

Interim Report 2008

CRE

CHINA RARE EARTH HOLDINGS LIMITED



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

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

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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Dapu, Yixing
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PLACE OF BUSINESS IN HONG KONG

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HONG KONG LEGAL ADVISERS

Chiu & Partners

AUDITORS

CCIF 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
BNP Paribas

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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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 consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2008 together with the comparative figures for the corresponding period in 2007 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
	Note	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Turnover	(3)	783,880	619,848
Cost of sales		<u>(497,026)</u>	<u>(429,362)</u>
Gross profit		286,854	190,486
Interest income		4,551	9,489
Selling and distribution expenses		(28,033)	(17,622)
Administrative expenses		(18,438)	(18,079)
Other income, net		49,411	8,159
Finance costs	(4)	<u>(3,385)</u>	<u>(2,512)</u>
Profit before taxation	(5)	290,960	169,921
Income tax	(6)	<u>(66,131)</u>	<u>(45,398)</u>
Profit for the period		<u>224,829</u>	<u>124,523</u>
Attributable to:			
Equity holders of the Company		222,934	122,900
Minority interests		<u>1,895</u>	<u>1,623</u>
		<u>224,829</u>	<u>124,523</u>
Dividend	(7)	<u>14,211</u>	<u>14,211</u>
Earnings per share	(8)		
– Basic		<u>15.69 cents</u>	<u>8.65 cents</u>
– Diluted		<u>15.68 cents</u>	<u>8.64 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		30 June	31 December
		2008	2007
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
		(Unaudited)	(Audited)
Non-current assets			
Goodwill		211,270	206,705
Property, plant and equipment and construction-in-progress	(9)	809,368	744,073
Prepaid lease payments on land use rights		232,366	159,613
Prepayment on acquisition of property, plant and equipment and construction-in-progress		34,249	71,731
Other asset	(10)	–	54,998
Fixed bank deposits		15,000	25,000
		1,302,253	1,262,120
Current assets			
Prepaid lease payments on land use rights		5,053	3,508
Inventories		356,391	296,254
Trade and other receivables	(11)	513,138	381,623
Prepayments and deposits		58,430	102,763
Pledged bank deposits		126,984	99,790
Restricted bank balances		–	214
Bank balances and cash		810,321	651,992
		1,870,317	1,536,144

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

		30 June	31 December
		2008	2007
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
		(Unaudited)	(Audited)
Current liabilities			
Trade payables	(12)	94,080	62,113
Accruals and other payables		70,391	45,185
Amounts due to directors		776	560
Bank borrowings due within one year	(13)	132,974	101,453
Tax payable		57,282	39,029
		355,503	248,340
Net current assets		1,514,814	1,287,804
Net assets		2,817,067	2,549,924
Capital and reserves			
Share capital	(14)	142,114	142,114
Reserves		2,642,927	2,379,578
Equity attributable to equity holders of the Company		2,785,041	2,521,692
Minority interests		32,026	28,232
Total equity		2,817,067	2,549,924

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	193,078	73,771
Net cash used in investing activities	(43,581)	(100,312)
Net cash used in financing activities	(35,717)	(57,847)
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Net increase/(decrease) in cash and cash equivalents	113,780	(84,388)
Cash and cash equivalents at beginning of the period	651,992	660,770
Effect of changes in exchange rate	44,549	11,561
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Analysis of the balances of cash and cash equivalents at end of the period		
Bank balances and cash	810,321	587,943
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company									
	Share capital	Share premium	Capital reserve	Statutory reserves	Dividend reserve	Exchange translation reserve	Retained profits	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 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	-	-	-	-	-	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 and 1 July 2007	142,114	1,152,531	22,348	94,341	14,211	87,403	794,652	2,307,600	22,947	2,330,547
Exchange difference directly recognised in equity	-	-	-	-	-	56,158	-	56,158	2,873	59,031
Profit for the period	-	-	-	-	-	-	172,145	172,145	2,412	174,557
Total recognised income for the period	-	-	-	-	-	56,158	172,145	228,303	5,285	233,588
Interim dividend paid for 2007	-	-	-	-	(14,211)	-	-	(14,211)	-	(14,211)
Dividend set aside	-	-	-	-	56,846	-	(56,846)	-	-	-
Appropriations to statutory reserves	-	-	-	23,621	-	-	(23,621)	-	-	-
At 31 December 2007 and 1 January 2008	142,114	1,152,531	22,348	117,962	56,846	143,561	886,330	2,521,692	28,232	2,549,924
Exchange difference directly recognised in equity	-	-	-	-	-	97,261	-	97,261	1,899	99,160
Profit for the period	-	-	-	-	-	-	222,934	222,934	1,895	224,829
Total recognised income for the period	-	-	-	-	-	97,261	222,934	320,195	3,794	323,989
Final dividend paid for 2007	-	-	-	-	(56,846)	-	-	(56,846)	-	(56,846)
Dividend set aside	-	-	-	-	14,211	-	(14,211)	-	-	-
Appropriations to statutory reserves	-	-	-	7,729	-	-	(7,729)	-	-	-
At 30 June 2008	142,114	1,152,531	22,348	125,691	14,211	240,822	1,087,324	2,785,041	32,026	2,817,067

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. BASIS OF PREPARATION AND PRINCIPAL 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 ("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 the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2007.

The condensed consolidated interim financial information has been prepared under the historical costs basis except for 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 financial statements for the year ended 31 December 2007.

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 2008. 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 for the six months ended 30 June 2008. 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.

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HK(IFRIC) – Interpretation 13	Customer Loyalty Programmes ³

¹ Effective for annual periods beginning on or after 1 January 2009.

² Effective for annual periods beginning on or after 1 July 2009.

³ Effective for annual periods beginning on or after 1 July 2008.

2. SEGMENT INFORMATION

Segment information for the six months ended 30 June 2008 and 2007 is as follows:

(a) Business segments

	Rare Earth		Refractory		Total	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
For the six months ended 30 June						
Turnover	346,947	338,793	436,933	281,055	783,880	619,848
RESULTS						
Segment results	81,566	67,509	164,330	91,632	245,896	159,141
Unallocated corporate expenses					(5,513)	(4,356)
Interest income					4,551	9,489
Other income, net					49,411	8,159
Finance costs					(3,385)	(2,512)
Profit before taxation					290,960	169,921
Income tax					(66,131)	(45,398)
Profit for the period					224,829	124,523

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)

2. SEGMENT INFORMATION (Continued)

(b) Geographical segments

	Turnover by geographical market For the six months ended 30 June	
	2008 HK\$'000	2007 HK\$'000
The People's Republic of China (the "PRC")	644,115	501,605
Japan	91,316	61,869
Europe	38,274	40,219
The United States of America	6,854	13,579
Others	3,321	2,576
	783,880	619,848
	783,880	619,848

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

3. TURNOVER

	For the six months ended 30 June	
	2008 HK\$'000	2007 HK\$'000
Sales of rare earth products (including fluorescent products)	346,947	338,793
Sales of refractory products (including high temperature ceramics products and magnesium grains)	436,933	281,055
	783,880	619,848
	783,880	619,848

4. FINANCE COSTS

	For the six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Interest expenses and bank charges on bank borrowings wholly repayable within five years	3,385	2,485
Interest expenses on discounted bills	—	27
	<u>3,385</u>	<u>2,512</u>

5. PROFIT BEFORE TAXATION

During the period, profit before taxation has been arrived at after charging depreciation on property, plant and equipment of approximately HK\$43,524,000 (2007: HK\$38,424,000) and amortisation of prepaid lease payments on land use rights of approximately HK\$2,075,000 (2007: HK\$1,516,000) respectively.

6. INCOME TAX

	For the six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Enterprise income tax ("EIT")		
– The PRC subsidiaries	<u>66,131</u>	<u>45,398</u>

No provision has been made for Hong Kong Profits Tax as the Group did not have assessable profits subject to Hong Kong Profits Tax during the period. Profits for the Company's subsidiaries in the PRC are subject to PRC EIT.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress promulgated the Enterprise Income Tax Law of the PRC (the "New Tax Law"), which has taken effect on 1 January 2008. As a result of the New Tax Law, the Company's subsidiaries in the PRC are subject to statutory income tax rate of 25% since then.

6. INCOME TAX *(Continued)*

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries in the PRC are entitled to exemption from income tax for the first two years commencing from the year in which taxable income is made after offsetting the deductible losses incurred in prior years, and thereafter will be entitled to a 50% reduction in income tax rate for the following three years.

According to the New Tax Law, the existing preferential tax rate currently enjoyed by the Group is gradually transited to the new standard rate of 25% over a five-year transitional period. The applicable income tax rate under the preferential tax policy of the Company's subsidiaries in the PRC expires at the shorter of the remaining preferential tax period and the five-year transitional period.

During the six months ended 30 June 2008, the Company's certain subsidiaries in the PRC were enjoying the aforesaid tax relief and accordingly the Company's subsidiaries in the PRC were subject to income tax at 0% to 25% (2007: 0% to 33%).

In addition, according to the New Tax Law, the Company's subsidiaries in the PRC are subject to withholding tax on the dividends to their foreign investors arising from profits earned subsequent to 1 January 2008.

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

7. DIVIDEND

During the period, a final dividend for the previous year of HK\$0.04 (2007: HK\$0.04) per share amounted to approximately HK\$56,846,000 (2007: HK\$56,846,000) was declared and paid.

As at the date of this report, the directors have resolved to declare an interim dividend of HK\$0.01 (2007: HK\$0.01) per share amounting to approximately HK\$14,211,000 (2007: HK\$14,211,000).

8. 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\$222,934,000 (2007: HK\$122,900,000) and the weighted average number of ordinary shares of 1,421,143,059 (2007: 1,421,143,059) 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\$222,934,000 (2007: HK\$122,900,000) and the weighted average number of ordinary shares of 1,421,679,172 (2007: 1,421,757,261) in issue after adjusting for the effect of all dilutive potential ordinary shares during the period.

9. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION-IN-PROGRESS

During the period, the Group spent approximately HK\$59,879,000 (2007: HK\$88,331,000) on additions to property, plant and equipment and construction-in-progress.

10. OTHER ASSET

Other asset represents deposit paid for acquisition of land use rights. On 30 August 2006 and 23 May 2007, a subsidiary of the Company entered into agreements with Haicheng City Government in the PRC for the acquisition of a piece of land at the consideration of RMB59,500,000. As at 31 December 2007, the deposit of RMB51,500,000 (equivalent to approximately HK\$54,998,000) has been paid for application of title document of the land. As at 30 June 2008, the land use right certificate was obtained and the deposit has been transferred to prepaid lease payments on land use rights.

11. TRADE AND OTHER RECEIVABLES

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

At 30 June 2008, trade and other receivables comprised:

	30 June 2008 HK\$'000	31 December 2007 HK\$'000
Trade and bills receivables	519,236	387,586
Other receivables	3,750	3,283
	<hr/>	<hr/>
	522,986	390,869
Less: Impairment loss	(9,848)	(9,246)
	<hr/>	<hr/>
	513,138	381,623
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An ageing analysis of trade and bills receivables is as follows:

	30 June 2008 HK\$'000	31 December 2007 HK\$'000
Current to less than 6 months	480,256	368,277
6 months to less than 1 year	28,332	9,212
1 to less than 2 years	5,059	4,232
Over 2 years	5,589	5,865
	<hr/>	<hr/>
	519,236	387,586
Less: Impairment loss	(8,500)	(7,981)
	<hr/>	<hr/>
	510,736	379,605
	<hr/> <hr/>	<hr/> <hr/>

The fair values of the Group's trade and other receivables at 30 June 2008 approximate to the corresponding carrying amounts due to short-term maturities.

12. TRADE PAYABLES

An ageing analysis of trade payables is as follows:

	30 June 2008 HK\$'000	31 December 2007 HK\$'000
Current to less than 6 months	81,946	51,129
6 months to less than 1 year	6,380	6,098
1 to less than 2 years	4,138	2,907
Over 2 years	1,616	1,979
	94,080	62,113

The fair values of the Group's trade payables at 30 June 2008 approximate to the corresponding carrying amounts due to short-term maturities.

13. BANK BORROWINGS DUE WITHIN ONE YEAR

	30 June 2008 HK\$'000	31 December 2007 HK\$'000
Secured short-term bank loans	132,974	101,453

All the Group's bank borrowings are repayable within one year and are fixed rate borrowings with effective interest rates ranging from 3.350% to 7.695% (31 December 2007: 5.832%) per annum.

The fair values of the Group's bank borrowings at 30 June 2008 approximate to the corresponding carrying amounts due to short-term maturities.

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13. BANK BORROWINGS DUE WITHIN ONE YEAR (Continued)

At 30 June 2008, the bank borrowings were secured by the following assets:

	30 June 2008 HK\$'000	31 December 2007 HK\$'000
Fixed bank deposits	15,000	–
Pledged bank deposits	126,984	99,790
Trade receivables	11,743	–
	<u>153,727</u>	<u>99,790</u>

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14. SHARE CAPITAL

	Number of shares	HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 January 2007, 31 December 2007, 1 January 2008 and 30 June 2008	<u>2,000,000,000</u>	<u>200,000</u>
Issued and fully paid:		
At 1 January 2007, 31 December 2007, 1 January 2008 and 30 June 2008	<u>1,421,143,059</u>	<u>142,114</u>

15. 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:

	30 June 2008 HK\$'000	31 December 2007 HK\$'000
Authorised and contracted for	72,973	102,398

- (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 2008 HK\$'000	31 December 2007 HK\$'000
Within one year	1,176	1,432
In the second to fifth year inclusive	1,574	945
	2,750	2,377

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 to five years.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the six months ended 30 June 2008, the Group recorded a turnover of HK\$783,880,000, approximately 26% more than HK\$619,848,000 in the same period of 2007. Turnover from rare earth products (including fluorescent materials) was HK\$346,947,000, around 2% more than the HK\$338,793,000 in the same period last year and accounting for 44% of the Group's total turnover. Refractory materials (including high temperature ceramics and magnesium grains) business grew rapidly and brought in HK\$436,933,000 in turnover, around 55% more than the HK\$281,055,000 recorded in the corresponding period last year and accounting for 56% of the Group's total turnover. The Group's overall gross profit margin continued to increase to around 37%.

The Group made profit before taxation of HK\$290,960,000, a notable surge of about 71% when compared to HK\$169,921,000 of the last corresponding period. Continuous appreciation of the Renminbi during the period gave the Group an exchange gain of HK\$48,934,000. Average exchange rate increased from HK\$1:RMB0.99 between January and June last year to HK\$1:RMB0.9078 in the review period. This magnified the growth rate of all the subsidiaries of the Group in China on conversion of their results into Hong Kong dollars. On 1 January 2008, the Chinese government unified the income tax rate for domestic and foreign enterprises at 25%, lower than before for domestic enterprises. As a result, the effective tax rate for the Group also lowered during the period. Excluding taxation of HK\$66,131,000, net profit of the Group amounted to HK\$224,829,000, an 81% increase from HK\$124,523,000 in last corresponding period. Net profit margin rose to about 29%. Earnings per share for the period rose to 15.69 HK cents against 8.65 HK cents of the last corresponding period.

Business Review

Rare Earth Business

During the period under review, market demand for general rare earth oxides was not tremendous, whereas that for downstream products grew relatively notable. Turnover from rare earth business merely increased by 2% to HK\$346,947,000 against the same period last year. Excluding the effect of the appreciated Renminbi in currency conversion, turnover actually decreased by about 6% as compared with the same period last year. During the period under review, the Group sold approximately 3,000 tonnes of rare earth and downstream products, about 20% more than that in the same period last year. Average gross profit margin rose to about 27%.

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Regarding rare earth oxides, while the price of most products stabilised after steep climbs last year, some products such as mixture of yttrium and europium as well as lanthanum oxide were 35% and 75% more expensive respectively against the same period last year. However, the lackluster market and drop in demand for praseodymium oxide, neodymium oxide, terbium oxide and dysprosium oxide which are mainly used in magnetic materials resulted in the sales volume of those rare earth oxides to decrease by 22% to 65% when compared with the last corresponding period. Only cerium oxide, which was sold at a relatively lower price, recorded increased sales volume by about 1,000 tonnes, which was the highest among the different products in the segment. As a result, turnover from rare earth oxides dropped by about 20% despite the about 20% increase in sales volume of the products. The Group did not resort to promote sales of major products by cutting prices in the face of a quiet market. Instead, it sought to control and keep cost stable and the average gross profit margin of rare earth oxides grew to about 23% even though the price of certain raw materials surged. For example, the price of rare earth chloride increased by about 30% against the last corresponding period.

Demand for downstream products rose sharply during the period under review. Accordingly, the Group continued to increase the sales proportion of downstream products, pushing their turnover contribution to 35% of the total turnover from rare earth business. The demand for fluorescent materials saw the most notable growth with sales volume increased by approximately 38%. Its sales value grew 45% year-on-year and gross profit margin was maintained at around 35%.

By market, the China market accounted for approximately 75% of the total sales volume of rare earth products, which were mainly for domestic customers. Europe and Japan accounted for 10% and 13% respectively.

Refractory Materials Business

The refractory materials business continued to develop steadily with product prices on stable climb. Overall turnover of the segment increased by approximately 55% to HK\$436,933,000 against HK\$281,055,000 of last year. Ordinary refractory materials, high temperature ceramics and fused magnesium grains all achieved excellent performance. During the period under review, the Group sold nearly 62,000 tonnes of ordinary refractory materials and high temperature ceramics, representing growth of 33% when compared with the same period last year. Sales volume of fused magnesium grains also reached 21,300 tonnes, about 45% more than that of the same period last year.

By product, casting materials, among all the ordinary refractory materials and high temperature ceramics, reported the highest sales growth. The quality high-end casting materials produced by the Group, which have higher technology content and higher gross profit margin, gradually gained popularity in the market. Its sales volume continued to climb and reached near 10,000 tonnes during the period under review, representing an increase of about 80% when compared with the same period last year. The Sialon series of high temperature ceramics also performed well with sales volume more than doubled over the same correspondent period last year. Regarding product prices, the prices of various casting materials increased by about 10% to 20%, while the prices of other products such as fused magnesia-chrome bricks and zircon bricks were relatively stable varying no more than 10%. The price of alumina-graphite bricks which were mainly for export also saw a 15% increase. The price of products in the Sialon series also grew between 10% to 20%. Overall, both ordinary refractory materials and high temperature ceramics achieved fair growth in sales volume and product price, and changes in product mix also boosted their gross profit margins to 37% and 47% respectively. As for fused magnesium grains, the Group upgraded the electric furnace for producing the product and production capacity was enhanced as a result. Sales volume and turnover thus grew by 45% and 80% respectively year-on-year and gross profit margin was maintained at approximately 50%.

By market, since most of the high temperature ceramics and fused magnesium grains produced by the Group were sold to the domestic market and more of those products were sold during the review period, contribution from the China market increased to account for approximately 88% of the total sales of refractory materials business for the period. The Japan and Europe markets did not grow as fast and accounted together for a stable 12% of the total sales of the business.

Prospects

In the long run, global demand for rare earth is expected to continue to grow. However, in the near term, the market will still be subject to impacts of various changes. In the second half year, different rare earth products will have their different development tracks and the overall market atmosphere will continue to be slack with certain products experiencing drop in price. The Group, however, expects demand for downstream products, especially fluorescent powder, to remain strong, hence will continue to develop higher quality fluorescent materials, so as to consolidate its leading presence in the industry.

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Furthermore, the Group is actively negotiating with a major customer for potential cooperation opportunities on aspects in relation to production and the technology of downstream rare earth products, with the aim of enhancing its competitiveness and expanding business coverage. Agreement regarding the project is expected to be reached soon and translate into benefit for both parties.

In addition, the Group will continue to look for opportunities to invest in mineral resources or regions near different mines to speed up building of a vertical industrial chain. It will also work closely with suppliers to secure reliable raw material supply and strive to maximise economies of scale and cost effectiveness. Currently, the Group is looking at investment targets located mainly in Southern China and will announce details should study on those targets offer positive findings and the Group decide to pursue related plans.

For the refractory materials segment, the macroeconomic environment in China is expected to get tougher in the second half of the year hitting the steel and glass industries, which in turn put pressure on the refractory materials business of the Group. At the time, the Group has invested over HK\$200,000,000 in developing the high purity magnesium grains business. Construction of phase one of the high purity magnesium grains production line was completed and production will begin after the end of the Beijing Olympics. With production capacity reaching 50,000 tonnes a year, the production line will provide stable material supply for the segment, which will in turn facilitate cost control and give the Group an additional major income source.

Liquidity and Financial Resources

As at 30 June 2008, the Group had cash and bank deposits of approximately HK\$952,305,000, including deposits of HK\$49,173,000 and RMB81,600,000 pledged for banking facilities. The Group had short term bank loans of HK\$12,000,000 and RMB95,300,000 obtained with the deposits pledged (also another short term bank loan of RMB11,060,000 pledged by trade receivables of US\$1,475,000). There were no material contingent liabilities. Balance of net current assets amounted to HK\$1,514,814,000. Total liabilities to total assets ratio increased slightly to around 11%.

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

Staff and Remuneration

As at 30 June 2008, the Group had a workforce of approximately 1,580. Comprehensive remuneration and welfare packages are offered to employees. During the period, around HK\$19,145,000 was incurred in staff costs including directors' emoluments.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK1 cent per share for the six months ended 30 June 2008. The dividend will be payable on 5 November 2008 to shareholders whose names appear on the register of members on 9 October 2008.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on 8 October 2008 and 9 October 2008, 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 6 October 2008.

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.

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Details of options which have been granted under the Old Scheme and remain outstanding as at 30 June 2008 were as follows:

Grantee	Date of grant	Exercise price	Number of options	
			Held at 1 January 2008	Held at 30 June 2008
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 2008, 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 (<i>Note</i>)	41.88%
Qian Yuanying	Founder of a trust	595,200,000 (<i>Note</i>)	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 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.

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(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 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 2008, 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 2008, 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.
3. Martin Currie (Holdings) Limited was deemed to be holding 107,675,000 shares of the Company, representing approximately 7.58% of the issued share capital of the Company through the interest of corporations controlled by it.

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 2008.

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 2008.

AUDIT COMMITTEE

The Audit Committee has reviewed, with the assistance of the Company's auditors, 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 2008 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 2008.

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, 22 September 2008