



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 2007



## **DIRECTORS**

### **Executive Directors**

Mr Jiang Quanlong (*Chairman*)  
Ms Qian Yuanying (*Deputy Chairman*)  
Ms Xu Panfeng  
Mr Jiang Cainan

### **Independent Non-executive Directors**

Mr Liu Yujiu  
Mr Huang Chunhua  
Mr Jin Zhong

### **Audit Committee**

Mr Liu Yujiu  
Mr Huang Chunhua  
Mr Jin Zhong

### **Remuneration Committee**

Mr Jiang Quanlong  
Mr Liu Yujiu  
Mr Huang Chunhua  
Mr Jin Zhong

## **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**

Dapu, Yixing  
Jiangsu Province, PRC

## **PLACE OF BUSINESS IN HONG KONG**

15/F, Club Lusitano  
16 Ice House Street, Central  
Hong Kong

## **HONG KONG LEGAL ADVISERS**

Chiu & Partners

## **AUDITORS**

SHINEWING (HK) CPA Limited

## **PRINCIPAL BANKERS**

### **PRC**

Bank of China  
Industrial & Commercial Bank of China  
China Construction Bank  
China Merchants Bank

### **Hong Kong**

Standard Chartered Bank  
Bank of China  
Nanyang Commercial Bank, Limited

## **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

Butterfield Fund Services (Cayman) Limited  
Butterfield House, 68 Fort Street  
P.O. Box 705, George Town  
Grand Cayman  
Cayman Islands

## **HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

Computershare Hong Kong Investor Services Limited  
17th Floor, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## **INTERNET WEBSITE**

[www.creh.com.hk](http://www.creh.com.hk)

## **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 consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2007 together with the comparative figures for the corresponding period in 2006 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
	NOTES	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Turnover	(4)	619,848	470,703
Cost of sales		<b>(429,362)</b>	(328,259)
Gross profit		<b>190,486</b>	142,444
Interest income		9,489	2,233
Selling and distribution expenses		<b>(17,622)</b>	(10,378)
Administrative expenses		<b>(18,079)</b>	(12,326)
Other income, net		8,159	3,378
Finance costs	(5)	<b>(2,512)</b>	(667)
Profit before taxation	(6)	<b>169,921</b>	124,684
Taxation	(7)	<b>(45,398)</b>	(28,725)
Profit for the period		<b>124,523</b>	95,959
Attributable to:			
Equity holders of the Company		<b>122,900</b>	94,743
Minority interests		<b>1,623</b>	1,216
		<b>124,523</b>	95,959
Dividends	(8)	<b>14,211</b>	11,843
Earnings per share	(9)		
– Basic		<b>8.65 cents</b>	8.80 cents
– Diluted		<b>8.64 cents</b>	8.80 cents

## CONDENSED CONSOLIDATED BALANCE SHEET

	<i>NOTES</i>	<b>30 June 2007 HK\$'000 (Unaudited)</b>	<b>31 December 2006 HK\$'000 (Audited)</b>
Non-current assets			
Goodwill		<b>203,583</b>	202,242
Property, plant and equipment and construction-in-progress	(10)	<b>628,847</b>	568,837
Prepaid lease payments on land use rights		<b>139,959</b>	138,660
Other assets	(11)	<b>43,908</b>	900
		<b>1,016,297</b>	910,639
Current assets			
Prepaid lease payments on land use rights		<b>3,063</b>	3,002
Inventories		<b>263,062</b>	231,164
Accounts and other receivables	(12)	<b>394,503</b>	344,614
Prepayments and deposits		<b>214,116</b>	212,578
Pledged bank deposit		<b>99,790</b>	99,790
Restricted bank balances		<b>256</b>	2,854
Bank balances and cash		<b>587,943</b>	660,770
		<b>1,562,733</b>	1,554,772
Current liabilities			
Accounts payable	(13)	<b>73,455</b>	50,384
Accruals and other payables		<b>30,801</b>	35,207
Amounts due to directors		<b>1,278</b>	10,062
Amount due to a related company		<b>563</b>	550
Bank borrowings due within one year	(14)	<b>98,465</b>	95,000
Tax payable		<b>43,921</b>	36,251
		<b>248,483</b>	227,454
Net current assets		<b>1,314,250</b>	1,327,318
Total assets less current liabilities		<b>2,330,547</b>	2,237,957
Capital and reserves			
Share capital	(15)	<b>142,114</b>	142,114
Reserves		<b>2,165,486</b>	2,074,519
Equity attributable to equity holders of the Company		<b>2,307,600</b>	2,216,633
Minority interests		<b>22,947</b>	21,324
Total equity		<b>2,330,547</b>	2,237,957

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months  
ended 30 June

	2007 <i>HK\$'000</i> (Unaudited)	2006 <i>HK\$'000</i> (Unaudited)
Net cash generated from operating activities	73,771	147,719
Net cash used in investing activities	(100,312)	(248,111)
Net cash (used in)/generated from financing activities	<u>(57,847)</u>	<u>308,312</u>
Net (decrease)/increase in cash and cash equivalents	<b>(84,388)</b>	207,920
Cash and cash equivalents at beginning of the period	<b>660,770</b>	153,115
Effect of changes in exchange rate	<u>11,561</u>	<u>3,796</u>
Analysis of the balances of cash and cash equivalents at end of the period		
Bank balances and cash	<u><b>587,943</b></u>	<u>364,831</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders of the Company

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Statutory reserves HK\$'000	Dividend reserve HK\$'000	Exchange translation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2006	98,695	600,922	22,348	70,949	47,374	20,750	568,789	1,429,827	18,888	1,448,715
Placing of new shares	19,739	252,659	-	-	-	-	-	272,398	-	272,398
Share issue expenses	-	(8,278)	-	-	-	-	-	(8,278)	-	(8,278)
Exchange difference directly recognised in equity for the period	-	-	-	-	-	9,517	-	9,517	-	9,517
Profit for the period	-	-	-	-	-	-	94,743	94,743	1,216	95,959
Total recognised income for the period	-	-	-	-	-	9,517	94,743	104,260	1,216	105,476
Final dividend paid for 2005	-	-	-	-	(47,374)	-	-	(47,374)	-	(47,374)
Dividend set aside	-	-	-	-	11,843	-	(11,843)	-	-	-
Appropriations to statutory reserves	-	-	-	2,305	-	-	(2,305)	-	-	-
At 30 June 2006 and 1 July 2006	118,434	845,303	22,348	73,254	11,843	30,267	649,384	1,750,833	20,104	1,770,937
Placing of new shares	23,680	322,048	-	-	-	-	-	345,728	-	345,728
Share issue expenses	-	(14,820)	-	-	-	-	-	(14,820)	-	(14,820)
Exchange difference directly recognised in equity for the period	-	-	-	-	-	32,223	-	32,223	-	32,223
Profit for the period	-	-	-	-	-	-	114,512	114,512	1,220	115,732
Total recognised income for the period	-	-	-	-	-	32,223	114,512	146,735	1,220	147,955
Interim dividend paid for 2006	-	-	-	-	(11,843)	-	-	(11,843)	-	(11,843)
Dividend set aside	-	-	-	-	56,846	-	(56,846)	-	-	-
Appropriations to statutory reserves	-	-	-	16,726	-	-	(16,726)	-	-	-
At 31 December 2006 and 1 January 2007	142,114	1,152,531	22,348	89,980	56,846	62,490	690,324	2,216,633	21,324	2,237,957
Exchange difference directly recognised in equity for the period	-	-	-	-	-	24,913	-	24,913	-	24,913
Profit for the period	-	-	-	-	-	-	122,900	122,900	1,623	124,523
Total recognised income for the period	-	-	-	-	-	24,913	122,900	147,813	1,623	149,436
Final dividend paid for 2006	-	-	-	-	(56,846)	-	-	(56,846)	-	(56,846)
Dividend set aside	-	-	-	-	14,211	-	(14,211)	-	-	-
Appropriations to statutory reserves	-	-	-	4,361	-	-	(4,361)	-	-	-
At 30 June 2007	142,114	1,152,531	22,348	94,341	14,211	87,403	794,652	2,307,600	22,947	2,330,547

**Note:**

Under the Companies Law (1998 Revision) of the Cayman Islands, the share premium account is distributable to the shareholders 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.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 1. GENERAL

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 ("HKAS") No.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 an annual financial statements, and should be read in conjunction with the Group's annual audited financial statements for the year ended 31 December 2006.

### 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial information has been prepared under the historical costs basis except for certain buildings, which are measured at revalued amounts, as appropriate.

The accounting policies used in the condensed consolidated interim financial information are consistent with those followed in the preparation of the Group's annual audited financial statements for the year ended 31 December 2006.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA which are effective for accounting periods beginning on or after 1 January 2007. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective as at 30 June 2007. The directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the results and financial position of the Group.

HKAS 23 (Revised)	Borrowing costs <sup>1</sup>
HKFRS 8	Operating segments <sup>1</sup>
HK(IFRIC) – Interpretation ("Int") 11	HKFRS 2 – Group and treasury share transactions <sup>2</sup>
HK(IFRIC) – Int 12	Service concession arrangements <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2007

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2008

### 3. SEGMENT INFORMATION

Segment information for the six months ended 30 June 2007 and 2006 is as follows:

#### (a) Business segments

	Rare Earth		Refractory		Total	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
<b>For the six months ended 30 June</b>						
Turnover	<u>338,793</u>	<u>231,712</u>	<u>281,055</u>	<u>238,991</u>	<u>619,848</u>	<u>470,703</u>
<b>RESULTS</b>						
Segment results	<u>67,509</u>	<u>43,276</u>	<u>91,632</u>	<u>80,866</u>	<u>159,141</u>	<u>124,142</u>
Unallocated corporate expenses					(4,356)	(4,402)
Interest income					9,489	2,233
Other income, net					8,159	3,378
Finance costs					(2,512)	(667)
Profit before taxation					<u>169,921</u>	<u>124,684</u>
Taxation					<u>(45,398)</u>	<u>(28,725)</u>
Profit for the period					<u>124,523</u>	<u>95,959</u>

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)



### 3. SEGMENT INFORMATION *(Continued)*

#### (b) Geographical segments

	<b>Turnover by geographical market For the six months ended 30 June</b>	
	<b>2007 HK\$'000</b>	2006 HK\$'000
The People's Republic of China ("the PRC")	<b>501,605</b>	369,261
Japan	<b>61,869</b>	58,947
Europe	<b>40,219</b>	28,554
The United States of America	<b>13,579</b>	10,379
Others	<b>2,576</b>	3,562
	<b>619,848</b>	470,703

Over 90% of segment assets of the Group are located in the PRC including Hong Kong.

### 4. TURNOVER

	<b>For the six months ended 30 June</b>	
	<b>2007 HK\$'000</b>	2006 HK\$'000
Sales of rare earth products (including fluorescent products)	<b>338,793</b>	231,712
Sales of refractory products (including high temperature ceramics products and magnesium grains)	<b>281,055</b>	238,991
	<b>619,848</b>	470,703

## 5. FINANCE COSTS

	For the six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000
Interest expenses and bank charges on bank borrowings wholly repayable within five years	2,485	541
Interest expenses on discounted bills	27	126
	<u>2,512</u>	<u>667</u>

## 6. PROFIT BEFORE TAXATION

During the period, profit before taxation has been arrived at after charging depreciation on property, plant and equipment of approximately HK\$38,424,000 (2006: HK\$35,090,000) and amortisation of prepaid lease payments on land use rights of approximately HK\$1,516,000 (2006: HK\$200,000) respectively.

## 7. TAXATION

	For the six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000
Enterprise income tax ("EIT")		
– The PRC subsidiaries	<b>45,398</b>	28,725

Hong Kong Profits Tax has not been provided for in the condensed consolidated interim financial information as the Group did not derive any assessable profits in Hong Kong for both periods.

EIT has been provided at the prevailing rates on the estimated assessable profits applicable to each PRC subsidiary.

Pursuant to the relevant tax laws in the PRC, certain subsidiaries in the PRC are entitled to full exemption from EIT for two years starting from their first profit-making year, after offsetting all losses brought forward, followed by a 50% reduction for the next three years thereafter.

During the period, EIT has been fully provided at 27% and 33% for four (2006: two) and one (2006: one) PRC subsidiaries respectively. None (2006: Two) of the PRC subsidiaries have benefited from a 50% reduction of EIT. The remaining three (2006: three) PRC subsidiaries did not derive any assessable profits.

No provision for deferred taxation has been recognised in the condensed consolidated interim financial information as there are no significant temporary differences.

**8. DIVIDENDS**

During the period, a final dividend for the previous year of HK\$0.04 (2006: HK\$0.04) per share amounted to approximately HK\$56,846,000 (2006: HK\$ 47,374,000) was declared and paid.

As at the date of this report, the directors have resolved to declare an interim dividend of HK\$0.01 (2006: HK\$0.01) per share amounting to approximately HK\$14,211,000 (2006: HK\$11,843,000).

**9. EARNINGS PER SHARE**

The calculation of the basic earnings per share is based on the Group's profit attributable to equity holders of the Company of approximately HK\$122,900,000 (2006: HK\$94,743,000) and the weighted average number of ordinary shares of 1,421,143,059 (2006: 1,076,378,363) in issue during the period.

The calculation of the diluted earnings per share is based on the Group's profit attributable to equity holders of the Company of approximately HK\$122,900,000 (2006: HK\$94,743,000) and the weighted average number of ordinary shares of 1,421,757,261 (2006: 1,076,604,314) in issue after adjusting for the effect of all dilutive potential ordinary shares during the period.

**10. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION-IN-PROGRESS**

During the period, the Group spent approximately HK\$88,331,000 (2006: HK\$10,894,000) on additions to property, plant and equipment and construction-in-progress.

Included in the property, plant and equipment were buildings of approximately HK\$18,321,000 of which the realty title certificate has not yet been obtained as at 30 June 2007.

**11. OTHER ASSETS**

At 30 June 2007, the Group prepaid approximately HK\$43,908,000 (31 December 2006: HK\$900,000) for acquisition of land use right including deposit paid to the local government and compensation for removal.

## 12. ACCOUNTS AND OTHER RECEIVABLES

The Group allows an average credit period of 30 to 90 days to its trade customers.

At 30 June 2007, accounts and other receivables comprised:

	<b>30 June 2007 HK\$'000</b>	31 December 2006 HK\$'000
Accounts and bills receivables	<b>393,689</b>	337,443
Other receivables	<b>10,473</b>	15,111
	<hr/>	<hr/>
	<b>404,162</b>	352,554
Less: Allowance for bad and doubtful debts	<b>(9,659)</b>	(7,940)
	<hr/>	<hr/>
	<b>394,503</b>	344,614
	<hr/> <hr/>	<hr/> <hr/>

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

	<b>30 June 2007 HK\$'000</b>	31 December 2006 HK\$'000
Current to less than 6 months	<b>360,352</b>	305,513
6 months to less than 1 year	<b>22,849</b>	23,859
1 to less than 2 years	<b>4,596</b>	2,700
Over 2 years	<b>5,892</b>	5,371
	<hr/>	<hr/>
	<b>393,689</b>	337,443
	<hr/> <hr/>	<hr/> <hr/>

The fair values of the Group's accounts and other receivables at 30 June 2007 approximate to the corresponding carrying amounts due to short-term maturities.

**13. ACCOUNTS PAYABLE**

An ageing analysis of accounts payable is as follows:

	<b>30 June 2007 HK\$'000</b>	31 December 2006 HK\$'000
Current to less than 6 months	<b>62,727</b>	42,781
6 months to less than 1 year	<b>6,314</b>	3,425
1 to less than 2 years	<b>1,364</b>	2,173
Over 2 years	<b>3,050</b>	2,005
	<hr/> <b>73,455</b> <hr/>	<hr/> 50,384 <hr/>

The fair values of the Group's accounts payable at 30 June 2007 approximate to the corresponding carrying amounts due to short-term maturities.

**14. BANK BORROWINGS DUE WITHIN ONE YEAR**

At 30 June 2007, the Group's borrowings were represented by bank loans of RMB95,000,000 (31 December 2006: RMB95,000,000) and US\$197,000 (31 December 2006: Nil).

All the Group's bank borrowings are repayable within one year and are fixed rate borrowings with effective interest rates ranging from 5.022% to 6.360% (31 December 2006: 4.860% to 5.022%) per annum.

At 30 June 2007, the bank borrowings were secured by pledged bank deposit and bills receivable of approximately HK\$101,401,000 (31 December 2006: HK\$99,790,000).

The fair values of the Group's bank borrowings at 30 June 2007 approximate to the corresponding carrying amounts due to short-term maturities.

**15. SHARE CAPITAL**

	<b>Number of shares</b>	<i>HK\$'000</i>
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 January 2006, 31 December 2006 and 30 June 2007	<u>2,000,000,000</u>	<u>200,000</u>
Issued and fully paid:		
At 1 January 2006	986,953,059	98,695
Placing of new shares	<u>434,190,000</u>	<u>43,419</u>
At 31 December 2006 and 30 June 2007	<u>1,421,143,059</u>	<u>142,114</u>

**16. COMMITMENTS**

At the balance sheet date, the Group had the following commitments, so far as not provided for in the condensed consolidated interim financial information, in respect of:

- (a) Capital commitments in respect of acquisition and construction of property, plant and equipment and land use rights:

	<b>30 June 2007 HK\$'000</b>	31 December 2006 <i>HK\$'000</i>
Authorised and contracted for	<u>145,676</u>	<u>247,862</u>

**16. COMMITMENTS** (Continued)

- (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:

	<b>30 June 2007 HK\$'000</b>	31 December 2006 HK\$'000
Within one year	<b>448</b>	692
In the second to fifth year inclusive	<b>37</b>	222
	<b>485</b>	914

Operating lease payments represent rentals payable by the Group for certain of its office and factory premises. Leases and rentals are negotiated and fixed for an average of three years.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Results

For the six months ended 30 June 2007, the Group recorded a total turnover of HK\$619,848,000, approximately 32% more than the HK\$470,703,000 in the same period last year. The turnover from rare earth products (including fluorescent materials) was HK\$338,793,000, around 46% more than the HK\$231,712,000 in the same period last year and accounting for around 55% of the Group's total turnover. Refractory materials (including high temperature ceramics and magnesium grains) brought in HK\$281,055,000 in turnover, around 18% more than the HK\$238,991,000 recorded in the corresponding period last year. Achieving outstanding performance, rare earth operation registered higher turnover than the contribution from refractory materials. The Group's overall gross profit margin was maintained at over 30%.

In the first half of 2007, the Group made profit before taxation of HK\$169,921,000, a gain of approximately 36% when compared to HK\$124,684,000 of the last corresponding period. After the tax holiday periods expired for Wuxi Xinwei Fluorescent Materials Company Limited and Wuxi Xinwei High Temperature Ceramics Company Limited, they are required to pay full Enterprise Income Tax at the rate of 27% commencing this year, raising the overall effective tax rate for the Group. After deducting taxation of HK\$45,398,000, the Group's profit for this period increased by 30% against the last reporting period to approximately HK\$124,523,000. Net profit margin remained at about 20%. As the Group undertook two share placements last year, the total number of issued shares increased from 986,953,059 to 1,421,143,059, which diluted earnings per share. As a result, while net profit increased by 30%, earnings per share slightly decreased to HK8.65 cents from HK8.80 cents in the same period last year.

## Business Review

### *Rare Earth Business*

Driven by rapid development of high-tech products and consumer electronics, demand for rare earth products, especially magnetic materials and fluorescent materials, increased substantially. During the period under review, the Group sold around 2,490 tonnes of rare earth and downstream products, representing an increase of approximately 25% when compared with the same period last year. Bolstered by increased prices and sales volume, turnover of the Group's rare earth business in the first half year increased by 46% against the corresponding period last year to HK\$ 338,793,000.

With the market environment continuing to be favourable since last year, the average prices of praseodymium oxide and neodymium oxide in this first half year leaped around 120% when compared with the same period last year, and even that of lanthanum oxide, which had average sales last year, increased by almost 20%. The prices of heavy rare earth elements grew in varying extents. For instance, erbium oxide and gadolinium oxide surged around 60% to 80% on average, while mixture of yttrium and europium only rose 5%. As for downstream products, the sales of polishing powder came on track after the Group improved related technologies. The Group also recorded a 67% increase in fluorescent powder sales volume, driven by the huge demand for energy-saving lightings. The product accounted for 22% of overall rare earth sales and its gross profit margin increased to 35%.

As for production cost, on 1 February 2007, the Ministry of Land and Resources of the Chinese Government changed its guidance for mining of rare earth to instructions, representing tightening of control and regulation on rare earth mining. The move led to tense supply and in turn continuous price hikes for rare earth resources. For instance, the average prices of carbonated rare earth, oxidized rare earth and chlorinated rare earth increased by approximately 40% to 130% when compared with the same period last year. However, through effective cost and pricing management, the Group was able to control the costs or transfer the increased costs onto customers. During the period, the average gross profit margin of the Group's rare earth business steadily increased to approximately 24%.

As for business performance by market, contribution from the PRC market to total sales of rare earth increased to 77%, while markets in Europe and Japan accounted for 12% and 7% respectively. There was an increasing demand for rare earth products in both the PRC and overseas markets. However, as the authority delayed granting of export quotas this year, export sales were affected to some extent.

### *Refractory Materials Business*

The Group's refractory materials business grew steadily during the period. Overall turnover reached HK\$281,055,000, a gain of 18% against the same period last year. Sales of ordinary refractory materials and high temperature ceramics reached HK\$247,862,000. Up to 46,600 tonnes of the product was sold, around 17% more than that in the same period last year. Products prices were similar to those in the last corresponding period. The prices of major products, such as fused magnesia-chrome bricks, magnesia-alumina spinel bricks and unshaped casting materials, varied no more than 10%. However, since another major product alumina-graphite bricks were mainly for export overseas, as a result of cancellation of export tax rebate starting this year, the average book price of the product less value-added tax dropped and accordingly the gross profit margin of ordinary refractory materials was down slightly to 32%. As for high temperature ceramics, with the market relatively stable, its gross profit margin was maintained at over 40%.

Regarding fused magnesium grains, with power shortage alleviating, its sales volume increased by 40% to approximately 14,700 tonnes against the last corresponding period. In addition, its average price rose slightly, hence its turnover for the first half year increased to HK\$33,193,000 and gross profit margin was stable at around 50%.

As for refractory product market, since the high temperature ceramics and fused magnesium grains the Group focused on developing in recent years are mainly for domestic sales, rise in sales of these products accordingly increased the share of contribution from the domestic market to about 85% of the segment's overall sales.

### **Prospects**

The strict control on rare earth mining and tightening of rare earth export quotas by the Chinese Government will continuously push up rare earth product prices in the next few years. The Group will step up effort to enhance production of value-added downstream rare earth products so that it will be able to capture rising market opportunities. It targets to increase in stages the proportion of turnover contribution from downstream rare earth products to 50% of the total turnover from rare earth products in the coming few years.

Paying special attention to energy saving and environmental protection in recent years and heeding the fact that rare earth energy-saving lightings can save more than 50% power usage than conventional lightings, the Chinese Government has been encouraging use of rare earth lightings for the country to live up to expectation in the advent of the 2008 Beijing Olympics. Countries and regions including North America, Australia, Europe, Japan and Korea are also gradually replacing conventional lightings with energy saving lightings. Such development has presented fluorescent materials with huge growth potential. Therefore, the Group will continue to expand this segment including actively consider expansion of production capacity so as to satisfy market demand. In addition, the Group is pursuing research and development of downstream rare earth products, including catalysts for automobile exhaust gas treatment, which have a huge market.

As for refractory materials business, construction of phase one of the Group's new high purity magnesium grains production line has begun. Foundation work of plant is progressing smoothly and equipment will be installed in the fourth quarter for production to begin by the end of this year. After the plant commenced operation, the Group will have reliable material supply and also a new major income source.

Furthermore, the Group will continue to forge strategic alliances with major customers like what it had with General Electric Company early last year. Such alliances will allow the Group to gain competitiveness and expand business scope. The Group will continue to look for opportunities to invest in rare earth mines so as to speed up creation of a vertical industrial chain. It will also work closely with suppliers to secure reliable raw material supply and strive to maximize economies of scale and cost effectiveness.

### **Liquidity and Financial Resources**

As at 30 June 2007, the Group had cash and bank deposits of approximately HK\$687,989,000 in total within which there were deposits at about HK\$100,046,000 pledged for banking facilities utilized or restricted for specific business purposes. The Group rolled over the short term bank loan of RMB95,000,000 obtained last year with the deposit pledged. There was no material contingent liabilities. Balance of net current assets amounted to HK\$1,314,250,000. Total liabilities to total assets ratio maintained at around 9%.

The Group was not exposed to material foreign exchange risk or interest rate risk. Apart from the deposit pledged as stated above, there was no charge on assets of the Group.

### **Staff and Remuneration**

As at 30 June 2007, the Group had a workforce of approximately 1,550 staff. Comprehensive remuneration and welfare packages are offered to them. During the period, HK\$16,407,000 was incurred in staff costs including directors' emoluments.

### **INTERIM DIVIDEND**

The Board has resolved to declare an interim dividend for the six months ended 30 June 2007 of HK1 cent per share to the shareholders whose names appear on the register of members on 5 October 2007. The dividend will be payable on or before 31 October 2007.

### **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed on 4 October 2007 and 5 October 2007, during these two days no transfer of shares will be registered. To qualify for the above declared interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on 3 October 2007.

### **SHARE OPTION SCHEME**

On 4 June 2004, the shareholders of the Company approved the termination of the share option scheme adopted on 14 October 1999 (the "Old Scheme") and the adoption of a new scheme for the purpose of coping with the amendments introduced to Chapter 17 of the Listing Rules. Upon the termination of the Old Scheme, no further options would be offered pursuant to the Old Scheme but the Old Scheme would in all other respects remain in force to the extent necessary to give effect to the exercise of the outstanding options granted under it prior to its termination, and such outstanding options will continue to be valid and exercisable in accordance with the provisions of the Old Scheme.

### SHARE OPTION SCHEME (Continued)

Details of options which have been granted under the Old Scheme and remain outstanding as at 30 June 2007 were as follows:

Grantee	Date of grant	Exercise price	Number of options	
			Held at 1 January 2007	Held at 30 June 2007
Employees				
In aggregate	23 January 2003	HK\$1.10	1,500,000	1,500,000

The options granted are exercisable between 27 January 2003 to 26 January 2013, provided that 50% of the options granted shall not be exercised prior to 27 January 2004. No option was granted, exercised, cancelled or lapsed during the period.

### DIRECTORS' INTERESTS AND SHORT POSITIONS

As at 30 June 2007, the interests and short positions of the directors and chief executive of the Company and their 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 of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers 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	595,200,000 (Note)	41.88%
Qian Yuanying	Founder of a trust	595,200,000 (Note)	41.88%
Huang Chunhua	Beneficial owner	2,268,000	0.16%

*Note:* These shares are held through YY Holdings Limited, the entire issued share capital of which is held by YYT 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 children. Ms Qian Yuanying is a founder of YY Trust within the meaning under Part XV of the SFO. Mr Jiang Quanlong is the sole director of 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 issued 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*

<b>Director</b>	<b>Nature of interest/ Capacity</b>	<b>Number of issued shares</b>	<b>% in the class of shares in the issued share capital of the Company</b>
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 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 children. Ms Qian Yuanying is a founder of YY Trust within the meaning under Part XV of the SFO. Mr Jiang Quanlong is the sole director of YYT Limited.

Save as disclosed above, as at 30 June 2007, none of the directors or chief executive of the Company and their 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 2007, the interests and short positions of shareholders, other than the directors or chief executive 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 Limited, was holding 595,200,000 shares of the Company, representing approximately 41.88% of the issued share capital of the Company as beneficial owner.
2. YYT Limited was deemed to be interested in 595,200,000 shares of the Company held by YY Holdings Limited the entire issued share capital of which is held by YYT Limited.

Save as disclosed above, no other party, other than the directors or chief executive 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 2007.

## **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 2007.

## **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 interim financial statements for the six months ended 30 June 2007 which have not been audited.

## **CORPORATE GOVERNANCE**

The Company is committed to the establishment of good corporate governance practices and procedures. The Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2007.

### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standards set out in Appendix 10 of the Listing Rules. Having made specific enquiry, the Company confirms that all directors have complied with the required standards as stated in the code.

### **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 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, Ms Xu Panfeng and Mr Jiang Cainan as executive directors and Mr Liu Yujiu, Mr Huang Chunhua and Mr Jin Zhong as independent non-executive directors.

By Order of the Board

**Jiang Quanlong**

*Chairman*

Hong Kong, 14 September 2007