



中國稀土控股有限公司
China Rare Earth Holdings Limited
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 769)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012**

The Board of Directors (the “Board”) of China Rare Earth Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2012 together with the comparative figures for the corresponding year in 2011 as follows:

CONSOLIDATED INCOME STATEMENT

		For the year ended	
		31 December	
		2012	2011
	Note	HK\$'000	HK\$'000
Continuing operations			
Turnover	(3)	2,101,918	2,213,354
Cost of sales		(2,544,843)	(1,159,922)
Gross (loss)/profit		(442,925)	1,053,432
Other revenue		9,882	7,008
Selling and distribution expenses		(90,691)	(214,900)
Administrative expenses		(82,256)	(122,892)
Other (expenses)/income, net		(52,521)	11,377
(Loss)/Profit from operations		(658,511)	734,025
Finance costs	(4)	(2,821)	(5,698)
Share of losses of jointly controlled entities		(25,826)	(12,244)
(Loss)/Profit before taxation	(5)	(687,158)	716,083
Income tax	(6)	(12,361)	(176,285)
(Loss)/Profit for the year from continuing operations		(699,519)	539,798
Discontinued operation			
Profit for the year from discontinued operation	(7)	–	15,661
(Loss)/Profit for the year		(699,519)	555,459

		For the year ended	
		31 December	
		2012	2011
	<i>Note</i>	HK\$'000	HK\$'000
Attributable to:			
Owners of the Company			
From continuing operations		(679,702)	508,598
From discontinued operation		–	14,878
		<u>(679,702)</u>	<u>523,476</u>
Non-controlling interests			
From continuing operations		(19,817)	31,200
From discontinued operation		–	783
		<u>(19,817)</u>	<u>31,983</u>
(Loss)/Earnings per share	(9)	HK cents	HK cents
Basic			
From continuing operations		(40.64)	30.41
From discontinued operation		–	0.89
		<u>(40.64)</u>	<u>31.30</u>
Diluted			
From continuing operations		(40.64)	30.41
From discontinued operation		–	0.89
		<u>(40.64)</u>	<u>31.30</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended	
	31 December	
	2012	2011
	HK\$'000	HK\$'000
(Loss)/Profit for the year	(699,519)	555,459
Other comprehensive (loss)/income for the year (net of tax)		
Exchange differences on translation of financial statements of foreign operations	(339)	168,481
Share of other comprehensive income of jointly controlled entities	88	4,659
Deferred tax arising on change in tax rate	1,333	–
Fair value gain/(loss) on available-for-sale equity securities	2,800	(7,520)
Reclassification adjustments relating to impairment loss on available-for-sale equity securities included in the consolidated income statement	–	23,280
Release of translation reserve relating to disposal of a subsidiary during the year	–	(21,063)
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Total comprehensive (loss)/income for the year	<u>(695,637)</u>	<u>723,296</u>
Attributable to:		
Owners of the Company	(675,811)	689,773
Non-controlling interests	(19,826)	33,523
	<hr/>	<hr/>
Total comprehensive (loss)/income for the year	<u>(695,637)</u>	<u>723,296</u>
Total comprehensive (loss)/income attributable to owners of the Company		
From continuing operations	(675,811)	674,895
From discontinued operation	–	14,878
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	<u>(675,811)</u>	<u>689,773</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31 December 2012	31 December 2011
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Goodwill		–	21,776
Property, plant and equipment		405,411	469,568
Prepaid lease payments on land under operating leases		182,709	205,885
Intangible assets		43,963	88,198
Interest in jointly controlled entities		109,930	110,940
Available-for-sale equity securities		9,520	6,720
Pledged bank deposits		–	52,547
Deferred tax assets		6,321	8,223
Other non-current assets		18,703	–
		776,557	963,857
Current assets			
Prepaid lease payments on land under operating leases		4,448	4,874
Inventories		975,218	1,296,256
Trade and other receivables	(10)	478,577	603,405
Prepayments and deposits		116,098	101,961
Tax recoverable		943	1,450
Pledged bank deposits		52,541	52,177
Restricted bank balances		494	–
Cash and cash equivalents		1,236,290	1,530,123
		2,864,609	3,590,246
Current liabilities			
Trade payables	(11)	94,664	94,964
Accruals and other payables		28,439	106,713
Amounts due to directors		1,074	519
Bank borrowings due within one year		49,334	98,680
Tax payable		5,932	56,721
		179,443	357,597
Net current assets		2,685,166	3,232,649
Total assets less current liabilities		3,461,723	4,196,506
Non-current liabilities			
Deferred tax liabilities		25,812	31,505
NET ASSETS		3,435,911	4,165,001
CAPITAL AND RESERVES			
Share capital		167,264	167,264
Reserves		3,218,388	3,927,652
Equity attributable to owners of the Company		3,385,652	4,094,916
Non-controlling interests		50,259	70,085
TOTAL EQUITY		3,435,911	4,165,001

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES

The accounting policies used in the consolidated financial statements are consistent with those followed in the preparation of the consolidated financial statements of the Group for the year ended 31 December 2011, except for the new standards, amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants which are effective for accounting periods beginning on or after 1 January 2012. The application of these new standards, amendments and interpretations has no material impact on the results and the financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment is required.

2. SEGMENT INFORMATION

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to Chief Executive Officer, who has been identified as the Group's chief operating decision maker, for the purposes of resource allocation and performance assessment, the Group has identified two reportable segments as follows:

Rare Earth: The manufacture and sales of rare earth products (including fluorescent products)

Refractory: The manufacture and sales of refractory products (including high temperature ceramics products and magnesium grains)

(a) Segment revenue and results

Continuing operations

	Rare Earth		Refractory		Total	
	2012	2011	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE						
Revenue from external customers	1,626,524	1,765,808	475,394	447,546	2,101,918	2,213,354
Inter-segment revenue	82	-	-	-	82	-
Reportable segment revenue	<u>1,626,606</u>	<u>1,765,808</u>	<u>475,394</u>	<u>447,546</u>	<u>2,102,000</u>	<u>2,213,354</u>
RESULTS						
Reportable segment (loss)/profit	<u>(631,754)</u>	<u>697,014</u>	<u>33,002</u>	<u>56,274</u>	<u>(598,752)</u>	<u>753,288</u>

Discontinued operation

	Rare Earth	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE		
Revenue from external customers	–	82,434
Inter-segment revenue	–	–
	<u>–</u>	<u>–</u>
Reportable segment revenue	<u>–</u>	<u>82,434</u>
RESULTS		
Reportable segment profit	<u>–</u>	<u>4,432</u>

(b) Geographical information

Revenue from external customers:

	Continuing operations		Discontinued operation		Consolidated	
	2012	2011	2012	2011	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
The People's Republic of China (the "PRC")	1,616,145	1,449,758	–	82,434	1,616,145	1,532,192
Japan	254,051	229,100	–	–	254,051	229,100
Europe	163,315	355,428	–	–	163,315	355,428
The United States of America	48,513	164,164	–	–	48,513	164,164
Others	19,894	14,904	–	–	19,894	14,904
	<u>2,101,918</u>	<u>2,213,354</u>	<u>–</u>	<u>82,434</u>	<u>2,101,918</u>	<u>2,295,788</u>

3. TURNOVER

	Continuing operations		Discontinued operation		Consolidated	
	2012	2011	2012	2011	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of rare earth products (including fluorescent products)	1,626,524	1,765,808	–	82,434	1,626,524	1,848,242
Sales of refractory products (including high temperature ceramics products and magnesium grains)	475,394	447,546	–	–	475,394	447,546
	<u>2,101,918</u>	<u>2,213,354</u>	<u>–</u>	<u>82,434</u>	<u>2,101,918</u>	<u>2,295,788</u>

4. FINANCE COSTS

Finance costs represented interest expenses on bank borrowings wholly repayable within five years.

5. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/Profit before taxation has been arrived at after charging:

	Continuing operations		Discontinued operation		Consolidated	
	2012	2011	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	73,171	85,529	-	1,528	73,171	87,057
Amortisation of prepaid lease payments on land under operating leases	4,873	5,456	-	350	4,873	5,806
Amortisation of intangible assets	12,598	12,295	-	12,260	12,598	24,555
Write down of inventories	457,640	91,073	-	-	457,640	91,073
Reversal of write down of inventories	(87,439)	(37,944)	-	-	(87,439)	(37,944)
Impairment loss on goodwill	21,773	-	-	-	21,773	-
Impairment loss on intangible assets	31,626	-	-	-	31,626	-
Impairment loss on available- for-sale equity securities	-	23,280	-	-	-	23,280
	<u>73,171</u>	<u>85,529</u>	<u>-</u>	<u>1,528</u>	<u>73,171</u>	<u>87,057</u>

6. INCOME TAX

	Continuing operations		Discontinued operation		Consolidated	
	2012	2011	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Enterprise Income Tax ("EIT")						
- Provision for the year	12,261	179,839	-	12,143	12,261	191,982
Hong Kong Profits Tax						
Provision for the year	2,414	-	-	-	2,414	-
Deferred taxation						
- Origination and reversal of temporary differences	(2,314)	(3,554)	-	(2,549)	(2,314)	(6,103)
	<u>12,361</u>	<u>176,285</u>	<u>-</u>	<u>9,594</u>	<u>12,361</u>	<u>185,879</u>

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of the Cayman Islands and, accordingly, is exempted from payment of the Cayman Islands income tax.

Hong Kong Profits Tax is calculated at 16.5% (2011: 16.5%) of the estimated assessable profits for the year ended 31 December 2012.

The PRC subsidiaries of the Group are subject to PRC EIT at 25% (2011: 25%). Two PRC subsidiaries are entitled to the exemptions from PRC EIT for two years starting from 2008, followed by a 50% tax relief for the next three years. Two (2011: One) PRC subsidiaries are entitled to a preferential income tax rate of 15%.

7. DISCONTINUED OPERATION

During 2011, the Group disposed of its entire interest in Jianghua Yao Nationality Autonomous County Xinghua Rare Earth Company Limited at a consideration of RMB257,000,000 for cash. The disposal was completed on 12 August 2011.

8. DIVIDENDS

A final dividend for previous year at 2 HK cents per share amounting to approximately HK\$33,453,000 was proposed and paid during the year ended 31 December 2012 (2011: nil).

No final dividend was proposed for the year ended 31 December 2012.

9. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the loss attributable to owners of the Company of approximately HK\$679,702,000 (2011: profit of HK\$508,598,000) for continuing operations and HK\$nil (2011: profit of HK\$14,878,000) for discontinued operation and the weighted average number of approximately 1,672,643,000 (2011: 1,672,329,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31 December 2011 is based on the profit attributable to owners of the Company of approximately HK\$508,598,000 for continuing operations and HK\$14,878,000 for discontinued operation and the weighted average number of approximately 1,672,541,000 ordinary shares in issue after adjusting for the effect of all dilutive potential ordinary shares in respect of outstanding share options. Diluted loss per share for the year ended 31 December 2012 is same as the basic loss per share as there is no dilutive potential ordinary share.

10. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 to 180 days to its trade customers.

At 31 December 2012, trade and other receivables comprised:

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade and bills receivables	373,963	370,354
Amounts due from jointly controlled entities	51,978	21,318
Amount due from a former subsidiary	–	166,380
Other receivables	52,636	45,353
	478,577	603,405

An ageing analysis of trade and bills receivables is as follows:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Current to less than 6 months	341,050	332,690
6 months to less than 1 year	29,083	33,507
1 to less than 2 years	21,695	15,924
Over 2 years	28,423	23,777
	<hr/>	<hr/>
	420,251	405,898
Less: Impairment loss	(46,288)	(35,544)
	<hr/>	<hr/>
	373,963	370,354
	<hr/> <hr/>	<hr/> <hr/>

The fair values of the Group's trade and other receivables at end of the year approximate to the corresponding carrying amounts due to short-term maturities.

11. TRADE PAYABLES

An ageing analysis of trade payables is as follows:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Current to less than 6 months	83,096	81,152
6 months to less than 1 year	6,766	8,455
1 to less than 2 years	2,070	4,161
Over 2 years	2,732	1,196
	<hr/>	<hr/>
	94,664	94,964
	<hr/> <hr/>	<hr/> <hr/>

The fair values of the Group's trade payables at end of the year approximate to the corresponding carrying amounts due to short-term maturities.

12. COMMITMENTS

At 31 December 2012, the Group had capital commitments authorised and contracted but not provided for in the consolidated financial statements as follows:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Acquisition and construction of property, plant and equipment	56,107	8,531
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13. CONTINGENT LIABILITIES

At 31 December 2012, the jointly controlled entities of the Group were covered by guarantees issued by subsidiaries of the Group to banks in respect of banking facilities granted to the jointly controlled entities to the extent of HK\$333,004,000 (2011: HK\$271,370,000). The maximum liabilities of the Group under the guarantees were the amounts of the facilities drawn down by the jointly controlled entities, being HK\$102,715,000 (2011: HK\$49,340,000). No recognition of the liabilities underlying the guarantees was made because the fair values of them were insignificant and that the directors did not consider it probable that a claim will be made against the Group under the guarantees.

14. LITIGATIONS

During the year, a jointly controlled entity of the Group was in dispute with a contractor about the quality and settlement of its plant constructed. On one hand, the contractor claimed the jointly controlled entity for settling the remaining contract fee unpaid at HK\$33,912,000 for the plant constructed. On the other hand, the jointly controlled entity claimed the contractor for returning the contract fee paid at HK\$60,739,000 for poor construction quality that cannot meet the relevant construction standards. Based on legal advice, the directors do not believe it probable that the court will find against the jointly controlled entity.

FINANCIAL RESULTS

For the financial year ended 31 December 2012, the Group's turnover was HK\$2,101,918,000, a reduction of approximately 5% compared to HK\$2,213,354,000 in 2011. The turnover from rare earth products decreased by around 8% to approximately HK\$1,626,524,000 compared to HK\$1,765,808,000 last year, accounting for about 77% of the Group's total turnover. The refractory materials business brought in approximately HK\$475,394,000, up by about 6% when compared to HK\$447,546,000 in last year and accounting for about 23% of the Group's total.

Following the rapid growth of the rare earth market in 2011, the Group's cost of inventories was relatively high in the beginning of the year under review. However, the rare earth market fluctuated during the year and the prices of products continued to drop, resulting in an operating loss for the Group. Together with the net write down of about HK\$370 million for inventories for the rare earth business, the Group recorded a gross loss of around HK\$442,925,000 compared with a gross profit of approximately HK\$1,053,432,000 in 2011. Gross profit margin was also reduced from +48% last year to -21%. Taking into account of other sales and management expenses, and loss attributable to joint venture projects, the Group recorded a net loss of HK\$699,519,000 in 2012 (2011: net profit of HK\$555,459,000). The loss per share was 40.64 HK cents (2011: earnings per share of 31.30 HK cents).

FINAL DIVIDEND

The Board did not recommend the payment of a final dividend for 2012.

ANNUAL GENERAL MEETING

The 2013 Annual General Meeting will be held on 6 June 2013 (Thursday). A notice convening the annual general meeting will be published and dispatched to shareholders of the Company in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in due course.

CLOSURE OF REGISTER OF MEMBERS

The Company's register of members will be closed from 3 June 2013 to 6 June 2013, both days inclusive, during which period no transfer of shares will be registered. To ensure that shareholders are entitled to attend and vote at the forthcoming annual general meeting, shareholders must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 31 May 2013 for registration of the relevant transfer.

BUSINESS REVIEW

Rare Earth Business

During the year, the Group sold approximately 2,800 tonnes of rare earth oxides, up by about 40% compared with that in 2011. However, the persistently low product price has offset the increase in sales volume. Overall turnover of the rare earth business decreased slightly by approximately 8% from HK\$1,765,808,000 last year to HK\$1,626,524,000. As production costs remained high and the Group had to make provisions for inventory, the rare earth business segment recorded a loss of about HK\$631,754,000.

The relatively sluggish domestic and overseas consumption market has slowed down the demand for rare earth oxides from the electronics, automobile and other industries. The contracted demand from Japan and the US, the world's second and third largest rare earth consumers respectively, has also directly hit the rare earth enterprises in the PRC. The price of rare earths, slid substantially during the year, which registered a notable drop in annualised terms. Average selling prices of various rare earth oxides have declined by 20% to 70% when compared with 2011. Among which, the prices of praseodymium oxide, neodymium oxide and samarium oxide decreased by about 25%; prices of cerium oxide, gadolinium oxide and dysprosium oxide declined by 30%; prices of lanthanum oxide, europium oxide, terbium oxide and yttrium-europium co-precipitates dropped by about 50% to 60%; while that of yttrium oxide plunged about 70%.

As for raw material supplies, the Government's efforts in regulating upstream industries to have stricter control on the extraction of rare earth mines have added uncertainty to the supply of rare earth raw materials. As a result, the prices of different rare earth mineral dropped only by about 15% to 25% against last year despite the substantially greater reduction in the price of rare earth oxide products.

The Government's efforts in reforming the rare earth industry has resulted in an unstable market supply of raw materials and uneven quality of mineral sources, which, in turn, have affected the production yield of the extraction of rare earth oxides and increased the average cost. The Chinese Government has also strengthened the implementation of production limits for rare earth enterprises and the Group has adjusted its production volume in line with the policies. During the year, production volume of the Group's rare earth oxides dropped by about 5% compared with last year. This has led to the increase in unit costs shared from costs such as labour cost and depreciation. Despite the weak conditions of the industry, the Group recorded a growth of about 40% in sales volume of rare earth oxides compared with last year. The growth was due to the solid partnership with its long-term customers established by the Group. To fill the gap between reduced production volume and increased sales volume, the Group purchased certain finished products in the market, which resulted in a higher trading volume than in the previous years.

For rare earth metals, the Group has adjusted its product mix during the year to cope with changes in the market. The Group produced mainly neodymium metals and praseodymium-neodymium alloys last year but during the course of the year, the Group shifted to more lanthanum metals and neodymium metals. The average selling price of lanthanum metals sold during the year was more than 80% lower than that of the praseodymium-neodymium alloy sold last year. Therefore, though the Group has sold almost 300 tonnes of rare earth metals during the year, i.e., more than three times than that of last year, the sales amount increased by less than 30%. During the year, with the persistently high price of rare earth raw materials, this business recorded a loss after deducting costs including amortisation of intangible assets. As the business environment had deteriorated compared with the time when acquisition of the business was made in 2008, the Group made full impairment on the goodwill at over HK\$20 million and impairment on the intangible assets at over HK\$30 million during the year based on the management's prudent projection about the future market.

The Group's rare earth business has turned to loss from profit because of a number of important factors: i) the selling price of products continued to drop to the extent of exceeding the decrease in material costs; ii) the decline in production volume and production yield has pushed up the average costs, and also due to the effect of a higher value of inventory at the beginning of the year comparing with last year. The inventory value at the beginning of 2011 was much lower than that of 2012; therefore the cost of sales in 2011 was comparatively lower. However, at the beginning of 2012, after the boom in rare earth market, the inventory cost surged, which caused significantly higher costs to be recorded in 2012. On the other hand, the Group's inventories were carried at the lower of cost and net realisable value. Since the market price of rare earths continued to drop during the year, the Group made a net write down of about HK\$370 million for raw materials, work in progress and finished goods of rare earth business at the end of the year. This had directly added to the cost of sales, and was also one of the causes for the loss recorded in the year.

Geographically, the PRC remained the world's largest rare earth consumer. For exports, most of the overseas customers preferred to take a wait-and-see attitude towards the fluctuation in the PRC rare earth market and hesitated to confirm bulk orders during the year. Thus, most of the PRC rare earth enterprises did not fully utilise their export quota assigned by the Government in 2012, which was reflected in the total exports of rare earth products being far less than the total export quota for the full year. Nevertheless, the Group has taken advantage of its Hong Kong arm and used virtually its entire assigned export quota. During the year, the domestic sales of rare earth products accounted for about 78% of the segment turnover, with Europe, its key export market, occupied 10%, and Japan and the US accounted for about 8% and 3% respectively.

Refractory Materials Business

The total turnover of the Group's refractory materials business slightly increased by around 6% from HK\$447,546,000 in 2011 to HK\$475,394,000. Gross profit margin, however, decreased to around 17%.

As the PRC economy remained weak in 2012, some of glass, iron and steel manufacturers cut their production, and the volume and amount of the orders for refractory materials also consequently decreased when compared with last year. The Group sold about 40,000 tonnes of ordinary refractory materials and high temperature ceramics products, a drop of about 15% when compared with last year. Turnover was similar to that of the previous year, declined by less than 5%. The change in the average selling price of the key products was also not significant. For example, the price of magnesia-alumina spinel bricks and alumina-graphite bricks rose by about 10% to 15% against last year while the price of fused magnesium chrome bricks and unshaped refractory materials decreased by about 5%. As for high temperature ceramics, the price of the Sialon product series remained flat when compared with last year. However, the increase in the average cost of the products resulting from the reduction of production volume, and the rising cost of some raw materials, for example, a year-on-year 70% surge in the price of silicon carbide, have adversely affected the profit. Gross profit margin was around 13%.

Regarding the magnesium grain business, the Group sold a total of about 68,000 tonnes of fused magnesium grain and high purity magnesium grain, up by about 15% against last year. As a result of the slightly increased average selling price and that the growth rate in sales volume of fused magnesium grain, which was selling at higher prices than high purity magnesium grain, was relatively higher, turnover of the magnesium grain business rose by about 30% when compared to last year. Gross profit margin remained at around 20%.

By market segment, the total turnover of the whole refractory materials business was similar to that of last year, with around 72% for the domestic market in the PRC and around 28% for export.

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 in July 2011, around 200 tonnes of fluorescent materials was sold in the year. This quantity exceeded that of the previous year but was still below the designed annual capacity of 1,000 tonnes. Testing and modulation of production workflow were basically completed in the year. As time is required for customers to conduct testing on the company's samples before acceptance, the sales volume for the year was not significant and the facility is still operating at a loss. After current and prospective customers gradually complete the testing, this facility is expected to achieve break-even in 2013.

In addition, the Group has set up another joint venture, Yixing AGC Ceramics Co., Ltd., with Asahi Glass Ceramics Co., Ltd. from Japan to produce shaped and sintered refractory materials to be used for the cement industry. Trial production has been conducted on Phase I of the production line after its completion in April 2012. This company produced about 6,000 tonnes of products during the year which were sold to Japan. As the company only started operation this year, certain finished products required repeated adjustments to meet the stringent requirements of Japanese customers, and the subsequently higher production cost has resulted in a loss. After its staff becomes familiar with the workflow and the yield is further optimised, it will begin to generate profit for the Group. The stricter product quality and production specification of Japanese customers may help in optimising workflow, improving R&D capability and product technological level, as well as strengthening the operations in mass production.

PROSPECTS

The rare earth industry remained unstable in 2012 with wide fluctuations in price, so as a result the entire industry recorded substantial losses. The Group has observed the situation and initiated various improvements in concert in order to build a solid foundation for long-term stable growth.

The Ministry of Land and Resources of the PRC has imposed the strictest control on the upstream rare earth business. National restrictions on rare earth mining rights and annual capacity of smelters have prolonged the scarce supply of materials in the upstream operations. In addition, since the country initiated the designation of rare earths as strategic reserves in 2010, the materials have attracted much more attention. As domestic rare earth production continues to consolidate and the market demand is likely to rebound, the management remains optimistic that the strategic reserve designation will promote healthy development of the industry in the long run.

However, it remains uncertain when global economic growth will resume. The external environment will continue to affect the downstream demand for rare earths. The export of rare earths depends to a large extent on the recovery pace of the European and US economies. The Group expects that the price of rare earth oxides will not make substantial improvement in the short term. Regarding material costs, the price is expected to reflect the control on upstream extraction and supervision of production volume by the Government. Although the external environment is fraught with challenges, the Group believes that advanced core technology and reliable product quality remain the keys for domestic rare earth companies to strengthen their competitive position and maintain profitability. As such, the Group continues to enhance R&D capability and improve production workflow, with an aim to keep its product quality and technology in its operations up to international standards.

On top of a more favourable atmosphere in the market and the ongoing implementation of national policies, the Group continues with ongoing efforts to improve its operations and management, while exploring new business opportunities. As its self-developed rare earth polishing powder technology has become more sophisticated and there is a strong demand for quality rare earth polishing powder in the PRC, the Group has decided to invest around RMB120 million to reconstruct a polishing powder production line. The project is expected to complete a trial run in June or July 2013, and it is designed to produce 1,000 tonnes a year once in full production.

In light of China's increasing industrialisation and urbanisation, the Group believes that the demand for refractory materials will return to a steady and continuous growth. The Group will further improve the product quality and technological capability, with an aim to maintain the leading position within the industry.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has continued to maintain prudent capital arrangements, and has sufficient cash on hand. As at 31 December 2012, the Group had cash and bank deposits valued at approximately HK\$1,289,325,000, of which RMB42,600,000 was pledged to a domestic bank to secure a RMB40,000,000 short-term loan for a subsidiary in the PRC. The Group had a balance of net current assets valued at approximately HK\$2,685,166,000, with the total liabilities to total assets ratio reduced to around 6%.

Except for the deposits pledged as aforesaid, the Group had no other charge on assets, nor has it held any financial derivative products. Except for the interest rate differential in bank deposits with the aforementioned bank loans, it was not exposed to material interest rate risk. Regarding foreign exchange, most of the Group's assets, liabilities and transactions are denominated in Renminbi, and the rest are in US dollars or Hong Kong dollars. During the year, the exchange rates of the Renminbi, US dollar and Hong Kong dollar was stable.

During the year, two subsidiaries of the Group in the PRC provided corporate guarantees to two local banks to facilitate the two joint ventures to obtain loan financing. As at 31 December 2012, the two joint ventures had drawn loans of RMB50,000,000 and RMB33,281,000 from the banks respectively based on the guarantees.

During the year, OSRAM (China) Fluorescent Materials Co. Ltd., a joint venture of the Group, was in dispute with a contractor about the quality and settlement of its plant constructed. The contractor raised a litigation to claim for the remaining contract fee unpaid in relation to the plant constructed at about HK\$33,912,000. OSRAM (China) Fluorescent Materials Co. Ltd. raised a counterclaim for contract fee paid at HK\$60,739,000 for the poor construction quality that cannot meet the relevant construction standards. Currently the litigations have not come to decisions yet.

STAFF AND REMUNERATION

As at 31 December 2012, the Group had a workforce of approximately 1,100 including experienced professionals and university graduates. The Group provided a comprehensive staff remuneration and welfare system, including a share option scheme, to motivate staff to contribute their best efforts. During the year, the Group spent approximately HK\$60,687,000 on staff costs including directors' emoluments. It has also provided regular on-the-job training to employees to assist them in maintaining professional standards.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There has been no purchase, sale or redemption of any of the Company's listed securities by the Group during the year ended 31 December 2012.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the audited consolidated financial statements for the year ended 31 December 2012.

CORPORATE GOVERNANCE

The Company has adopted its own code of corporate governance based on the principles and code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules. During the year under review, the Company has complied with the code provisions set out in Appendix 14 of the Listing Rules save for the Code Provision A.6.7 of the CG Code.

Code Provision A.6.7 of the CG Code provides that the independent non-executive directors and non-executive directors should attend general meetings of the Company. Due to other prior business engagements, all independent non-executive directors were not able to attend the 2012 Annual General Meeting of the Company held on 8 June 2012.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has devised its own code of conduct regarding directors' dealing in the Company's securities (the "Company Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Specific enquiry has been made to all directors and the directors have confirmed that they have complied with the Company Code and the Model Code throughout the year under review.

MEMBERS OF THE BOARD

As at the date of this announcement, the Board consists of Mr. Jiang Quanlong, Ms. Qian Yuanying and Mr. Jiang Cainan as executive directors and Mr. Huang Chunhua, Mr. Jin Zhong and Mr. Wang Guozhen as independent non-executive directors.

By order of the Board
China Rare Earth Holdings Limited
Jiang Quanlong
Chairman

Hong Kong, 28 March 2013