



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



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

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INTERNET WEBSITE

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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 609

Grand Cayman KY1-1107

Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited

17th Floor, Hopewell Centre

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Hong Kong

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 2011 together with the comparative figures for the corresponding period in 2010 as follows:

CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
	Note	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Turnover	(3)	1,028,138	598,723
Cost of sales		<u>(488,658)</u>	<u>(460,163)</u>
Gross profit		539,480	138,560
Other revenue		2,306	3,062
Selling and distribution expenses		(73,876)	(21,284)
Administrative expenses		(48,145)	(34,163)
Other income, net		2,225	1,594
Finance costs	(4)	<u>(7,146)</u>	<u>(4,731)</u>
Profit before taxation	(5)	414,844	83,038
Income tax	(6)	<u>(83,635)</u>	<u>(19,519)</u>
Profit for the period		<u><u>331,209</u></u>	<u><u>63,519</u></u>
Attributable to:			
Owners of the Company		311,580	61,460
Non-controlling interests		<u>19,629</u>	<u>2,059</u>
		<u><u>331,209</u></u>	<u><u>63,519</u></u>
		HK cents	HK cents
Earnings per share	(8)		
Basic		<u>18.64</u>	<u>3.96</u>
Diluted		<u>18.63</u>	<u>3.96</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**For the six months
ended 30 June**

	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period	331,209	63,519
Other comprehensive income for the period (net of tax):		
Exchange differences on translation of financial statements of foreign operations	76,913	24,475
Fair value loss on available-for-sale equity securities	(3,040)	–
Impairment loss on available-for-sale equity securities	18,800	–
Total comprehensive income for the period	<u>423,882</u>	<u>87,994</u>
Attributable to:		
Owners of the Company	403,175	85,654
Non-controlling interests	20,707	2,340
Total comprehensive income for the period	<u>423,882</u>	<u>87,994</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
Non-current assets			
Goodwill		91,036	88,971
Property, plant and equipment	(9)	594,268	613,923
Prepaid lease payments on land under operating leases		274,162	271,035
Intangible assets	(10)	321,488	329,921
Available-for-sale equity securities		11,200	14,240
Pledged bank deposits		102,092	99,777
Deferred tax assets		24,403	24,158
		1,418,649	1,442,025
Current assets			
Prepaid lease payments on land under operating leases		6,327	6,184
Inventories		1,029,129	611,727
Trade and other receivables	(12)	464,257	368,415
Prepayments and deposits		131,788	98,079
Tax recoverable		–	8,586
Restricted bank balances		1,631	2,868
Cash and cash equivalents		1,291,182	1,228,928
		2,924,314	2,324,787
Current liabilities			
Trade payables	(13)	92,137	80,723
Accruals and other payables		108,729	40,742
Amounts due to directors		267	270
Bank borrowings due within one year	(14)	96,200	99,389
Tax payable		73,806	9,793
		371,139	230,917
Net current assets		2,553,175	2,093,870
Total assets less current liabilities		3,971,824	3,535,895

China Rare Earth Holdings Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	Note	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
Non-current liabilities			
Bank borrowings	(14)	15,001	–
Deferred tax liabilities		91,236	94,960
		<u>106,237</u>	<u>94,960</u>
NET ASSETS		<u>3,865,587</u>	<u>3,440,935</u>
CAPITAL AND RESERVES			
Share capital		167,264	167,194
Reserves		3,641,054	3,237,179
		<u>3,808,318</u>	<u>3,404,373</u>
Equity attributable to owners of the Company		3,808,318	3,404,373
Non-controlling interests		57,269	36,562
		<u>3,865,587</u>	<u>3,440,935</u>
TOTAL EQUITY		<u>3,865,587</u>	<u>3,440,935</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to owners of the Company

	Share capital	Share premium	Capital reserve	Buildings revaluation reserve	Statutory reserves	Translation reserve	Fair value reserve	Retained profits	Total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2011	167,194	1,769,400	22,348	40,139	157,604	378,247	(15,760)	885,201	3,404,373	36,562	3,440,935
Comprehensive income											
Profit for the period	-	-	-	-	-	-	-	311,580	311,580	19,629	331,209
Other comprehensive income											
Exchange differences on translation of financial statements of foreign operations	-	-	-	-	-	75,835	-	-	75,835	1,078	76,913
Transfer to retained profits in respect of depreciation on revaluation of buildings held for own use	-	-	-	(5,868)	-	-	-	5,868	-	-	-
Fair value loss on available-for-sale equity securities	-	-	-	-	-	-	(3,040)	-	(3,040)	-	(3,040)
Impairment loss on available-for-sale equity securities	-	-	-	-	-	-	18,800	-	18,800	-	18,800
Total comprehensive income	-	-	-	(5,868)	-	75,835	15,760	317,448	403,175	20,707	423,882
Transactions with owners											
Shares issued under share option scheme	70	700	-	-	-	-	-	-	770	-	770
Appropriations to statutory reserves	-	-	-	-	13,201	-	-	(13,201)	-	-	-
Total transactions with owners	70	700	-	-	13,201	-	-	(13,201)	770	-	770
At 30 June 2011	<u>167,264</u>	<u>1,770,100</u>	<u>22,348</u>	<u>34,271</u>	<u>170,805</u>	<u>454,082</u>	<u>-</u>	<u>1,189,448</u>	<u>3,808,318</u>	<u>57,269</u>	<u>3,865,587</u>
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
Comprehensive income											
Profit for the period	-	-	-	-	-	-	-	61,460	61,460	2,059	63,519
Other comprehensive income											
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	-	-	-
Total comprehensive income	-	-	-	(1,390)	-	24,194	-	62,850	85,654	2,340	87,994
Transactions with owners											
Appropriations to statutory reserves	-	-	-	-	5,725	-	-	(5,725)	-	-	-
Total transactions with owners	-	-	-	-	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>-</u>	<u>815,007</u>	<u>2,804,474</u>	<u>31,639</u>	<u>2,836,113</u>

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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

	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Net cash generated from operating activities	13,620	93,402
Net cash used in investing activities	(12,732)	(33,934)
Net cash generated from/(used in) financing activities	7,648	(117,067)
Net increase/(decrease) in cash and cash equivalents	8,536	(57,599)
Cash and cash equivalents at beginning of the period	1,228,928	1,065,124
Effect of changes in exchange rate	53,718	13,761
Cash and cash equivalents at end of the period	1,291,182	1,021,286

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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 2010, 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 2010.

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 2011. 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.

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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	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
For the six months ended 30 June						
Reportable segment revenue (revenue from external customers)	819,455	383,726	208,683	214,997	1,028,138	598,723
Reportable segment profit (adjusted profit before taxation)	412,759	49,129	29,380	49,425	442,139	98,554
Interest income	930	470	1,339	1,028	2,269	1,498
Finance costs	(6,574)	(201)	(572)	-	(7,146)	(201)
Depreciation and amortisation	(39,223)	(37,767)	(27,657)	(25,740)	(66,880)	(63,507)
Income tax	(75,763)	(6,910)	(7,872)	(12,609)	(83,635)	(19,519)

2. SEGMENT INFORMATION (Continued)

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

	Rare Earth		Refractory		Total	
	30 June	31 December	30 June	31 December	30 June	31 December
	2011	2010	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segment assets	2,917,974	2,285,901	1,843,714	1,794,069	4,761,688	4,079,970
Additions to non-current segment assets	40,739	37,850	900	2,138	41,639	39,988
Reportable segment liabilities	876,577	703,127	194,236	204,339	1,070,813	907,466

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

For the six months ended 30 June

	2011	2010
	HK\$'000	HK\$'000
Profit		
Reportable segment profit	442,139	98,554
Interest income	2,306	3,062
Unallocated other income/(expenses), net	406	(18)
Finance costs	(7,146)	(4,731)
Unallocated corporate expenses	(22,861)	(13,829)
Consolidated profit before taxation	414,844	83,038

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2. SEGMENT INFORMATION *(Continued)*

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

	30 June 2011 HK\$'000	31 December 2010 HK\$'000
Assets		
Reportable segment assets	4,761,688	4,079,970
Elimination of inter-segment receivables	(597,140)	(586,607)
	4,164,548	3,493,363
Unallocated cash and cash equivalents	64,698	158,523
Unallocated corporate assets	113,717	114,926
	4,342,963	3,766,812
Liabilities		
Reportable segment liabilities	1,070,813	907,466
Elimination of inter-segment payables	(597,140)	(586,607)
	473,673	320,859
Unallocated corporate liabilities	3,703	5,018
	477,376	325,877

2. SEGMENT INFORMATION (Continued)

(c) Geographical information

	For the six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Revenue from external customers		
The People's Republic of China (the "PRC")	675,879	492,441
Europe	157,148	32,859
Japan	95,150	58,857
The United States of America	87,936	12,767
Others	12,025	1,799
	<u>1,028,138</u>	<u>598,723</u>

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

3. TURNOVER

	For the six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Sales of rare earth products (including fluorescent products)	819,455	383,726
Sales of refractory products (including high temperature ceramics products and magnesium grains)	208,683	214,997
	<u>1,028,138</u>	<u>598,723</u>

China Rare Earth Holdings Limited

4. FINANCE COSTS

	For the six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Interest expenses on bank borrowings wholly repayable within five years	2,519	4,703
Other borrowing costs	4,627	28
	<u>7,146</u>	<u>4,731</u>

5. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	For the six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Depreciation of property, plant and equipment	47,854	45,359
Amortisation of prepaid lease payments on land under operating leases	3,127	2,887
Amortisation of intangible assets	15,905	15,266
Impairment loss on available-for-sale equity securities	18,800	–
Unrealised loss on trading securities	–	8,400
	<u>–</u>	<u>8,400</u>

6. INCOME TAX

	For the six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Current tax – Enterprise Income Tax (“EIT”)		
– Provision for the period	89,184	24,732
Deferred taxation		
– Origination and reversal of temporary differences	(5,549)	(5,213)
	<hr/>	<hr/>
Income tax charge	83,635	19,519
	<hr/> <hr/>	<hr/> <hr/>

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.

Hong Kong Profits Tax is calculated at 16.5% (2010: 16.5%) of the estimated assessable profits for the six months ended 30 June 2011. 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 (2010: Nil).

The PRC subsidiaries of the Group are subject to PRC EIT at 25% (2010: 25%). Two PRC subsidiaries 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. One PRC subsidiary is entitled to a preferential income tax rate of 15%.

7. DIVIDENDS

No final dividend for previous year was declared and paid during the six months ended 30 June 2011 (2010: Nil).

No interim dividend was declared for the six months ended 30 June 2011 (2010: Nil).

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8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of approximately HK\$311,580,000 (2010: HK\$61,460,000) and the weighted average number of approximately 1,672,009,000 (2010: 1,551,143,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the profit attributable to owners of the Company of approximately HK\$311,580,000 (2010: HK\$61,460,000) and the weighted average number of approximately 1,672,437,000 (2010: 1,551,758,000) ordinary shares in issue after adjusting for the effect of all dilutive potential ordinary shares in respect of outstanding share options during the period.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2011, the Group spent approximately HK\$41,639,000 (2010: HK\$16,751,000) on additions to property, plant and equipment.

10. INTANGIBLE ASSETS

Intangible assets of the Group comprised:

	30 June 2011 HK\$'000	31 December 2010 HK\$'000
Exclusive right to purchase rare earth minerals	180,301	182,738
Technical know-how for preliminary separation of rare earth minerals	49,064	51,147
Technical know-how for rare earth metal products	92,123	96,036
	321,488	329,921

11. INTERESTS IN JOINTLY CONTROLLED ENTITIES

The Group had interests in the following jointly controlled entities:

Name of entities	Place of incorporation/ operation	Class of shares held	Proportion of nominal value of registered and paid up capital held by the Group		Proportion of voting power held		Principal activity
			30 June 2011	31 December 2010	30 June 2011	31 December 2010	
OSRAM (China) Fluorescent Materials Co., Ltd.	The PRC	Contributed capital	49.9%	49.9%	50%	50%	Research, development, production and sale of phosphor products
Yixing AGC Ceramics Co., Ltd.	The PRC	Contributed capital (Note)	-	-	40%	-	Manufacturing and sale of ceramics products

Note: The Group will hold 40% of the equity interests in the entity. Total registered capital of the entity of US\$15,000,000 has been fully paid on 13 July 2011.

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11. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

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

	30 June 2011 HK\$'000	31 December 2010 HK\$'000
Current assets	30,446	52,442
Non-current assets	66,065	23,981
Current liabilities	(11,451)	(4,397)
Non-current liabilities	(15,001)	–
	—————	—————
	For the six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Income	161	2
Expenses	(3,757)	(156)
	—————	—————

12. TRADE AND OTHER RECEIVABLES

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

Trade and other receivables of the Group comprised:

	30 June 2011 HK\$'000	31 December 2010 HK\$'000
Trade and bills receivables	416,855	345,053
Amount due from a joint venture partner	7,579	3,595
Other receivables	39,823	19,767
	<hr/> 464,257 <hr/>	<hr/> 368,415 <hr/>

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

	30 June 2011 HK\$'000	31 December 2010 HK\$'000
Current to less than 6 months	383,917	314,178
6 months to less than 1 year	28,797	26,974
1 to less than 2 years	12,876	12,602
Over 2 years	18,708	18,120
	<hr/> 444,298 <hr/>	<hr/> 371,874 <hr/>
Less: Impairment loss	(27,443)	(26,821)
	<hr/> 416,855 <hr/>	<hr/> 345,053 <hr/>

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.

China Rare Earth Holdings Limited

13. TRADE PAYABLES

An ageing analysis of trade payables is as follows:

	30 June 2011 HK\$'000	31 December 2010 HK\$'000
Current to less than 6 months	79,743	70,868
6 months to less than 1 year	7,942	7,691
1 to less than 2 years	2,778	868
Over 2 years	1,674	1,296
	<hr/> 92,137 <hr/>	<hr/> 80,723 <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.

14. BANK BORROWINGS

Bank borrowings of the Group are repayable as follows:

	30 June 2011 HK\$'000	31 December 2010 HK\$'000
Within 1 year or on demand	96,200	99,389
After 1 year but within 2 years	–	–
After 2 years but within 5 years	15,001	–
	<hr/> 111,201 <hr/>	<hr/> 99,389 <hr/>

All bank borrowings are denominated in Renminbi, except for bank borrowings of approximately HK\$5,371,000 which were denominated in United States dollars as at 31 December 2010.

14. BANK BORROWINGS *(Continued)*

All bank borrowings are variable-rate borrowings which carry prevailing interest rates ranging from 5.97% to 6.32% (2010: ranging from 3.28% to 5.10%) per annum.

Except for the Group's share of bank borrowings of a jointly controlled entity of approximately HK\$6,000,000 (2010: \$Nil) which is covered by corporate guarantee provided by a subsidiary of the Group, the bank borrowings are secured by pledged bank deposits of approximately HK\$102,092,000 (2010: HK\$99,777,000), trade receivables of approximately HK\$Nil (2010: HK\$5,980,000) and the Group's share of the prepaid lease payments on land under operating leases of a jointly controlled entity of approximately HK\$11,311,000 (2010: HK\$Nil).

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

As at 30 June 2011 and for the six months then ended, a subsidiary of the Group provided a corporate guarantee to a bank to the extent of RMB220,000,000 (equivalent to approximately HK\$264,550,000) for banking facilities granted to a jointly controlled entity. No financial guarantee liability was recognised because the directors do not consider it probable that a claim will be made against the Group under the guarantee. The maximum liability of the Group at 30 June 2011 under the guarantee is the Group's share of the amount of the facilities drawn down by the jointly controlled entity that are covered by the guarantee, being approximately HK\$6,000,000.

China Rare Earth Holdings Limited

15. COMMITMENTS

At 30 June 2011, the Group had the following commitment:

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

	30 June 2011 HK\$'000	31 December 2010 HK\$'000
Acquisition and construction of property, plant and equipment	7,922	6,212
Equity investment in respect of formation of a jointly controlled entity	46,500	–
	54,422	6,212

The equity investment represents the capital contribution in respect of the formation of a jointly controlled entity in the PRC to engage in manufacturing and sale of ceramics products. The Group and the joint venture partner will hold equity interests of the jointly controlled entity of 40% and 60% respectively.

15. COMMITMENTS (Continued)

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

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

	30 June 2011 HK\$'000	31 December 2010 HK\$'000
Acquisition and construction of property, plant and equipment (note)	36,664	53,910
Prepayment of prepaid lease payments on land under operating leases (note)	6,069	915
	<hr/> 42,733 <hr/>	<hr/> 54,825 <hr/>

Note: During the period, a jointly controlled entity entered into an agreement to acquire certain buildings and prepaid lease payments on land under operating leases in the PRC at a consideration of RMB6,100,000 and RMB10,671,000, respectively, with a related company in which an executive director of the Company has a beneficial interest. The Group's share of these capital commitments amounted to HK\$2,934,000 and HK\$5,133,000, respectively.

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15. 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:

	30 June 2011 HK\$'000	31 December 2010 HK\$'000
Within one year	1,480	1,605
In the second to fifth year inclusive	1,769	2,485
	3,249	4,090

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.

16. 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.

17. NON ADJUSTING SUBSEQUENT EVENT

On 8 August 2011, a subsidiary of the Group, Yixing Xinwei Leeshing Rare Earth Company Limited, entered into an equity transfer agreement with two independent third parties to dispose of its entire interest in Jianghua Yao Nationality Autonomous County Xinghua Rare Earth Company Limited ("Xinghua Rare Earth") at a consideration of RMB257,000,000 for cash. Xinghua Rare Earth is principally engaged in manufacturing and sale of rare earth minerals in the PRC. The consideration has been fully settled on 12 August 2011. Up to the date of this report, the directors of the Company are in the process of considering the financial impact of this disposal to the financial statements, if any.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

The vigorous demand from both domestic and overseas markets for rare earth materials in 2011 has supported the remarkable growth of the Group's profit in multiples. For the six months ended 30 June 2011, its turnover reached approximately HK\$1,028,138,000, 72% higher than the HK\$598,723,000 recorded in the corresponding period last year. The turnover from rare earth business was approximately HK\$819,455,000, more than doubled from the HK\$383,726,000 recorded in the first half of 2010 and accounted for approximately 80% of the Group's total turnover. Turnover of the refractory materials business decreased by around 3% from HK\$214,997,000 in the same period last year to approximately HK\$208,683,000, representing around 20% of the Group's total turnover. The overall gross profit margin substantially increased from around 23% in the last corresponding period to around 52%, attributable to the higher sales amount and gross profit of the rare earth business.

During the period under review, net profit after taxation increased by about 4 folds to approximately HK\$331,209,000 (first half of 2010: HK\$63,519,000). Earnings per share were 18.64 HK cents (first half of 2010: 3.96 HK cents).

Business Review

Rare Earth Business

The total turnover of the rare earth business increased more than 1.1 times to HK\$819,455,000, with a gross profit margin at around 60%, while it was HK\$383,726,000 in the first half of 2010.

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While the value of rare earth resources for technological, industrial and economic development has been more and more widely recognised around the world, the Central Government of the PRC also placed higher importance on this industry, which has been dominated by China. In the first half of 2011, responsible Government departments launched series of protective policies related to rare earth resources, of which “National Guideline to Support the Sustainable and Healthy Development of Rare Earth Industry from the State Council” announced by the State Council in May 2011 was the most significant measure. It is expected to exert a profound influence over the industry for the long term.

With a limited supply and increasing demand, the product prices of rare earth skyrocketed during the period under review. The acute demand even caused the prices to soar on a daily basis during May and June. Domestically, the average prices of most rare earth products were several times higher than in the first half of 2010. The prices of neodymium oxide, dysprosium oxide, terbium oxide and yttrium oxide tripled while those of lanthanum oxide and holmium oxide quadrupled. Prices of europium oxide, gadolinium oxide and cerium oxide soared five to seven folds. Facing export quota limits export prices well exceeded domestic sales prices. The average export prices of lanthanum oxide and yttrium oxide were three times above domestic prices during the period under review, while those of gadolinium oxide and yttrium-europium co-precipitates were two times higher. While the prices rose significantly, the Group sold only around 1,100 tonnes of rare earth oxides during the period, around 20% less than the corresponding period last year. However the sales amount increased by two folds with the gross profit margin up by more than 60%.

As for the downstream products, the price of fluorescent powder also regained growth momentum during the period under review with a year-on-year increase of 50% to 100% while the gross profit margin returned to around 20%. The factory jointly invested with OSRAM GmbH started trial production this July. However, the Group has proactively reduced the output of its existing products to facilitate the trial production of the new project, so the sales volume dropped to less than 100 tonnes. The sales volume of rare earth metals products shrank by half during the period but the product prices increase offset this negative influence. Thus, the turnover remained similar to last year's level and the gross profit margin returned to around 20%. As for rare earth salts, the Chinese Government's tighter control on mining affected the supply, so for the first half of 2011 the sales volume of these products decreased by 50% as compared to the same period last year. However, the Group managed to mitigate this impact by increasing selling prices, hence turnover decreased only by less than 20%, while the gross profit margin dropped to about 10% because of rising costs.

By market segment, even though export volume was less than half of domestic sales, the export prices far exceeded domestic prices. Therefore, the proportion of turnover of the export market still increased to around 38% with Europe, Japan and the US occupied 19%, 7% and 11% respectively, while the Chinese market accounted for the remaining 62%.

Refractory Materials Business

Total turnover of the Group's refractory materials business dropped slightly by around 3% from HK\$214,997,000 in the first half of 2010 to HK\$208,683,000. Gross profit margin stood at about 22%.

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Subsequent to the financial crisis, glass and steel industries recovered slowly, thus the demand for refractory materials lagged behind that of other businesses. Increasing market competition also slowed down the Group's development of this segment. For ordinary refractory materials, total sales volume for the first half of 2011 recorded a year-on-year decrease of approximately 16% to less than 20,000 tonnes, while the Group rationalised the product mix. The Group has strategically produced less refractory materials for the glass industry and switched its focus on the production of fused magnesium-chrome bricks, alumina-graphite bricks, magnesium-chrome bricks and casting materials for steel industry to maximise competitive advantages. Prices of these products were at similar levels as the same period last year, while some of them recorded an increase ranging from 10% to 20%. However, the surge in costs and reduction in production volume have caused gross profit margin to further drop to below 20%. The Group also revised its high temperature ceramics offerings with only the workshop for the Sialon product series remaining in operation during the period under review as the others have been shut down. The Group sold a total of 2,600 tonnes of its Sialon product series in the first half of 2011, a slight increase of approximately 5% when compared with the same period last year. However, turnover remained at a similar level as that of last year because of the adjustment in price. The gross profit margin has dropped to about 26%.

Sales volume of the Group's magnesium grain business was up by about 20% over last corresponding period, selling 9,000 tonnes of fused magnesium grain. As the average selling price has also climbed, thus the sales amount rose by about 26%. However, the limited electricity supply this year has hindered production hence the number of defective goods was also higher during the period, with gross profit margin dropping to less than 20%. The Group's high purity magnesium grain project, commencing production late last year, has manufactured 21,000 tonnes of high purity magnesium grain in the first half of this year. However, as the project is still at an early production stage and has not yet entered full operation, its gross profit margin was 24%.

Market distribution in the first half of this year remained essentially unchanged from the same period last year, with domestic sales and exports in the proportion of 80% and 20% respectively.

Joint Venture Projects

Construction of Phase I at the production facility of OSRAM (China) Fluorescent Materials Co., Ltd., a joint venture set up with OSRAM GmbH, has been completed and has started trial production in July 2011. A small amount of qualified products have been produced. The Group is looking forward to a profit contribution from the project in the second half of the year.

In April this year, the Group has embarked on another joint venture, signing an agreement with Asahi Glass Ceramics Co., Ltd. to jointly establish Yixing AGC Ceramics Co., Ltd. The venture is to introduce Japanese technologies to China and construct a plant to produce shaped and sintered refractory materials for cement industry. Its annual production target is 34,000 tonnes and the total investment cost is US\$29,800,000. Established on 7 June this year, the joint venture company is presently undergoing plant design and foundation construction. It is expected to commence production in the first half of 2012.

Prospects

The prices of rare earth materials are expected to remain particularly sensitive to the increasing market demand as well as changes in the policies of the Chinese Government. The price of specific rare earth products have been reduced during late July and early August. However, the Chinese Government's active initiatives to protect rare earth resources and the industry in China to realise a reasonable value for these scarce resources would continue to drive up the price of rare earth materials. The Chinese Government also closely monitors the environmental protection measures of rare earth enterprises to safeguard against pollution. Enterprises which fail to meet operating standards would be forced to suspend operations until the improvements implemented are in compliance with specified standards. The net effects of the policy may lead to a reduction of the supply of certain types of rare earths. The Ministry of Commerce has announced the second batch export quota of rare earths for general trading on 14 July 2011. Enterprises in the country are permitted to export a total of 30,184 tonnes for the whole year, a slight decrease of 74 tonnes when compared with 2010. The Group has been granted an export quota of 869 tonnes during the year, a similar level to what it was assigned last year.

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On the other hand, the Central Government has also stepped up its efforts in reforming the rare earth industry and has implemented stricter regulatory controls in the mining of upstream resources. These measures have required some mining units to close or suspend operation for improvement. This policy has affected the supply of raw materials at the Group's rare earth salts production line in Hunan. In view of the difficulty in acquiring adequate supply of raw materials in the region and in order to protect the investors' interest, the Group, after due consideration, decided to dispose of all of its interest in Jianghua Yao Nationality Autonomous County Xinghua Rare Earth Company Limited, the subsidiary in Hunan, at a consideration of RMB257,000,000 in August this year.

Liquidity and Financial Resources

After the placing of new shares in October last year, the Group has abundant cash on hand. As at 30 June 2011, the Group had cash and bank deposits of approximately HK\$1,394,905,000. Among which, the Group pledged deposits of RMB84,900,000 in order to acquire RMB80,000,000 in short term bank loans for subsidiaries in China last year. In addition, the Group also pledged deposits valued at HK\$1,631,000 as a guarantee to obtain trade financing facilities. The Group's joint venture OSRAM (China) Fluorescent Materials Co., Ltd. was also granted a five-year loan of RMB25,000,000 by a bank in China after it pledged its land use right as security and a subsidiary of the Group provided a corporate guarantee during the period under review to expedite project construction. The Group had no material contingent liability and was not exposed to material exchange rate risk or interest rate risk at the end of the period. The Group had a balance of net current assets valued at approximately HK\$2,553,175,000, with the total liabilities to total assets ratio at around 11%.

Staff and Remuneration

As at 30 June 2011, the Group has a workforce of approximately 1,300. It provides a comprehensive staff remuneration and benefits package to its employees. During the period under review, the Group spent approximately HK\$25,629,000 on 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 2011. It intends to defer the distribution until the final results announcement.

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.

Details of options which have been granted under the Old Scheme during the period were as follows:

Grantee	Date of grant	Exercise price	Number of options		
			Held at 1 January 2011	Exercised during the period	Held at 30 June 2011
Employees					
In aggregate	23 January 2003	HK\$1.10	700,000	700,000	–

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, cancelled or lapsed during the period.

DIRECTORS' INTERESTS AND SHORT POSITIONS

As at 30 June 2011, 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)	35.58%
Qian Yuanying	Founder of a trust	595,200,000 (Note)	35.58%

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.

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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 (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 2011, 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 2011, 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 35.58% 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 2011.

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 2011.

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 2011 which have not been audited.

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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 2011.

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 2011.

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, 29 August 2011