

Establishment of a sintered Nd-Fe-B Magnet Joint Venture with Hitachi Metals

As announced in the notice dated February 9, 2015 and entitled “Zhong Ke San Huan and Hitachi Metals Sign Letter of Intent to Establish Joint Venture Aims to Produce Neodymium-Iron-Boron Magnets in China and Expand Business Scales” Beijing Zhong Ke San Huan Hi-Tech Co., Ltd. (hereafter, “Zhong Ke San Huan”) and Hitachi Metals, Ltd. (hereafter, “Hitachi Metals”) have engaged in a series of discussions aimed at establishing a joint venture in the manufacture and sale of Neodymium-Iron-Boron magnets.

The two companies reached an agreement and the Board of Directors of Zhong Ke San Huan passed a resolution on the establishment of a joint venture with Hitachi Metals. It was concluded today as detailed below.

1. Objectives for Establishing the Joint Venture

Zhong Ke San Huan is a top manufacturer of Neodymium-Iron-Boron magnets in China. Zhong Ke San Huan is a licensee of Hitachi Metals. With trademark of SANMAG®, Zhong Ke San Huan provides high-performance magnets to customers and is working to expand, not only in China and Asia, but to the European and U.S. markets as well, based on its advanced technological capabilities and track record in supply.

Hitachi Metals supplies a wide range of high-performance magnets to the automotive, IT and home electronics, industrial machinery, healthcare, environmental, and energy sectors as an essential material for improving environmental performance, with NEOMAX® Neodymium-Iron-Boron magnets, possessing some of the highest levels of magnetic force in the world, as the core product.

Demand for Neodymium-Iron-Boron magnets in China and the rest of the global market is forecast to expand even more in the future as various countries and regions in the world adopt stricter environmental regulations. This is particularly true in China, where market growth is anticipated in hybrid vehicles, industrial motors, and a broad range of other sectors.

Given these conditions, Zhong Ke San Huan and Hitachi Metals are going to establish a joint venture for the manufacture and sale of Neodymium-Iron-Boron magnets and expand business scale.

2. Future Plans

The percentage investment will be 49% for Zhong Ke San Huan and 51% for Hitachi Metals.

The joint venture will be positioned to handle integrated production with 2,000 tons/year capacity in Chinese market, including whole production chain from procurement of raw materials to the manufacturing and sale of Neodymium-Iron-Boron magnets. The joint venture will be established in Jiangsu Province in China on December 2015, and is scheduled to begin initial mass production at 1,000 tons/year beginning in December 2016 with the goal of quickly satisfying the demand of growing market sectors. Further market growth is also projected subsequently, and the plan is to double capacity to 2,000 tons/year early on, according to the trend in demand.

Through the establishment of this joint venture, Zhong Ke San Huan will progress to a new stage of growth, enabling it to further solidify its base as the top magnet manufacturer in China. Hitachi Metals will put an integrated structure into place locally in China encompassing everything from the procurement of raw materials to the manufacture and sale of Neodymium-Iron-Boron magnets. Both companies will improve the competitiveness in the global market.

3. Overview of the Joint Venture

(1)	Name	Hitachi Metals San Huan Magnetic Material (Nantong) Co., Ltd.	
(2)	Address	Qidong, Nantong, Jiangsu Province, China	
(3)	Representative	Shigekazu Suwabe, Chairman	
(4)	Nature of business	Manufacture and sale of Neodymium-Iron-Boron magnets	
(5)	Capital	RMB 450 million	
(6)	Date of establishment	December, 2015 (plan)	
(7)	Annual production capacity	2,000 tons/year	
(8)	Fiscal year end	December 31	
(9)	Investment interest	Hitachi Metals: 51% Zhong Ke San Huan: 49%	
(10)	Relationship to listed company	Capital relationship	Unconsolidated subsidiary with an investment of 49% by Zhong Ke San Huan.
		Personnel relationship	Not applicable at present.
		Transactional relationship	Not applicable at present.

4. Overview of Both Companies

1) Hitachi Metals, Ltd.

(1)	Name	Hitachi Metals, Ltd.
(2)	Address	1-2-1 Shibaura, Minato-ku Tokyo, Japan 105-8614
(3)	Representative	Hideaki Takahashi, President and Chief Executive Officer
(4)	Nature of business	Manufacture and sale of high-grade metal products and materials, magnetic materials and applications, high-grade functional components and equipment, and wires, cables, and related products
(5)	Date of establishment	April 1956
(6)	Capital	26,284 million yen (as of March 31, 2015)
(7)	Net sales	1,006.3 billion yen (for fiscal 2014)
(8)	Operating income	78.2 billion yen (for fiscal 2014)
(9)	No. of employees	30,278 (as of March 31, 2015)

2) Beijing Zhong Ke San Huan Hi-Tech Co., Ltd.

(1)	Name	Beijing Zhong Ke San Huan Hi-Tech Co., Ltd.
(2)	Address	Building A, 27th Floor, No. 66 East Road Zhong Guan Cun, Hai Dian District Beijing, 100190, China
(3)	Representative	Zhenxi Wang, Chairman
(4)	Nature of business	Research and development, manufacture, and sale of Neodymium-Iron-Boron magnets, other new materials, and products using those materials
(5)	Date of establishment	July 1999
(6)	Capital	1,065.2 million yuan (as of December 31, 2014)

(7) Net sales	3,885.1 million yuan (for fiscal 2014)
(8) Operating income	411.4 million yuan (for fiscal 2014)
(9) No. of employees	5,169 (as of December 31, 2014)