



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  
2010

## **CORPORATE INFORMATION**

### **DIRECTORS**

#### *Executive Directors*

Mr Jiang Quanlong (*Chairman*)  
Ms Qian Yuanying (*Deputy Chairman*)  
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**

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**

CCIF CPA Limited

### **PRINCIPAL BANKERS**

#### **PRC**

Bank of China Limited  
Industrial and 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**

Butterfield Fulcrum Group (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 2010 together with the comparative figures for the corresponding period in 2009 as follows:

## CONSOLIDATED INCOME STATEMENT

		<b>For the six months ended 30 June</b>	
	<i>Note</i>	<b>2010 HK\$'000 (Unaudited)</b>	2009 HK\$'000 (Unaudited)
Turnover	(3)	<b>598,723</b>	499,943
Cost of sales		<b>(460,163)</b>	(414,488)
Gross profit		<b>138,560</b>	85,455
Other revenue		<b>3,062</b>	6,907
Selling and distribution expenses		<b>(21,284)</b>	(14,273)
Administrative expenses		<b>(34,163)</b>	(27,694)
Other income, net		<b>1,594</b>	100
Finance costs	(4)	<b>(4,731)</b>	(9,453)
Profit before taxation	(5)	<b>83,038</b>	41,042
Income tax	(6)	<b>(19,519)</b>	(20,437)
Profit for the period		<b>63,519</b>	20,605
Attributable to:			
Owners of the Company		<b>61,460</b>	21,011
Non-controlling interests		<b>2,059</b>	(406)
		<b>63,519</b>	20,605
		<b>HK cents</b>	<i>HK cents</i>
Earnings per share	(8)		
Basic		<b>3.96</b>	1.48
Diluted		<b>3.96</b>	1.48

## China Rare Earth Holdings Limited

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months  
ended 30 June

	2010 <i>HK\$'000</i> (Unaudited)	2009 <i>HK\$'000</i> (Unaudited)
Profit for the period	<b>63,519</b>	20,605
Other comprehensive income for the period:		
Exchange differences on translation of financial statements of foreign operations	<b>24,475</b>	—
Total comprehensive income for the period	<b>87,994</b>	20,605
Attributable to:		
Owners of the Company	<b>85,654</b>	21,011
Non-controlling interests	<b>2,340</b>	(406)
Total comprehensive income for the period	<b>87,994</b>	20,605

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		<b>30 June 2010</b>	31 December 2009
	<i>Note</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
		<b>(Unaudited)</b>	(Audited)
<b>Non-current assets</b>			
Goodwill		<b>86,779</b>	85,980
Property, plant and equipment	(9)	<b>612,699</b>	635,542
Prepaid lease payments on land under operating leases		<b>256,593</b>	257,106
Intangible assets	(10)	<b>337,128</b>	349,223
Restricted bank balance		<b>23,250</b>	23,250
Deferred tax assets		<b>22,723</b>	21,639
		<hr/> <b>1,339,172</b> <hr/>	<hr/> 1,372,740 <hr/>
<b>Current assets</b>			
Prepaid lease payments on land under operating leases		<b>5,809</b>	5,756
Inventories		<b>290,421</b>	234,590
Trade and other receivables	(12)	<b>435,498</b>	467,395
Prepayments and deposits		<b>82,506</b>	68,645
Tax recoverable		<b>15,212</b>	16,509
Trading securities	(13)	<b>21,600</b>	–
Restricted bank balances		<b>6,340</b>	8,822
Cash and cash equivalents		<b>1,021,286</b>	1,065,124
		<hr/> <b>1,878,672</b> <hr/>	<hr/> 1,866,841 <hr/>

## China Rare Earth Holdings Limited

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	<i>Note</i>	<b>30 June 2010 HK\$'000 (Unaudited)</b>	31 December 2009 HK\$'000 (Audited)
Current liabilities			
Trade payables	(14)	<b>88,882</b>	76,625
Accruals and other payables		<b>53,873</b>	53,660
Amounts due to directors		<b>288</b>	709
Bank borrowings due within one year	(15)	<b>92,743</b>	108,158
Tax payable		<b>12,762</b>	18,807
		<b>248,548</b>	257,959
Net current assets		<b>1,630,124</b>	1,608,882
Total assets less current liabilities		<b>2,969,296</b>	2,981,622
Non-current liabilities			
Bank borrowings	(15)	<b>38,750</b>	135,625
Deferred tax liabilities		<b>94,433</b>	97,878
		<b>133,183</b>	233,503
NET ASSETS		<b>2,836,113</b>	2,748,119
CAPITAL AND RESERVES			
Share capital		<b>155,114</b>	155,114
Reserves		<b>2,649,360</b>	2,563,706
Equity attributable to owners of the Company		<b>2,804,474</b>	2,718,820
Non-controlling interests		<b>31,639</b>	29,299
TOTAL EQUITY		<b>2,836,113</b>	2,748,119

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company									
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Building revaluation reserve HK\$'000	Statutory reserves HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2010	155,114	1,325,472	22,348	27,014	148,602	282,388	757,882	2,718,820	29,299	2,748,119
<b>Comprehensive income</b>										
Profit for the period	-	-	-	-	-	-	61,460	61,460	2,059	63,519
<b>Other comprehensive income</b>										
Exchange differences on translation of financial statements of foreign operations	-	-	-	-	-	24,194	-	24,194	281	24,475
Transfer to retained profits in respect of depreciation on revaluation of buildings held for own use	-	-	-	(1,390)	-	-	1,390	-	-	-
<b>Total comprehensive income</b>	-	-	-	(1,390)	-	24,194	62,850	85,654	2,340	87,994
<b>Transactions with owners</b>										
Appropriations to statutory reserves	-	-	-	-	5,725	-	(5,725)	-	-	-
<b>Total transactions with owners</b>	-	-	-	-	5,725	-	(5,725)	-	-	-
At 30 June 2010	<u>155,114</u>	<u>1,325,472</u>	<u>22,348</u>	<u>25,624</u>	<u>154,327</u>	<u>306,582</u>	<u>815,007</u>	<u>2,804,474</u>	<u>31,639</u>	<u>2,836,113</u>
At 1 January 2009	142,114	1,152,531	22,348	29,796	138,307	278,469	680,802	2,444,367	29,162	2,473,529
<b>Comprehensive income</b>										
Profit for the period	-	-	-	-	-	-	21,011	21,011	(406)	20,605
<b>Other comprehensive income</b>										
Transfer to retained profits in respect of depreciation on revaluation of buildings held for own use	-	-	-	(1,434)	-	-	1,434	-	-	-
<b>Total comprehensive income</b>	-	-	-	(1,434)	-	-	22,445	21,011	(406)	20,605
<b>Transactions with owners</b>										
Appropriations to statutory reserves	-	-	-	-	1,416	-	(1,416)	-	-	-
<b>Total transactions with owners</b>	-	-	-	-	1,416	-	(1,416)	-	-	-
At 30 June 2009	<u>142,114</u>	<u>1,152,531</u>	<u>22,348</u>	<u>28,362</u>	<u>139,723</u>	<u>278,469</u>	<u>701,831</u>	<u>2,465,378</u>	<u>28,756</u>	<u>2,494,134</u>

## China Rare Earth Holdings Limited

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

Note:

Under the Companies Law (2009 Revision) 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	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Net cash generated from operating activities	93,402	141,052
Net cash used in investing activities	(33,934)	(102,400)
Net cash (used in)/generated from financing activities	(117,067)	56,626
Net (decrease)/increase in cash and cash equivalents	(57,599)	95,278
Cash and cash equivalents at beginning of the period	1,065,124	765,252
Effect of changes in exchange rate	13,761	–
Cash and cash equivalents at end of the period	<u>1,021,286</u>	<u>860,530</u>



## 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 ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

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 2009, which have been prepared in accordance with Hong Kong Financial Reporting Standards.

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 2009, except for HKAS 31 "Interests in Joint Ventures" newly applied by the Group and the accounting policy changes that are expected to be reflected in the annual financial statements for the year ending 31 December 2010. The application of these new standards, amendments and interpretations have no material impact on the results and the financial position of the Group for the current or prior accounting periods. Accordingly, no prior year adjustment is required.

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 2010. The directors of the Company anticipate that the application of these new standards, amendments and interpretations will have no material impact on the results and financial position of the Group.

## China Rare Earth Holdings Limited

### 2. SEGMENT INFORMATION

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to 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)

#### (a) Segment results, assets and liabilities

	Rare Earth		Refractory		Total	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
<b>For the six months ended 30 June</b>						
Reportable segment revenue (revenue from external customers)	<b>383,726</b>	259,670	<b>214,997</b>	240,273	<b>598,723</b>	499,943
Reportable segment profit (adjusted profit before taxation)	<b>49,129</b>	4,758	<b>49,425</b>	47,289	<b>98,554</b>	52,047
Interest income	<b>470</b>	4,436	<b>1,028</b>	941	<b>1,498</b>	5,377
Finance costs	<b>(201)</b>	(2,902)	-	-	<b>(201)</b>	(2,902)
Depreciation and amortisation	<b>(37,767)</b>	(39,216)	<b>(25,740)</b>	(26,202)	<b>(63,507)</b>	(65,418)
Income tax	<b>(6,910)</b>	(8,531)	<b>(12,609)</b>	(11,906)	<b>(19,519)</b>	(20,437)

2. SEGMENT INFORMATION (Continued)

(a) Segment results, assets and liabilities (Continued)

	Rare Earth		Refractory		Total	
	30 June 2010 HK\$'000	31 December 2009 HK\$'000	30 June 2010 HK\$'000	31 December 2009 HK\$'000	30 June 2010 HK\$'000	31 December 2009 HK\$'000
Reportable segment assets	<u>1,777,138</u>	<u>1,628,663</u>	<u>1,721,876</u>	<u>1,654,053</u>	<u>3,499,014</u>	<u>3,282,716</u>
Additions to non-current segment assets	<u>16,088</u>	<u>13,922</u>	<u>663</u>	<u>283</u>	<u>16,751</u>	<u>14,205</u>
Reportable segment liabilities	<u>532,463</u>	<u>520,023</u>	<u>192,121</u>	<u>175,913</u>	<u>724,584</u>	<u>695,936</u>

(b) Reconciliations of reportable segment profit, assets and liabilities

	For the six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Profit		
Reportable segment profit	<b>98,554</b>	52,047
Interest income	<b>3,062</b>	6,907
Unallocated other (expenses)/income, net	<b>(18)</b>	100
Finance costs	<b>(4,731)</b>	(9,453)
Unallocated corporate expenses	<b>(13,829)</b>	(8,559)
Consolidated profit before taxation	<u><b>83,038</b></u>	<u>41,042</u>

## China Rare Earth Holdings Limited

### 2. SEGMENT INFORMATION (Continued)

#### (b) Reconciliations of reportable segment profit, assets and liabilities (Continued)

	<b>30 June 2010 HK\$'000</b>	31 December 2009 HK\$'000
Assets		
Reportable segment assets	<b>3,499,014</b>	3,282,716
Elimination of inter-segment receivables	<b>(469,375)</b>	(445,146)
	<b>3,029,639</b>	2,837,570
Unallocated cash and cash equivalents	<b>119,971</b>	295,118
Unallocated corporate assets	<b>68,234</b>	106,893
Consolidated total assets	<b>3,217,844</b>	3,239,581
Liabilities		
Reportable segment liabilities	<b>724,584</b>	695,936
Elimination of inter-segment payables	<b>(469,375)</b>	(445,146)
	<b>255,209</b>	250,790
Unallocated bank borrowings	<b>116,250</b>	232,500
Unallocated corporate liabilities	<b>10,272</b>	8,172
Consolidated total liabilities	<b>381,731</b>	491,462

2. SEGMENT INFORMATION (Continued)

(c) Geographical information

	For the six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Revenue from external customers		
The People's Republic of China (the "PRC")	492,441	444,819
Japan	58,857	33,592
Europe	32,859	11,581
The United States of America	12,767	9,571
Others	1,799	380
	<hr/>	<hr/>
	<b>598,723</b>	<b>499,943</b>
	<hr/> <hr/>	<hr/> <hr/>

Over 90% of specified non-current assets are located in the PRC.

3. TURNOVER

	For the six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Sales of rare earth products (including fluorescent products)	383,726	259,670
Sales of refractory products (including high temperature ceramics products and magnesium grains)	214,997	240,273
	<hr/>	<hr/>
	<b>598,723</b>	<b>499,943</b>
	<hr/> <hr/>	<hr/> <hr/>

## China Rare Earth Holdings Limited

### 4. FINANCE COSTS

	For the six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Interest expenses on bank borrowings wholly repayable within five years	4,703	9,453
Other borrowing costs	28	–
	<u>4,731</u>	<u>9,453</u>

### 5. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	For the six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Depreciation of property, plant and equipment	45,359	47,376
Amortisation of prepaid lease payments on land under operating leases	2,887	2,873
Amortisation of intangible assets	15,266	15,172
Unrealised loss on trading securities	8,400	–
	<u>8,400</u>	<u>–</u>

## 6. INCOME TAX

	<b>For the six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Current tax – Enterprise Income Tax (“EIT”)		
– Provision for the period	<b>24,732</b>	25,131
Deferred taxation		
– Origination and reversal of temporary differences	<b>(5,213)</b>	(4,694)
Income tax charge	<b>19,519</b>	20,437

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

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits subject to Hong Kong Profits Tax during the period (2009: nil).

The PRC subsidiaries of the Group are subject to PRC EIT at 25% (2009: 25%), except for two PRC subsidiaries of the Group, which are entitled to the exemptions from PRC EIT for two years starting from 2008, followed by a 50% tax relief for the next three years.

## 7. DIVIDENDS

No final dividend for previous year was declared and paid during the six months ended 30 June 2010 (2009: nil).

No interim dividend was declared for the six months ended 30 June 2010 (2009: nil).

## China Rare Earth Holdings Limited

### 8. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's profit attributable to owners of the Company of approximately HK\$61,460,000 (2009: HK\$21,011,000) and the weighted average number of ordinary shares of 1,551,143,059 (2009: 1,421,143,059) in issue during the six months ended 30 June 2010.

For the six months ended 30 June 2010, the calculation of the diluted earnings per share is based on the Group's profit attributable to owners of the Company of approximately HK\$61,460,000 and the weighted average number of ordinary shares of 1,551,757,732 in issue after adjusting for the effect of all dilutive potential ordinary shares during the period. Diluted earnings per share for the six months ended 30 June 2009 is the same as the basic earnings per share as there is no potential dilutive ordinary shares outstanding during the period.

### 9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2010, the Group spent approximately HK\$16,751,000 (2009: HK\$348,000) on additions to property, plant and equipment.

### 10. INTANGIBLE ASSETS

At 30 June 2010, intangible assets comprised:

	<b>30 June 2010 HK\$'000</b>	31 December 2009 HK\$'000
Exclusive right to purchase rare earth minerals	<b>184,600</b>	189,208
Technical know-how for preliminary separation of rare earth minerals	<b>53,005</b>	55,607
Technical know-how for rare earth metal products	<b>99,523</b>	104,408
	<hr/> <b>337,128</b> <hr/>	<hr/> 349,223 <hr/>



11. INTEREST IN A JOINTLY CONTROLLED ENTITY

At 30 June 2010, the Group had interests in the following significant jointly controlled entity:

Name of entity	Place of incorporation/ operation	Class of shares held	Proportion of nominal value of registered capital held by the Group		Proportion of voting power held		Principal activity
			30 June 2010	31 December 2009	30 June 2010	31 December 2009	
			OSRAM (China) Fluorescent Materials Co., Ltd.	The PRC	Contributed capital	49.9%	

Total registered capital of the entity is EURO14,500,000. At 30 June 2010, the Group had contributed EURO7,235,500 and the remaining portion will be contributed by the joint venture partner. On 22 July 2010, EURO1,089,675 had been contributed by the joint venture partner and the remaining portion of EURO6,174,825 will be contributed by 19 May 2012.

The summarised financial information in respect of the Group's interests in the jointly controlled entity which is accounted for using proportionate consolidation with the line-by-line reporting format is set out below:

	<b>30 June 2010 HK\$'000</b>	31 December 2009 HK\$'000
Current assets	<b>66,398</b>	-
Non-current assets	<b>3,616</b>	-
Current liabilities	<b>(1,030)</b>	-
Non-current liabilities	<b>-</b>	-

## China Rare Earth Holdings Limited

### 11. INTEREST IN A JOINTLY CONTROLLED ENTITY *(Continued)*

	<b>For the six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Income	<b>2</b>	–
Expenses	<b>(156)</b>	–
	<b><u>2</u></b>	<b><u>–</u></b>

### 12. TRADE AND OTHER RECEIVABLES

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

At 30 June 2010, trade and other receivables comprised:

	<b>30 June</b>	31 December
	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Trade and bills receivables	<b>354,252</b>	382,815
Amount due from a joint venture partner	<b>34,804</b>	–
Other receivables	<b>46,442</b>	84,580
	<b><u>435,498</u></b>	<b><u>467,395</u></b>

**12. TRADE AND OTHER RECEIVABLES** *(Continued)*

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

	<b>30 June 2010 HK\$'000</b>	31 December 2009 HK\$'000
Current to less than 6 months	<b>289,080</b>	365,996
6 months to less than 1 year	<b>61,273</b>	13,861
1 to less than 2 years	<b>8,823</b>	13,451
Over 2 years	<b>16,513</b>	10,747
	<b>375,689</b>	404,055
Less: Impairment loss	<b>(21,437)</b>	(21,240)
	<b>354,252</b>	382,815

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

**13. TRADING SECURITIES**

At 30 June 2010, trading securities comprised equity securities listed in Hong Kong at fair value (2009: nil).

## China Rare Earth Holdings Limited

### 14. TRADE PAYABLES

An ageing analysis of trade payables is as follows:

	<b>30 June 2010 HK\$'000</b>	31 December 2009 HK\$'000
Current to less than 6 months	<b>82,772</b>	64,640
6 months to less than 1 year	<b>3,208</b>	7,491
1 to less than 2 years	<b>1,704</b>	3,225
Over 2 years	<b>1,198</b>	1,269
	<hr/> <b>88,882</b> <hr/>	<hr/> 76,625 <hr/>

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

### 15. BANK BORROWINGS

At 30 June 2010, the bank borrowings are repayable as follows:

	<b>30 June 2010 HK\$'000</b>	31 December 2009 HK\$'000
Within 1 year or on demand	<b>92,743</b>	108,158
After 1 year but within 2 years	<b>38,750</b>	116,250
After 2 years but within 5 years	–	19,375
	<hr/> <b>131,493</b> <hr/>	<hr/> 243,783 <hr/>
Analysis as:		
Secured	<b>9,512</b>	11,283
Unsecured	<b>121,981</b>	232,500
	<hr/> <b>131,493</b> <hr/>	<hr/> 243,783 <hr/>

**15. BANK BORROWINGS** *(Continued)*

All bank borrowings are denominated in United States dollars, except for bank borrowings of approximately HK\$5,731,000 (2009: nil), which are denominated in Renminbi.

All bank borrowings are fixed-rate borrowings which carry prevailing interest rates ranging from 2.33% to 6.5% (2009: at 6.5%) per annum, except for variable-rate borrowings of approximately HK\$5,731,000 (2009: HK\$88,783,000), which are charged at prevailing rates at 6.11% (2009: ranging from 0.36% to 4.43%) per annum.

Secured bank borrowings are secured by trade receivables of approximately HK\$10,787,000 (2009: HK\$12,942,000).

The carrying amounts of bank borrowings are not significantly different from their fair values at end of the period.

**16. COMMITMENTS**

At 30 June 2010, the Group had the following commitment:

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

	<b>30 June 2010 HK\$'000</b>	31 December 2009 HK\$'000
Acquisition and construction of property, plant and equipment	<b>18,982</b>	25,548
Equity investment in respect of formation of a jointly controlled entity	–	80,508
	<b>18,982</b>	106,056

## China Rare Earth Holdings Limited

### 16. COMMITMENTS (Continued)

(a) (Continued)

In addition to the above, the Group's share of capital commitments contracted but not provided for of its jointly controlled entity is as follows:

	<b>30 June 2010 HK\$'000</b>	31 December 2009 HK\$'000
Acquisition and construction of property, plant and equipment	<b>3,392</b>	–
Prepayment of prepaid lease payments on land under operating leases	<b>892</b>	–
	<hr/> <b>4,284</b> <hr/>	<hr/> – <hr/>

- (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 2010 HK\$'000</b>	31 December 2009 HK\$'000
Within one year	<b>577</b>	1,151
In the second to fifth year inclusive	<b>153</b>	304
	<hr/> <b>730</b> <hr/>	<hr/> 1,455 <hr/>

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. None of the leases includes contingent rentals.

### 17. RELATED PARTY TRANSACTIONS

Save as those disclosed elsewhere in the condensed consolidated interim financial information, there were no material related party transactions during the period.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Results

During the period under review, the global economy has revived gradually from the financial crisis which erupted in late 2008 and governments of countries around the world introduced economic stimulus measures to boost consumer confidence and demand. In view of the business environment, the Group adjusted the strategies of all of its business segments. For the six months ended 30 June 2010, the Group recorded a turnover of HK\$598,723,000, an increase of approximately 20% compared with HK\$499,943,000 in the same period of 2009. The turnover from rare earth products (including fluorescent materials) was HK\$383,726,000, accounting for about 64% of total turnover, an increase of about 48% compared with HK\$259,670,000 in the same period last year. The refractory materials business (including high temperature ceramics and magnesium grains) brought in HK\$214,997,000 in turnover, a drop of about 11% from HK\$240,273,000 recorded in the corresponding period last year, and accounting for 36% of total turnover. The overall gross profit margin rose to about 23%.

In the first half of 2010, the Group's profit before taxation amounted to HK\$83,038,000, almost double over the last corresponding period's tally of HK\$41,042,000. After deducting the tax of HK\$19,519,000, the Group's net profit was HK\$63,519,000, a two-fold increase from last year's corresponding period of HK\$20,605,000. Net profit margin was about 11%. Earnings per share were 3.96 HK cents (first half of 2009: 1.48 HK cents).

### Business Review

#### *Rare Earth Business*

With the global economy stabilising, the operating environment of the rare earth business has improved in the first half of 2010. Demand for environmental friendly and energy saving products as well as consumer electronics products have rebounded which in turn has boosted the price and sales volume of rare earth products. During the period, the Group sold about 1,600 tonnes of rare earth oxides and downstream products, a surge of about 60% against the same period last year. Turnover of the rare earth business also significantly increased by approximately 48% to HK\$383,726,000.

## China Rare Earth Holdings Limited

In the rare earth oxides division, the selling price of its products generally rose significantly during the period as compared with the first half of last year. The selling price of certain products like terbium oxide rose by about 40% while the selling price of both lanthanum oxide and dysprosium oxide more dramatically increased by more than 70%. The price of praseodymium oxide and neodymium oxide rocketed to double-to-triple of last year's. In contrast, the price of some products remained relatively stable. For example, the price of yttrium-europium co-precipitates increased by less than 10%. As market sentiment has improved and the prices have rebounded, the Group's production resumed normal levels, and sales volume grew along with the production volume. During the period, the Group sold about 1,400 tonnes of rare earth oxides, a growth of more than 70% against the same period last year, and gross margin turned around to a profit. Though the increase in production volume helps dilute the average costs, raw material prices rose markedly with the market recovery and the Chinese Government's introduction of tightening policy for rare earth supply. The price of various rare earth raw materials increased between 30% and 90% against the same period last year; prices of particular rare earth ores even more than doubled. The gross profit margin of rare earth oxides during the period was 17%.

The turnover and sales volume of fluorescent materials during the period remained at similar levels to the same period last year. However, gross profit margin decreased as the higher price of rare earth oxides has caused costs to rise. As for rare earth salts, prices of major products such as rare earth chloride increased by approximately 30% and overall sales volume also increased by over 1.2 times. However, as the cost of rare earth resources also more than doubled, gross profit margin after amortisation of intangible assets still declined to less than 20%. Regarding rare earth metals, the selling price of the main products such as dysprosium-iron alloy grew by over 40% but sales volume in general dropped by about 50% due to the slower market acceptance of price increase. Regarding costs, the increase in price of rare earth oxides and the drop in sales volume have caused average cost to rise and thus gross profit margin of rare earth metals to drop to about 10%. To sum up, the gross profit margin of the entire rare earth business segment was approximately 17% during the period.

As for a geographic market breakdown, the proportion of China's contribution to the Group's total rare earth sales was more than 80%, whereas Europe and Japan accounted for less than 10% and 5% respectively.



### *Refractory Materials Business*

The Group's refractory materials business recorded a turnover dropping by approximately 11% year-on-year to HK\$214,997,000 during the period under review.

The operating environment of the steel and glass industry in China remained challenging as it was still under the effects of the financial crisis; some of the customers have requested deeper price cuts. Thus, the prices of certain ordinary refractory materials and high temperature ceramics such as alumina-graphite bricks, fused magnesium bricks and magnesium-chrome bricks declined by 10% to 25% when compared with the same period last year. However, the average selling price of some products such as fused magnesium-chrome bricks, silicon nitride bonded silicon carbide bricks and acidproof bricks increased in a range from 5% to 20%. As a result of a changed product mix, the Group sold approximately 31,000 tonnes of ordinary refractory materials and high temperature ceramics, a decline of approximately 5% year-on-year, with sales amount also reduced by approximately 12%. Gross profit margin was maintained at a level of approximately 30% because the price of a majority of raw materials increased to different levels which led to rise in costs. Magnesium grain sales rebounded during the period after an over-reacted retraction of the market last year. The sales volume of the fused magnesium grain increased by approximately 30% when compared with the corresponding period last year and the average selling price also surged by about 12% with gross profit margin rebounded to around 25%. Gross profit margin of the entire refractory materials business segment was approximately 33%.

The Japanese market bounced back at faster pace after last year's decline. However, China's domestic market was still under the shadow of some uncertainty. Therefore, the proportion of exports within the Group's overall refractory materials sales amounted to around 20% during the period under review, and the proportion of domestic sales within China adjusted to approximately 80%.

## China Rare Earth Holdings Limited

### Prospects

In the second half of 2010, boosted by the anticipated continued increasing demand and prices, the rare earth market is expected to follow the reviving trend in the first half. However, given the external economic uncertainties that may lead to fluctuations in the market, we remain cautiously optimistic about our business prospects. Besides, the Chinese government will further cut the export quota substantially for rare earth products to protect these nation-owned strategic resources, rare earth export is expected to be affected. However, in light of rapid development in China market, the Group will boost its efforts in the domestic market to maximise the available opportunities there.

OSRAM (China) Fluorescent Materials Co., Ltd., a joint venture set up with OSRAM GmbH, was officially established and the business licence was obtained on 20 May 2010. Construction has begun since then. Phase I is expected to be completed and trial operation is planned for spring of next year. It is expected that the joint venture's annual production capacity of tri-band phosphors will reach 1,000 tonnes. The commencement of operations will help the Group to further expand its downstream rare earth product business, increase the product value and better satisfy the market demand.

The market for the refractory materials is recovering slowly in short term. The Group plans to strengthen the R&D to expand and optimise its product range and increase the proportion of refractory materials used in steel making and non-ferrous metal industries, with an aim to capture the higher margin market and any opportunities emerging when the market recovers.

The investment in high purity magnesium grains project has been affected by a tight raw material supply and has remained in small scale trial production. However the Group is actively exploring new raw material sources to support mass production. Improvements in the second half are expected.

### Liquidity and Financial Resources

Out of US\$30,000,000 short term bank loans acquired previously, the Group repaid US\$15,000,000 during the period and the remaining balances will be due in the coming one to two years. Apart from that the Group also obtained trade financing at US\$1,220,000 by securing certain trade receivables at approximately US\$1,386,000 at the end of the period. As at 30 June 2010, the Group had total cash and bank deposits at approximately HK\$1,050,876,000, out of which approximately HK\$29,590,000 was restricted in use as guarantee for business and banking facilities. The Group had no material contingent liabilities. As at 30 June 2010, the Group had a balance of net current assets valued at approximately HK\$1,630,124,000 with the total liabilities to total assets ratio decreased to around 12%.

The Group was not exposed to material foreign currency or interest rate risk. Except for the stated trade receivables pledged, the Group had no other charge on assets.

### Staff and Remuneration

As at 30 June 2010, the Group had a workforce of approximately 1,200, which was offered with comprehensive remuneration and welfare packages. During the period, around HK\$20,301,000 was incurred in staff costs including directors' emoluments.

### INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2010.

### 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.

## China Rare Earth Holdings Limited

Details of options which have been granted under the Old Scheme and remain outstanding as at 30 June 2010 were as follows:

Grantee	Date of grant	Exercise price	Number of options	
			Held at 1 January 2010	Held at 30 June 2010
<b>Employees</b>				
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 2010, 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)	38.37%
Qian Yuanying	Founder of a trust	595,200,000 (Note)	38.37%
Huang Chunhua	Beneficial owner	1,000,000	0.06%

Note:

These shares are held 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 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.

## China Rare Earth Holdings Limited

### (c) YY Holdings Limited

<b>Director</b>	<b>Nature of interest/Capacity</b>	<b>Number and class of 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 (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 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 (PTC) Limited.

Save as disclosed above, as at 30 June 2010, 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 2010, 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 (PTC) Limited, was holding 595,200,000 shares of the Company, representing approximately 38.37% of the issued share capital of the Company as beneficial owner.
2. YYT (PTC) 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 (PTC) 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 2010.

## **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 2010.

## **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 2010 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 Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules and has complied with it throughout the six months ended 30 June 2010.

### **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 throughout the six months ended 30 June 2010.

### **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 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, 30 August 2010