



China Rare Earth Announces 2012 Interim Results

(30 August 2012– Hong Kong) — Rare earth and refractory materials manufacturer **China Rare Earth Holdings Limited** (“China Rare Earth” or the “Group”) (stock code: 769) announced its interim results for the six months ended 30 June 2012.

After the rapid growth enjoyed in the first half of 2011, the rare earth market began a downward move in the second half of the year. During the period under review, although the selling price of rare earths dropped further in step with the slowing market, the Group’s turnover still rose by 32% to approximately HK\$1,265,601,000. However, affected by the increase in cost of raw materials of both rare earth and refractory materials, and the additional net write down of over HK\$80,000,000 for inventories for the rare earth business made by the end of the period under review, the Group recorded an overall gross loss of about -7.5% in the first half of 2012 (1H 2011: gross profit margin of 56%). Taking into account of other sales and management expenses, the net loss was HK\$179,055,000 during the period under review (1H 2011: profit after taxation: HK\$331,209,000).

As at 30 June 2012, the Group had cash and bank deposits of approximately HK\$1,395,126,000, and a balance of net current assets valued at approximately HK\$3,022,741,000, with the total liabilities to total assets ratio at around 7%. No interim dividend was declared.

Rare earth business

During the period under review, turnover of rare earth products increased by 38% to HK\$ 1,033,734,000, accounting for 82% of total turnover.

Regarding the rare earth oxides, the product prices have generally slumped. The average procurement price of raw material rare earth minerals remained at a similar level. While sales volume increased by approximately 18% year-on-year, production volume dropped by about 30%, which was mainly attributable to an unstable market supply of the raw materials of rare earths and the strengthened implementation of indicative production limit by the Chinese Government on rare earth enterprises. While production volume has declined, the average cost shared by finished goods has increased. Also, the procurement price of raw materials was relatively high. This, plus the surge in production costs including wages has greatly challenged the profitability of rare earths business. On another hand, a further write down of over HK\$80,000,000 for inventories of rare earth business has led to a notable increase in gross loss during the period under review.

For rare earth metals, sales volume approximately tripled over that of the same period last year but the sales amount only increased by about 60% due to the change in product mix. Although raw materials prices increased sharply, the Group was still able to maintain a thin margin for its rare earth metals business.

By market segment, about 80% of the Group's rare earth business came from China while overseas markets accounted for the remaining 20%.

Refractory Materials Business

The turnover in the refractory materials business segment increased by 11% to HK\$231,867,000 from the same period last year, occupying 18% of the Group's total turnover.

The demand for refractory materials remained weak influenced by the slower expansion of Mainland economy. The Group sold about 20,000 tonnes of ordinary refractory materials and high temperature ceramics during the period under review, a slight decrease of about 8% year-on-year while turnover increased by less than 10%. However, due to the increase in procurement prices of certain raw materials and the rise in labour cost, the gross profit margin dropped to about 13% during the period under review.

Regarding the magnesium grain business, the Group sold a total of about 33,000 tonnes of fused magnesium grain and high purity magnesium grain during the period, an increase of about 10% year-on-year while turnover rose by more than 20%. The average selling price of fused magnesium grain remained at a similar level to that of 2011, while that of high purity magnesium grain rose by 15%. However, as the procurement price of magnesium stone, a major type of raw materials, increased by 30 to 40%, gross profit margin declined to about 20%.

By market segment, the proportion of domestic sales accounted for approximately 70% and exports business accounted for the remaining 30%.

Joint Venture Projects

Subsequent to the completion of Phase I of the production facility of OSRAM (China) Fluorescent Materials Co., Ltd., a joint venture set up with OSRAM GmbH, and the commencement of trial production, some of the machinery and equipment are currently still undergoing testing. The production volume of this company was only about 100 tonnes in the first half of 2012. Further adjustments on production technologies are needed before full operation to be commenced.

The Group set up another joint venture, Yixing AGC Ceramics Co., Ltd., with Asahi Glass Ceramics Co., Ltd. from Japan. Trial production has been conducted on Phase I of the production line after its completion in April 2012. Such company produced 1,000 tonnes of products during the period under review which were sold to Japan.

Prospects

The Chinese Government has raised entry barriers of the rare earth sector to preserve the rare earth resources and ecological environment and standardised production and operation of the industry in a bid to facilitate the healthy and steady development of the entire industry. In June 2012, the State Council Information Office published its first white paper entitled "Situation and Policies of China's Rare Earth Industry." The white paper stated that the Chinese Government will enhance the regulation of rare earth mining, production and exports and, at the same time, will guarantee a supply of rare earths to the international market.

As a result of the state policies, the Group believes that the supply of rare earth materials will tighten and the prices of rare earth materials will continue an upward trend over the mid-to-long term. In its business and operations, the Group will continue to follow the national directives to increase rare earth reserves at reasonable prices and secure a stable supply in the long run. In regards of refractory materials, the Group will strive to expand its customer base and enrich its product mix so as to achieve stable development.

Mr JIANG Quanlong, Chairman of China Rare Earth, concluded, "In the second half of 2012, the Group will continue to enhance its processing capability, reinforcing its industry leadership while actively supporting the nation's regulatory initiatives. The Group also believes that better regulated practices in the development of the industry can drive the prices of rare earths, known as "industrial gold," to more reasonable levels. These favourable factors together with the rising demand of rare earths for both domestic and overseas high-tech industries, the Group is optimistic about the long term development of its business."

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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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