

China Rare Earth Turns Around to Profit in 1H 2019 Net Profit Reaches HK\$14.1 Million Overall Profit Margin Markedly Improves

(28 August 2019 , 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 interim results for the six months ended 30 June 2019 (the Period”). Benefiting from improvement in average selling prices of a majority of its products, and effective cost control, the Group recorded a net profit for the Period of approximately HK\$14,095,000, turning around from net loss of approximately HK\$11,682,000 incurred in the same period in 2018. Earnings per share were approximately HK cents 0.60 (loss per share was approximately HK cents 0.49 for the 2018 interim period).

During the Period, the Group made total revenue of HK\$438,972,000, which was similar to that of the same period last year. Revenue from the rare earth segment amounted to HK\$284,315,000, making up approximately 65% of the Group's total revenue. Revenue of the refractory materials segment was approximately HK\$154,657,000, accounting for approximately 35% of the Group's total revenue. Gross profit margin of the Group was approximately 10%, an improvement against the approximately 4% in the same period last year.

Rare Earth Business

In the first half of the year, Yixing City, Jiangsu Province began to implement requirements stated in the “Regulations on the Prevention and Control of Water Pollution in Taihu Lake in Jiangsu Province” (《江蘇省太湖水污染防治條例》). In order to match the city's sewage discharge pipelines layout and in view of the tight supply of rare earth minerals due to import restriction from Myanmar during the Period and the strict implementation of rare earth production directives across the country, the Group continued to reduce production of its own products. Some of the common products ordered by customers were purchased through trading to meet customers' needs, while the Group focused on producing high-end products.

In the first half of 2019, the Group's rare earth segment sold about 500 tonnes of products, approximately 30% less than that in the same period last year. The average selling price of products of terbium oxide and dysprosium oxide, which are medium-to-heavy rare earth elements and mainly used in magnetic materials, climbed by about 15% and 45%, against the same period last year. With active cost control done by the Group, the segment successfully achieved profit turnaround, with gross margin at approximately 5% for the Period.

Refractory Materials Business

During the Period, the supply of raw materials of fused magnesium grains was tight because of the environmental protection-related rectification efforts in Liaoning Province while the downstream product markets were weak. The Group reduced production of fused magnesium grains during the period under review. It sold about 5,100 tonnes of magnesium grains products, about 60% less when compared with the same period in 2018. Average selling price of the products declined by about 15% compared with the same period last year, and gross profit margin was about 15%.

For refractory materials and high-temperature ceramics products, the Group continued to capture business with excellent quality products. The Group sold approximately 13,500 tonnes of refractory materials and high-temperature ceramics products during the Period, representing an increase of approximately 15% against the same period last year. The average selling price of major products such as fused magnesium chrome bricks and alumina-graphite bricks rose by about 10% compared with the same period last year, and that of casting materials grew by about 20%. Gross profit margin remained at approximately 19%.

The reduced revenue from magnesium grains products was offset by the increased revenue from refractory materials and high-temperature ceramics products. Gross profit margin of the segment was approximately 18%.

Prospects

Ms Qian Yuanying, Chairman of China Rare Earth, said, “Against the backdrop of continuing trade friction between China and the US, China will remain steadfast in pursuing technological innovation and keep pushing to expand domestic market demand. The country expects to be able to increase reserves to help maintain the strategic global position of China's rare earth and create favourable conditions for its rare earth industry to develop in the long run. The Group has full confidence in the long-term development of the industry.”

As the supply of rare earth minerals importing from Myanmar is not going to be restored in the short run, rare earth enterprises have resorted to using stocks to maintain supply, limiting the room for price to come down. Moreover, with government efforts to protect the environment, eliminate illegal rare earth production, and upgrade the industry, the structure of the industry will continue to improve and rare earth prices are expected to rise.

The Group will continue to foster long-term cooperation with quality customers and in-depth technical cooperation with Japanese customers to produce refractory materials for the foundry industry. Such rigorous cooperation will guide the domestic industry in manufacturing refractory materials for foundry use in scaling new heights. Hence, the Group believes the business will continue to maintain stable performance in the second half year.

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Furthermore, the Group has started looking into the acquisition of a magnesite mine in Northeast China. It hopes to implement the relevant project soon, which will enable the Group to develop a vertically integrated industrial chain that results in a great synergy, allowing it to improve the effectiveness of its businesses.

For details, please refer to the announcement issued by the Group today:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0828/ltn20190828635.pdf> Or
http://www.creh.com.hk/download/eng/doc_client/Announcement/271/E0769%20Interim%20Result%20Announcement.pdf

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About China Rare Earth Holdings Limited (Stock Code: 769)

Listed on The Stock Exchange of Hong Kong Limited in October 1999, China Rare Earth is engaged in the manufacture and sales of quality rare earth and refractory products. 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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