the export market increased from 18% to 37%, with Europe, Japan and the US accounting for 20%, 9% and 7% respectively, and the PRC market accounting for the remaining 63%.

Refractory materials business

Turnover of the Group's refractory materials business rose slightly by 6% to HK\$447,546,000, accounting for 20% of the Group's overall turnover, while gross profit margin was about 21%.

Demand from the glass and steel industries has slowed down, causing demand for refractory materials to trail behind other businesses. In 2011, the average selling price of the Group's ordinary refractory materials increased modestly though total sales volume decreased by around 10% to 40,000 tonnes. The drop in sales volume pushed up the average cost of the products and the gross profit margin of refractory materials for export to Japan has also declined. As a result, overall gross profit margin of ordinary refractory materials contracted to about 17%.

With regards to high temperature ceramics, after several production lines were shut down in mid-2010, only the workshop for the Sialon product series remained in operation for the whole of 2011. The Group's sales volume of high temperature ceramics dropped 60% to 4,500 tonnes. However, the average selling price remained at a level similar to last year and the gross profit margin was about 20%. Regarding the magnesium grain business, sales volume of the Group's fused magnesium grain slightly increased by 5% to 16,000 tonnes, with the average selling price remaining at a similar level to 2010, while gross profit margin was 16%. The Group's high purity magnesium grain project

commenced production in late 2010, and sold 43,000 tonnes during the year, with sales exceeding HK\$60,000,000 and gross profit margin at 24%.

In June 2011, the Group set up another joint venture, Yixing AGC Ceramics Co., Ltd., with Asahi Glass Ceramics Co., Ltd. of Japan to produce shaped and sintered refractory materials for the cement industry. Introducing advanced Japanese technologies to China, the major part of the factory is to be completed soon. A trial run is scheduled in April 2012 and annual production is targeted at 34,000 tonnes. Total investment cost is calculated at US\$29,800,000.

Turnover by this market segment was similar to that of the previous year, with 78% from the domestic China market and 22% from exports.

Prospects

Rare earths are strategically important industrial resources that can be widely used in emerging industries such as those involved in high-tech products and alternative energy vehicles. In late 2011, the Ministry of Commerce of the PRC announced the first batch of export quotas for 2012, which amounted to 10,546 tonnes of rare earth materials. As one of 11 companies that passed the environmental protection examination of the PRC, China Rare Earth has secured its share of the export quota. Besides, there is the possibility that a special value-added tax invoice for the rare earth sector may be launched in 2012, which is expected to better regulate supply within the industry.

The fluorescent materials produced by OSRAM (China) Fluorescent Materials Co., Ltd. are important for the manufacture of energy-saving lighting solutions; hence, business is expected to rapidly grow under favorable policies once full production ramps up. Yixing AGC Ceramics Co., Ltd. should also turn into a significant new profit contributor after it is completed and starts production in 2012. The adjusted high temperature ceramics production line will focus on production of the Sialon product series. Samples provided to overseas customers have received positive feedback, and the high temperature ceramics line is expected to increase the Group's export sales.

Mr. JIANG Quanlong, Chairman of China Rare Earth, commented, "The domestic market for rare earth materials gradually slowed down in the first quarter of 2012. However, after the Chinese Government further imposed regulatory controls over the rare earth industry and support emerging industries, supply to upstream operations became tight and downstream demand began to increase. We therefore remain optimistic about the future development of the rare earth market."

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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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