



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



Interim Report
2015

CORPORATE INFORMATION DIRECTORS

Executive Directors

Mr. Jiang Quanlong (*Chairman*)

Ms. Qian Yuanying (*Deputy Chairman*)

Mr. Jiang Cainan

Independent Non-executive Directors

Mr. Wang Guozhen

Mr. Huang Chunhua

Mr. Jin Zhong

AUDIT COMMITTEE

Mr. Wang Guozhen (*Chairman*)

Mr. Huang Chunhua

Mr. Jin Zhong

REMUNERATION COMMITTEE

Mr. Huang Chunhua (*Chairman*)

Mr. Wang Guozhen

Mr. Jin Zhong

NOMINATION COMMITTEE

Mr. Jin Zhong (*Chairman*)

Mr. Wang Guozhen

Mr. Huang Chunhua

COMPANY SECRETARY

Mr. Law Lap Tak

REGISTERED OFFICE

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Dingshu Town, Yixing City

Jiangsu Province, the PRC

PLACE OF BUSINESS IN HONG KONG

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16 Ice House Street, Central

Hong Kong

HONG KONG LEGAL ADVISERS

Chiu & Partners

AUDITOR

Crowe Horwath (HK) CPA Limited

PRINCIPAL BANKERS

PRC

Bank of China Limited

Industrial & Commercial Bank of China Limited

China Construction Bank Corporation

China Merchants Bank Company Limited

Hong Kong

Standard Chartered Bank (Hong Kong) Limited

BNP Paribas

CITIC Bank International Limited

Bank of China (Hong Kong) Limited

Nanyang Commercial Bank, Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Company (Cayman) Limited

4th Floor, Royal Bank House

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Cayman Islands

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STOCK CODE ON THE STOCK EXCHANGE OF HONG KONG LIMITED

769

PUBLIC RELATIONS CONSULTANT

Strategic Financial Relations Limited



INTERIM RESULTS

The Board of Directors (the “Board”) of China Rare Earth Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2015 together with the comparative figures for the corresponding period in 2014 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the six months ended 30 June	
	Note	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Turnover	(2)	441,045	565,834
Cost of sales		(505,434)	(514,836)
Gross (loss)/profit		(64,389)	50,998
Other revenue		2,440	2,485
Selling and distribution expenses		(16,462)	(21,607)
Administrative expenses		(37,686)	(35,113)
Gain on deemed disposal of interest in a joint venture	(13)	–	2,750
Gain on bargain purchase of interest in a subsidiary	(13)	–	24,225
Other net gain		31,772	3,779
(Loss)/profit from operations		(84,325)	27,517
Finance costs	(4)	(1,480)	(3,681)
Share of losses of joint ventures		–	(2,342)
(Loss)/profit before taxation	(5)	(85,805)	21,494
Income tax charge	(6)	(3,401)	(2,071)
(Loss)/profit for the period		(89,206)	19,423
(Loss)/profit for the period attributable to:			
Owners of the Company		(84,802)	21,947
Non-controlling interests		(4,404)	(2,524)
		(89,206)	19,423
		HK cents	HK cents
(Loss)/earnings per share			
Basic and diluted	(8)	(5.07)	1.31

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME**

		For the six months ended 30 June	
	Note	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
(Loss)/profit for the period		(89,206)	19,423
Other comprehensive loss for the period (net of nil tax and reclassification adjustments)			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of financial statements of foreign operations		395	(32,359)
Exchange differences on translation of financial statements of joint ventures		–	(629)
Fair value gain/(loss) on available-for-sale equity securities		18,931	(800)
Release of fair value reserve upon disposal of available-for-sale equity securities		(29,491)	–
Release of translation reserve upon deemed disposal of interest in a joint venture	(13)	–	(8,706)
Other comprehensive loss for the period		(10,165)	(42,494)
Total comprehensive loss for the period		(99,371)	(23,071)
Total comprehensive loss for the period attributable to:			
Owners of the Company		(94,976)	(20,209)
Non-controlling interests		(4,395)	(2,862)
		(99,371)	(23,071)



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2015 HK\$'000 (Unaudited)	As at 31 December 2014 HK\$'000 (Audited)
	Note		
Non-current assets			
Goodwill		–	–
Property, plant and equipment	(9)	582,290	624,116
Prepaid lease payments on land under operating leases		180,468	182,725
Available-for-sale equity securities		–	17,280
Deferred tax assets		4,974	5,465
Other non-current asset		19,229	19,222
		786,961	848,808
Current assets			
Prepaid lease payments on land under operating leases		4,653	4,651
Inventories		430,105	474,341
Trade and other receivables	(10)	439,402	439,782
Prepayments and deposits		149,754	59,273
Tax recoverable		1,336	3,010
Pledged bank deposit		38,042	–
Restricted bank deposits		452	3,296
Cash and cash equivalents		1,358,558	1,386,003
		2,422,302	2,370,356

China Rare Earth Holdings Limited
Interim Report 2015

	Note	As at 30 June 2015 HK\$'000 (Unaudited)	As at 31 December 2014 HK\$'000 (Audited)
Current liabilities			
Trade payables	(11)	105,641	91,119
Accruals and other payables		96,049	95,430
Amounts due to directors		2,795	2,313
Bank borrowings	(12)	74,180	–
Tax payable		2,635	2,976
		281,300	191,838
Net current assets		2,141,002	2,178,518
Total assets less current liabilities		2,927,963	3,027,326
Non-current liabilities			
Deferred tax liabilities		5,990	5,982
NET ASSETS		2,921,973	3,021,344
CAPITAL AND RESERVES			
Share capital		167,264	167,264
Reserves		2,732,732	2,827,708
Equity attributable to owners of the Company		2,899,996	2,994,972
Non-controlling interests		21,977	26,372
TOTAL EQUITY		2,921,973	3,021,344



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company								Non-controlling interests		
	Share capital	Share premium	Capital reserve	Buildings revaluation reserve	Statutory reserves	Translation reserve	Fair value reserve	Retained profits	Total	Total	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2015	167,264	1,770,100	22,348	19,961	251,948	581,943	10,560	170,848	2,994,972	26,372	3,021,344
Comprehensive income											
Loss for the period	-	-	-	-	-	-	-	(84,802)	(84,802)	(4,404)	(89,206)
Other comprehensive income											
Exchange differences on translation of financial statements of foreign operations	-	-	-	-	-	386	-	-	386	9	395
Fair value gain on available-for-sale equity securities	-	-	-	-	-	-	18,931	-	18,931	-	18,931
Release of fair value reserve upon disposal of available-for-sale equity securities	-	-	-	-	-	-	(29,491)	-	(29,491)	-	(29,491)
Total comprehensive loss for the period	-	-	-	-	-	386	(10,560)	(84,802)	(94,976)	(4,395)	(99,371)
Transfer to retained profits in respect of depreciation on revaluation of buildings held for own use	-	-	-	(1,589)	-	-	-	1,589	-	-	-
At 30 June 2015	<u>167,264</u>	<u>1,770,100</u>	<u>22,348</u>	<u>18,372</u>	<u>251,948</u>	<u>582,329</u>	<u>-</u>	<u>87,635</u>	<u>2,899,996</u>	<u>21,977</u>	<u>2,921,973</u>

China Rare Earth Holdings Limited

Interim Report 2015

Attributable to owners of the Company

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Buildings			Fair value reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non-controlling interests	
				revaluation reserve HK\$'000	Statutory reserves HK\$'000	Translation reserve HK\$'000				interests HK\$'000	Total HK\$'000
At 1 January 2014	167,264	1,770,100	22,348	23,865	258,795	636,235	2,960	257,288	3,138,855	36,540	3,175,395
Comprehensive income											
Profit for the period	-	-	-	-	-	-	-	21,947	21,947	(2,524)	19,423
Other comprehensive income											
Exchange differences on translation of financial statements of foreign operations	-	-	-	-	-	(32,021)	-	-	(32,021)	(338)	(32,359)
Exchange differences on translation of financial statements of joint ventures	-	-	-	-	-	(629)	-	-	(629)	-	(629)
Fair value loss on available-for-sale equity securities	-	-	-	-	-	-	(800)	-	(800)	-	(800)
Release of translation reserve upon deemed disposal of interest in a joint venture	-	-	-	-	-	(8,706)	-	-	(8,706)	-	(8,706)
Total comprehensive loss for the period	-	-	-	-	-	(41,356)	(800)	21,947	(20,209)	(2,862)	(23,071)
Transfer to retained profits in respect of depreciation on revaluation of buildings held for own use	-	-	-	(1,754)	-	-	-	1,754	-	-	-
At 30 June 2014	<u>167,264</u>	<u>1,770,100</u>	<u>22,348</u>	<u>22,111</u>	<u>258,795</u>	<u>594,879</u>	<u>2,160</u>	<u>280,989</u>	<u>3,118,646</u>	<u>33,678</u>	<u>3,152,324</u>

Note:

Under the Companies Law (Revised) of the Cayman Islands, the share premium account is distributable to the owners of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		For the six months ended 30 June	
	Note	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Operating activities			
Cash (used in)/generated from operations		(100,968)	104,893
Income tax paid		(1,569)	(2,980)
Net cash (used in)/generated from operating activities		(102,537)	101,913
Investing activities			
Purchase of property, plant and equipment	(9)	(848)	(5,623)
Proceeds from disposal of available-for-sale equity securities		36,211	-
Increase in pledged bank deposit		(38,032)	(37,793)
Decrease in restricted bank deposits		2,844	-
Interest received		2,440	2,485
Net cash outflow on acquisition of a subsidiary	(13)	-	(11,162)
Net cash generated from/(used in) investing activities		2,615	(52,093)
Financing activities			
Proceeds from new bank borrowings		74,161	74,788
Repayment of bank borrowings		-	(85,079)
Interest paid on bank borrowings		(1,480)	(3,681)
Net cash generated from/(used in) financing activities		72,681	(13,972)
Net (decrease)/increase in cash and cash equivalents		(27,241)	35,848
Cash and cash equivalents at beginning of the period		1,386,003	1,369,054
Effect of changes in exchange rate		(204)	(15,925)
Cash and cash equivalents at end of the period		1,358,558	1,388,977

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated interim financial information has been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The condensed consolidated interim financial information does not include all the information and disclosure required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2014, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The accounting policies used in the condensed consolidated interim financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2014.

The HKICPA has issued certain new and revised HKFRSs that are first effective for the current accounting period of the Group, the application of which has no material impact on the Group's financial performance and positions for the current and prior accounting periods. The Group has not early applied any new standards, amendments and interpretations that have been issued but are not yet effective for the six months ended 30 June 2015. The directors of the Company anticipate that the application of these new standards, amendments and interpretations will have no material impact on the Group's financial performance and positions.



2. TURNOVER

For the six months
ended 30 June

	2015 HK\$'000	2014 HK\$'000
Sales of rare earth products (including fluorescent products)	290,496	393,052
Sales of refractory products (including high temperature ceramics products and magnesium grains)	150,549	172,782
	<u>441,045</u>	<u>565,834</u>

3. 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 the 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 presented two reportable segments as follows:

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

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

China Rare Earth Holdings Limited

Interim Report 2015

3. SEGMENT INFORMATION (Continued)

(a) Segment revenue and results

	Rare Earth		Refractory		Total	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
For the six months ended 30 June						
REVENUE						
Revenue from external customers	290,496	393,052	150,549	172,782	441,045	565,834
Inter-segment revenue	14	22	-	-	14	22
Reportable segment revenue	290,510	393,074	150,549	172,782	441,059	565,856
RESULTS						
Reportable segment (loss)/profit	(95,259)	(7,015)	(13,450)	9,246	(108,709)	2,231
Other revenue					2,440	2,485
Gain on deemed disposal of interest in a joint venture					-	2,750
Gain on bargain purchase of interest in a subsidiary					-	24,225
Finance costs					(1,480)	(3,681)
Unallocated corporate income/(expenses)					21,944	(6,516)
Consolidated (loss)/profit before taxation					(85,805)	21,494
Income tax					(3,401)	(2,071)
Consolidated (loss)/profit after taxation					(89,206)	19,423



3. SEGMENT INFORMATION (Continued)

(b) Geographical information

Revenue from external customers:

	For the six months ended 30 June	
	2015 HK\$'000	2014 HK\$'000
The People's Republic of China (the "PRC")	322,019	439,205
Japan	42,483	51,520
Europe	37,823	24,804
The United States of America	23,322	26,495
Others	15,398	23,810
	<u>441,045</u>	<u>565,834</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/(crediting):

	For the six months ended 30 June	
	2015 HK\$'000	2014 HK\$'000
Depreciation of property, plant and equipment	42,899	40,558
Amortisation of prepaid lease payments on land under operating leases	2,326	2,387
Gain on disposal of available-for-sale equity securities	(29,491)	–
Write down of inventories	60,687	79,166
Reversal of write down of inventories	(335)	(11,844)
	<u>(335)</u>	<u>(11,844)</u>

China Rare Earth Holdings Limited

Interim Report 2015

6. INCOME TAX CHARGE

	For the six months ended 30 June	
	2015 HK\$'000	2014 HK\$'000
Current tax – PRC Enterprise Income Tax		
Provision for the period	472	1,549
Withholding tax on unremitted earnings	2,430	–
	<hr/>	<hr/>
	2,902	1,549
Deferred taxation		
Origination and reversal of temporary differences	499	522
	<hr/>	<hr/>
	3,401	2,071
	<hr/> <hr/>	<hr/> <hr/>

The Company and its subsidiaries incorporated in the Cayman Islands and the British Virgin Islands respectively, are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.

No provision for Hong Kong Profits Tax is provided for as the Group did not have estimated assessable profits arising in Hong Kong during the period.

PRC Enterprise Income Tax is calculated at the statutory income tax rate of 25% on the estimated assessable profits of the Company's subsidiaries established in the PRC during the period, among which two subsidiaries are entitled to a preferential income tax rate of 15%.

PRC Enterprise Income Tax Law also requires withholding tax of 5% or 10% upon distribution of profits by the PRC subsidiaries since 1 January 2008 to its overseas (including Hong Kong) shareholders. During the six months ended 30 June 2015, a provision of PRC withholding tax of approximately HK\$2,430,000 (2014: Nil) was recognised in profit or loss.



7. DIVIDEND

No final dividend for previous year was declared and paid during the six months ended 30 June 2015 (2014: Nil).

No interim dividend was declared for the six months ended 30 June 2015 (2014: Nil).

8. (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\$84,802,000 (2014: profit of HK\$21,947,000) and the weighted average number of approximately 1,672,643,000 (2014: 1,672,643,000) ordinary shares in issue during the period.

Diluted (loss)/earnings per share for the six months ended 30 June 2015 and 30 June 2014 are same as the basic (loss)/earnings per share as there is no dilutive potential ordinary share.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2015, the Group spent approximately HK\$848,000 (2014: HK\$5,623,000) on additions to property, plant and equipment.

China Rare Earth Holdings Limited

Interim Report 2015

10. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 0 to 180 days to its customers.

Trade and other receivables of the Group comprised:

	30 June 2015 HK\$'000	31 December 2014 HK\$'000
Trade debtors and bills receivables	361,062	360,259
Amount due from a related company	5,623	5,621
Other receivables	10,791	9,787
Other tax refundable	61,926	64,115
	<hr/> 439,402 <hr/>	<hr/> 439,782 <hr/>

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

	30 June 2015 HK\$'000	31 December 2014 HK\$'000
Less than 6 months	185,050	253,291
6 months to less than 1 year	121,891	99,690
1 year to less than 2 years	66,832	18,951
Over 2 years	28,224	29,247
	<hr/> 401,997 <hr/>	<hr/> 401,179 <hr/>
Less: Impairment loss on trade debtors and bills receivables	(40,935)	(40,920)
	<hr/> 361,062 <hr/>	<hr/> 360,259 <hr/>



11. TRADE PAYABLES

An ageing analysis of trade payables is as follows:

	30 June	31 December
	2015	2014
	HK\$'000	HK\$'000
Less than 6 months	87,280	81,729
6 months to less than 1 year	13,916	4,957
1 year to less than 2 years	1,799	1,109
Over 2 years	2,646	3,324
	<hr/> 105,641 <hr/>	<hr/> 91,119 <hr/>

12. BANK BORROWINGS

At 30 June 2015, all bank borrowings are denominated in US dollars, fixed rate borrowings which carry prevailing interest rate at 4% per annum, repayable within one year and secured by pledged bank deposit of approximately HK\$38,042,000 (31 December 2014: Nil).



China Rare Earth Holdings Limited

Interim Report 2015

13. ACQUISITION OF A SUBSIDIARY

On 27 September 2013, the Group entered into an agreement to acquire the remaining 50.1% equity interest in Yixing Silver Mile Fluorescent Materials Co., Ltd. at a cash consideration of HK\$15,133,000. The acquisition was completed on 22 January 2014 and subsequent to the acquisition, the Group's equity interest in such company increased from 49.9% to 100%. Details of the acquisition are as follows:

(a) Gain on deemed disposal of interest in a joint venture:

	HK\$'000
Fair value of 49.9% equity interest previously held	39,202
Less: Carrying value of 49.9% equity interest previously held	(45,158)
	<hr/>
Loss from re-measurement of interest in a joint venture	(5,956)
Add: Release of translation reserve upon deemed disposal of interest in a joint venture	8,706
	<hr/>
Gain on deemed disposal of interest in a joint venture	2,750
	<hr/> <hr/>

(b) Gain on bargain purchase of interest in a subsidiary:

	HK\$'000
Fair value of net assets acquired	78,560
	<hr/>
Less: Consideration transferred:	
– Cash consideration paid	(15,133)
– Fair value of 49.9% equity interest previously held	(39,202)
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	(54,335)
	<hr/>
Gain on bargain purchase of interest in a subsidiary	24,225
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13. ACQUISITION OF A SUBSIDIARY (Continued)

(c) An analysis of cash flows in respect of the acquisition:

	HK\$'000
Cash and cash equivalent acquired	3,971
Less: Cash consideration paid	(15,133)
	(11,162)
Net cash outflow on acquisition	(11,162)

14. COMMITMENTS

At 30 June 2015, the Group has the following commitments:

(a) Authorised capital commitments contracted but not provided for in the condensed consolidated financial information:

	30 June 2015 HK\$'000	31 December 2014 HK\$'000
Acquisition and construction of property, plant and equipment	11,127	10,705

(b) Operating lease commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	30 June 2015 HK\$'000	31 December 2014 HK\$'000
Within one year	2,687	2,687
In the second to fifth year inclusive	1,920	3,262
	4,607	5,949

Operating lease payments represent rentals payable by the Group for certain of its offices. Leases and rentals are negotiated and fixed for periods of one to five years. None of the leases includes contingent rentals.

15. LITIGATIONS

At 30 June 2015, there was still no final judgment on the following disputes involving a subsidiary of the Group and a contractor about the quality and settlement of certain plant constructed:

- (a) The contractor claimed the subsidiary for settling the remaining contract fee unpaid at approximately HK\$34,867,000 (31 December 2014: HK\$34,854,000) for the plant constructed.
- (b) The subsidiary claimed the contractor for returning the contract fee paid at approximately HK\$62,449,000 (31 December 2014: HK\$62,426,000) for poor construction quality that cannot meet the relevant construction standards.

16. EVENTS AFTER THE END OF THE REPORTING PERIOD

Pursuant to the resolution passed at the extraordinary general meeting held on 2 July 2015, authorised share capital of the Company was increased from HK\$200,000,000 to HK\$400,000,000 by the creation of an additional 2,000,000,000 new shares of HK\$0.10 each.

On 7 August 2015, the Company issued 669,057,222 new shares of the Company in accordance to the Rights Issue announced on 10 June 2015 on the basis of two rights shares for every five existing shares held at the subscription price of HK\$0.60 each.



MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

In the first half of 2015, the rare earth industry has experienced significant changes. With the World Trade Organization ruling China's rare earth export policy was in violation of its provisions in 2014, China ended rare earth export quotas on 1 January 2015. The Ministry of Finance and State Administration of Taxation have also jointly announced in April this year that reform of resources taxation according to the prices of rare earth, tungsten and molybdenum is to be implemented with effect from 1 May 2015. The changes in public policy together with external uncertainties such as the unstable global economic environment have resulted in volatility of rare earth prices, which led to a 22% drop in the Group's turnover from HK\$565,834,000 in the same period last year to HK\$441,045,000 in the current period. For the rare earth segment, the turnover decreased by approximately 26% from HK\$393,052,000 in the same period last year to HK\$290,496,000, accounting for approximately 66% of the Group's total turnover. As for the refractory material segment, the turnover dropped by approximately 13% from HK\$172,782,000 in the same period last year to approximately HK\$150,549,000, accounting for 34% of the total turnover.

In view of the business performance, due to the lack of a profit exceeding HK\$80,000,000 from selling the long-stored lutetium oxide due to the rare earth hoarding reserve plan launched by the Chinese Government, as well as the total gain of approximately HK\$26,975,000 from the acquisition of 50.1% equity interest of Yixing Silver Mile Fluorescent Materials Company Limited earned in 2014, the Group's result fell from approximately HK\$19,423,000 net profit of the corresponding period last year to approximately HK\$89,206,000 net loss for the period, with the gross loss of about 15%. Loss per share was about 5.07 cents (1H2014: earnings per share at 1.31 cents).

Business Review

Rare Earth Business

During the period under review, the persistent weak demand for downstream rare earth products and lack of purchase motivation for end users led to the price fluctuations in rare earth. The price of rare earth products rose in the short term early this year but then trended downward. The Group sold approximately 1,600 tonnes of rare earth oxides, an increase of around 30% from approximately 1,200 tonnes in the same period last year. The growth in sales volume was mostly contributed by the low price products such as lanthanum oxide, samarium oxide and yttrium oxide. In terms of selling prices, most of rare earth products including lanthanum oxide, cerium oxide, praseodymium oxide, samarium oxide, gadolinium oxide and yttrium oxide experienced a price drop at around 25% to 50% compared to the same period last year. The average selling price of yttrium-europium coprecipitates decreased by approximately 60%. Besides, the average selling price of neodymium oxide, dysprosium oxide and terbium oxide remained flat or recorded a slight increment when compared with the corresponding period last year. As for the fluorescent materials, the sales volume remained at a similar level with the same period last year but the average selling price went through a sharp decline. Among the products, the selling price of red phosphor and blue phosphor dropped by 40% to 50% when compared to the same period last year. In respect to raw material prices, the price of rare earth minerals decreased by 15% to 20% compared to the same period last year, however, the price of certain chemical materials went up close to 30%. The dropped production volume also led to increase in average production cost. The gross loss margin for the rare earth segment was about 24% during the period.

Geographically, China remained as the major market of the Group's rare earth products, accounting for around 68% of the total sales. At overseas, the European market accounted for around 13% and the US and Japanese markets accounted for 8% and 6% respectively.



Refractory Materials Business

During the first half of 2015, the slower economic growth in China and particularly the unstable market conditions have hindered the development of industries such as the steel, cement and glass industries, which have adversely affected the refractory materials business and led to more intense competition. The Group sold approximately 13,400 tonnes of ordinary refractory materials and high temperature ceramics products during the period, rising by less than 20% compared to the same period last year, which included the newly-developed contracting businesses. For the contracting businesses, as certain products were not produced by the Group which increased the difficulty of quality control, a cost was incurred with the mistaken construction during the implementation. In respect to high temperature ceramics products as new molds had been purchased for convenient business expansion whereas the amortisation also increased the production cost during the period. In terms of the product selling price, price reduction more than offset the price markup while the selling price of the main products such as magnesium chrome bricks and alumina-graphite bricks was reduced by about 10% to 15% compared to the same period last year. Regarding the magnesium grain business, the production process was reconsolidated in compliance with the new environmental regulations early this year, leading to the reduced production hours and decreased production and sales volume. The Group sold about 24,000 tonnes of fused magnesium grain and high purity magnesium grain during the period, down by approximately 35%. Average cost was increased accordingly. The gross profit margin for the refractory materials segment was around 5% for the period.

By market segments, domestic sales accounted for 84% while sales to overseas markets, mainly Japan, occupied the remaining 16%.

Prospects

From the end of the period under review to present, the market conditions remained sluggish and the short-term demand for rare earth and refractory materials continued weak. As the Chinese Government has imposed policies to regulate and consolidate the industry, it is believed that the industry still offers plenty of opportunities. This August, the Ministry of Industry and Information Technology stated that the Government is to launch a series of new policies, including the implementation of guidelines announced by the State Council forging the sustainable and healthy development of the rare earth industry. These policies should accelerate the structural adjustment, transformation and upgrading of the rare earth industry. In addition, the market expects that the Government will launch a new round of rare earth hoarding plan by the fourth quarter of this year and the rare earth prices should rebound by the time which will stimulate the Group's revenue.

Moreover, the Group is actively conducting research and study on a mining of magnesium ore project in Northeastern China, with aims for early penetration into upstream business, creating synergies with existing operations and ultimately strengthening overall income.

Rights Issue

To cater to the demands of developing existing businesses and expanding new businesses, the Group announced a rights issue of 669,057,222 new shares of the Company at the subscription prices of HK\$0.60 each on the basis of two rights shares for every five existing shares held on 10 June 2015 (the "Rights Issue"). The subscription price represents a discount of about 58.6% to the closing price as quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") before the announcement. Due to the overwhelming responses from shareholders, the rights issue was over-subscribed with applications for a total of 5,462,001,992 shares having been received, representing approximately 816% of the total number of 669,057,222 rights shares available. The Rights Issue was completed in early August. The Group raised approximately HK\$401,400,000 (before expenses) through the Rights Issue and the funds are to be allocated for general working capital purposes.

In addition, in order to facilitate the Rights Issue, the Company held an extraordinary general meeting on 2 July this year to raise the authorised share capital of the Company from HK\$200,000,000 to HK\$400,000,000.



Liquidity and Financial Resources

The Group has continued to maintain prudent capital arrangements. As at 30 June 2015, the Group had cash and bank deposits valued at approximately HK\$1,397,052,000, of which RMB30,000,000 was pledged to a bank to secure a US\$9,520,000 short-term loan. Net current assets amounted at approximately HK\$2,141,002,000, with the total liabilities to total assets ratio at around 9%.

Except for the deposits pledged as mentioned above, the Group has no other charge on assets, nor has it held any financial derivative products. It was not exposed to any 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 period under review, the exchange rates of the Renminbi, the US dollar and the Hong Kong dollar were stable.

Staff and Remuneration

As at 30 June 2015, the Group had a workforce of approximately 1,000 including a number of experienced professionals. The Group has provided a comprehensive staff remuneration and welfare system. During the period under review, the Group spent approximately HK\$36,491,000 on staff costs, including directors' emoluments. It also provided regular training and study opportunities to employees to assist them in maintaining professional standards.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2015.

SHARE OPTION SCHEME

At the Company's annual general meeting held on 6 June 2014, the shareholders of the Company approved the adoption of a share option scheme (the "New Scheme") after the share option scheme, which was previously adopted on 4 June 2004, lapsed on 3 June 2014 for the purpose of providing incentives to participants for their contribution to the Group. During the six months ended 30 June 2015, there was no option granted, cancelled or lapsed under the New Scheme.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

As at 30 June 2015, the interests and short positions of the directors and chief executives of the Company and their close associates in the shares, underlying shares and debentures of the Company and its associated corporations as recorded in the register kept by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO") or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

1. Interests in shares of the Company

Director	Nature of interest/ Capacity	Number of shares	% to the issued share capital of the Company
Jiang Quanlong	Interest of spouse/ Interest of controlled corporation	744,755,200 (Note)	31.80%
Qian Yuanying	Founder of a trust	744,755,200 (Note)	31.80%

Note:

These shares (including 212,787,200 rights shares of which YY Holdings Limited had executed an irrevocable undertaking in favour of the Company and VMS Securities Limited to accept its entitlement under the Rights Issue to the provisional allotment) are held in long position through YY Holdings Limited, the entire issued share capital of which is held by YYT (PTC) Limited, the trustee of YY Trust, the discretionary object of which is a company wholly owned by Ms. Qian Yuanying, the spouse of Mr. Jiang Quanlong, and her sons. Ms. Qian Yuanying is a founder of YY Trust within the meaning under Part XV of the SFO. Mr. Jiang Quanlong and Ms. Qian Yuanying are the directors of YY Holdings Limited.

As at 30 June 2015, YY Holdings Limited pledged all these shares to Wealth Field Global Limited in respect of a term loan facility granted by Wealth Field Global Limited to YY Holdings Limited.



2. Interests in shares, underlying shares or equity interests in associated corporations

(a) Microtech Resources Limited

Director	Nature of interest/ Capacity	Number and class of shares	% in the class of shares in the issued share capital of the company
Jiang Quanlong	Beneficial owner	7,000,000 non-voting deferred shares	70%
Qian Yuanying	Beneficial owner	3,000,000 non-voting deferred shares	30%

(b) Yixing Xinwei Leeshing Rare Earth Company Limited

Director	Nature of interest/Capacity	% equity interests
Jiang Quanlong	Interest of controlled corporation	5%

Note:

The equity interest is held by Yixing Xinwei Group Co. Ltd., a PRC domestic enterprise 90% owned by Mr. Jiang Quanlong, with the remaining 10% owned by his son. Mr. Jiang is also the legal representative of the enterprise.

(c) YY Holdings Limited

Director	Nature of interest/ Capacity	Number and class of shares	% in the class of shares in the issued share capital of the company
Qian Yuanying	Founder of a trust	1 ordinary share	100%
Qian Yuanying	Founder of a trust	25,000 preference shares	100%
Jiang Quanlong	Interest of controlled corporation	1 ordinary share	100%
Jiang Quanlong	Interest of controlled corporation	25,000 preference shares	100%

Note:

The entire issued share capital of YY Holdings Limited is held by YYT (PTC) Limited, the trustee of YY Trust, the discretionary object of which is a company wholly owned by Ms. Qian Yuanying, the spouse of Mr. Jiang Quanlong, and her sons. Ms. Qian Yuanying is a founder of YY Trust within the meaning under Part XV of the SFO. Mr. Jiang Quanlong and Ms. Qian Yuanying are the directors of YYT (PTC) Limited.

Save as disclosed above, as at 30 June 2015, none of the directors or chief executives of the Company and their close associates had or was deemed to have any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations as recorded in the register kept under Section 352 of the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

So far as is known to the directors, as at 30 June 2015, the interests and short positions of shareholders, other than the directors or chief executives of the Company, in the shares and underlying shares of the Company as recorded in the register kept by the Company pursuant to Section 336 of the SFO were as follows:

1. YY Holdings Limited, the entire issued share capital of which is held by YYT (PTC) Limited, was holding 744,755,200 shares of the Company (including 212,787,200 rights shares of which YY Holdings Limited had executed an irrevocable undertaking in favour of the Company and VMS Securities Limited to accept its entitlement under the Rights Issue to the provisional allotment), representing approximately 31.80% of the issued share capital of the Company as beneficial owner.
2. YYT (PTC) Limited was deemed to be interested in 744,755,200 shares of the Company (including 212,787,200 rights shares of which YY Holdings Limited had executed an irrevocable undertaking in favour of the Company and VMS Securities Limited to accept its entitlement under the Rights Issue to the provisional allotment) held by YY Holdings Limited, the entire issued share capital of which is held by YYT (PTC) Limited.



- YY Holdings Limited pledged all its 744,755,200 shares of the Company (including 212,787,200 rights shares of which YY Holdings Limited had executed an irrevocable undertaking in favour of the Company and VMS Securities Limited to accept its entitlement under the Rights Issue to the provisional allotment) to Wealth Field Global Limited in respect of a term loan facility granted by Wealth Field Global Limited to YY Holdings Limited. Wealth Field Global Limited is wholly owned by VMS Finance Group Limited, which is in turn wholly owned by VMS Holdings Limited, a company wholly owned by Ms. Mak Siu Hang Viola.

Save as disclosed above, no other party, other than the directors or chief executives of the Company, had notified the Company that he had any interest or short position in the shares or underlying shares of the Company as recorded in the register kept under Section 336 of the SFO as at 30 June 2015.

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 six months ended 30 June 2015.

AUDIT COMMITTEE

The Audit Committee has reviewed, with the assistance of the Company's auditor, the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the interim financial statements for the six months ended 30 June 2015 which have not been audited.

CORPORATE GOVERNANCE

The Company is committed to attaining good corporate governance practices and procedures. The Company has adopted its own code of corporate governance based on the principles and code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules. In the opinion of the Board, the Company has complied with the CG Code throughout the six months ended 30 June 2015.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its own Securities Dealing Code (the “Company’s Code”) regarding securities transactions by directors on terms no less exacting than the required standards set out in the Model Code. Having made specific enquiry, the Company confirms that all directors have complied with the required standards as stated in the Model Code and the Company’s Code throughout the six months ended 30 June 2015.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained sufficient public float as required under the Listing Rules during the period under review and up to the date of this report.

MEMBERS OF THE BOARD

As at the date of this report, 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 August 2015