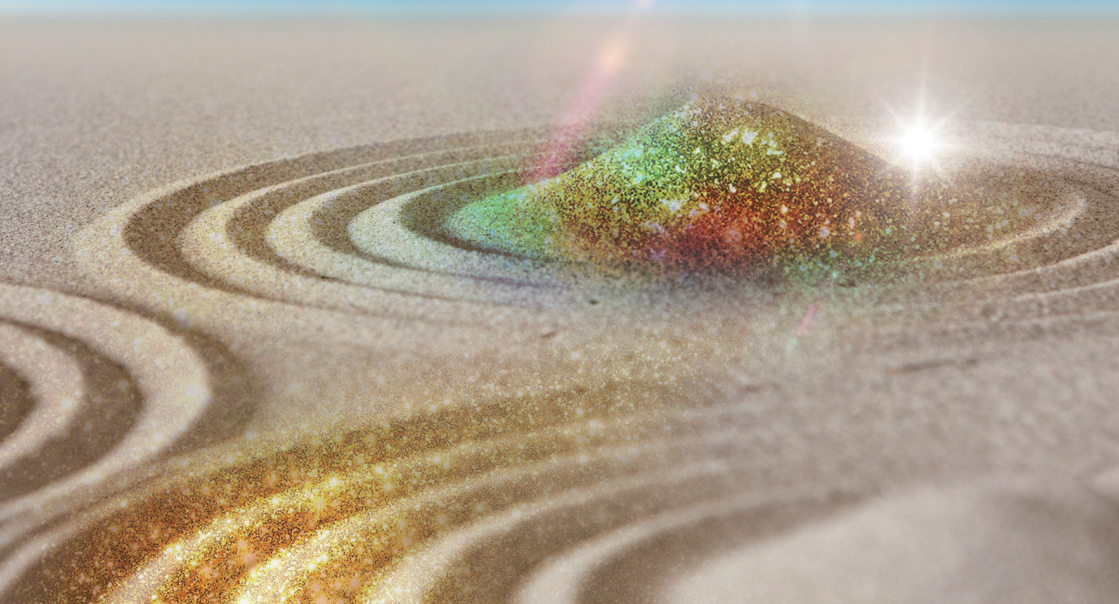




中國稀土控股有限公司
China Rare Earth Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
Stock code : 769

2 0 1 2 Interim Report



CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Independent Non-executive Directors

Mr Huang Chunhua
Mr Jin Zhong
Mr Wang Guozhen
(Appointed on 1 August 2012)

AUDIT COMMITTEE

Mr Wang Guozhen (*Chairman*)
Mr Huang Chunhua
Mr Jin Zhong

REMUNERATION COMMITTEE

Mr Huang Chunhua (*Chairman*)
Mr Jin Zhong
Mr Wang Guozhen

NOMINATION COMMITTEE

Mr Jin Zhong (*Chairman*)
Mr Wang Guozhen
Mr Huang Chunhua

COMPANY SECRETARY

Mr Law Lap Tak

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Dapu Town, Yixing City
Jiangsu Province, the 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 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
183 Queen's Road East
Hong Kong

STOCK CODE ON THE STOCK EXCHANGE OF HONG KONG LIMITED

769

PUBLIC RELATIONS CONSULTANT

Strategic Financial Relations Limited

INTERNET WEBSITE

www.creh.com.hk

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 2012 together with the comparative figures for the corresponding period in 2011 as follows:

CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
	Note	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited) (Restated)
Continuing operations			
Turnover	(3)	1,265,601	956,768
Cost of sales		(1,360,628)	(423,327)
Gross (loss)/profit		(95,027)	533,441
Other revenue		3,856	2,150
Selling and distribution expenses		(40,284)	(73,876)
Administrative expenses		(29,588)	(46,946)
Other (expenses)/income, net		(207)	2,220
(Loss)/Profit from operations		(161,250)	416,989
Finance costs	(4)	(1,590)	(2,519)
Share of losses of jointly controlled entities		(9,241)	(4,130)
(Loss)/Profit before taxation	(5)	(172,081)	410,340
Income tax	(6)	(6,974)	(83,408)
(Loss)/Profit for the period from continuing operations		(179,055)	326,932

CONSOLIDATED INCOME STATEMENT (Continued)

		For the six months ended 30 June	
	Note	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited) (Restated)
Discontinued operation			
Profit for the period from discontinued operation		—	4,277
(Loss)/Profit for the period		(179,055)	331,209
Attributable to:			
Owners of the Company			
From continuing operations		(172,730)	307,517
From discontinued operation		—	4,063
		(172,730)	311,580
Non-controlling interests			
From continuing operations		(6,325)	19,415
From discontinued operation		—	214
		(6,325)	19,629
		HK cents	HK cents
(Loss)/Earnings per share	(9)		
Basic			
From continuing operations		(10.33)	18.40
From discontinued operation		—	0.24
		(10.33)	18.64
Diluted			
From continuing operations		(10.33)	18.39
From discontinued operation		—	0.24
		(10.33)	18.63

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months
ended 30 June

	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited) (Restated)
(Loss)/Profit for the period	(179,055)	331,209
Other comprehensive (loss)/income for the period (net of tax):		
Exchange differences on translation of financial statements of foreign operations	(21,063)	75,290
Share of other comprehensive (loss)/income of jointly controlled entities	(618)	1,623
Deferred tax arising on change in tax rate	1,333	–
Fair value loss on available-for-sale equity securities	–	(3,040)
Reclassification adjustments relating to impairment loss on available-for-sale equity securities included in the consolidated income statement	–	18,800
	<hr/>	<hr/>
Total comprehensive (loss)/income for the period	<u>(199,403)</u>	<u>423,882</u>
Attributable to:		
Owners of the Company	(192,708)	403,175
Non-controlling interests	(6,695)	20,707
	<hr/>	<hr/>
Total comprehensive (loss)/income for the period	<u>(199,403)</u>	<u>423,882</u>
Total comprehensive (loss)/income attributable to owners of the Company		
From continuing operations	(192,708)	399,112
From discontinued operation	–	4,063
	<hr/>	<hr/>
	<u>(192,708)</u>	<u>403,175</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
Non-current assets			
Goodwill		21,656	21,776
Property, plant and equipment	(10)	440,296	469,568
Prepaid lease payments on land under operating leases		202,325	205,885
Intangible assets		81,446	88,198
Interest in jointly controlled entities		125,412	110,940
Available-for-sale equity securities		6,720	6,720
Pledged bank deposits		52,257	52,547
Deferred tax assets		7,181	8,223
		937,293	963,857
Current assets			
Prepaid lease payments on land under operating leases		4,848	4,874
Inventories		1,375,048	1,296,256
Trade and other receivables	(11)	552,026	603,405
Prepayments and deposits		14,924	101,961
Tax recoverable		1,252	1,450
Pledged bank deposits		51,889	52,177
Cash and cash equivalents		1,290,980	1,530,123
		3,290,967	3,590,246

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	Note	30 June 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
Current liabilities			
Trade payables	(12)	117,203	94,964
Accruals and other payables		42,679	106,713
Amounts due to directors		739	519
Bank borrowings due within one year	(13)	101,909	98,680
Tax payable		5,696	56,721
		268,226	357,597
Net current assets		3,022,741	3,232,649
Total assets less current liabilities		3,960,034	4,196,506
Non-current liabilities			
Deferred tax liabilities		27,889	31,505
NET ASSETS		3,932,145	4,165,001
CAPITAL AND RESERVES			
Share capital		167,264	167,264
Reserves		3,701,491	3,927,652
Equity attributable to owners of the Company		3,868,755	4,094,916
Non-controlling interests		63,390	70,085
TOTAL EQUITY		3,932,145	4,165,001

China Rare Earth Holdings Limited

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company								Non-controlling		
	Share capital	Share premium	Capital reserve	Buildings revaluation reserve	Statutory reserves	Translation reserve	Fair value reserve	Retained profits	Total	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 2012	167,264	1,770,100	22,348	30,934	168,247	528,784	-	1,407,239	4,094,916	70,085	4,165,001
Comprehensive income											
Loss for the period	-	-	-	-	-	-	-	(172,730)	(172,730)	(6,325)	(179,055)
Other comprehensive (loss)/income											
Exchange differences on translation of financial statements of foreign operations	-	-	-	-	-	(20,693)	-	-	(20,693)	(370)	(21,063)
Share of other comprehensive loss of jointly controlled entities	-	-	-	-	-	(618)	-	-	(618)	-	(618)
Deferred tax arising on change in tax rate	-	-	-	1,333	-	-	-	-	1,333	-	1,333
Total comprehensive (loss)/income	-	-	-	1,333	-	(21,311)	-	(172,730)	(192,708)	(6,695)	(199,403)
Dividend paid	-	-	-	-	-	-	-	(33,453)	(33,453)	-	(33,453)
Appropriations to statutory reserves	-	-	-	-	86,814	-	-	(86,814)	-	-	-
Transfer to retained profits in respect of depreciation on revaluation of buildings held for own use	-	-	-	(1,832)	-	-	-	1,832	-	-	-
At 30 June 2012	167,264	1,770,100	22,348	30,435	255,061	507,473	-	1,116,074	3,868,755	63,390	3,932,145

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

	Attributable to owners of the Company										
	Buildings								Non-controlling		
	Share capital	Share premium	Capital reserve	Revaluation reserve	Statutory reserves	Translation reserve	Fair value reserve	Retained profits	Total	interests	Total
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
						(Restated)			(Restated)		(Restated)
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	-	-	-	-	-	74,212	-	-	74,212	1,078	75,290
Share of other comprehensive income of jointly controlled entities	-	-	-	-	-	1,623	-	-	1,623	-	1,623
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	-	-	-	-	-	75,835	15,760	311,580	403,175	20,707	423,882
Shares issued under share option scheme	70	700	-	-	-	-	-	-	770	-	770
Appropriations to statutory reserves	-	-	-	-	13,201	-	-	(13,201)	-	-	-
Transfer to retained profits in respect of depreciation on revaluation of buildings held for own use	-	-	-	(5,868)	-	-	-	5,868	-	-	-
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>

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**

	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited) (Restated)
Net cash (used in)/generated from operating activities	(158,581)	5,930
Net cash (used in)/generated from investing activities	(31,798)	30,556
Net cash used in financing activities	(31,259)	(7,181)
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	(221,638)	29,305
Cash and cash equivalents at beginning of the period	1,530,123	1,192,774
Effect of changes in exchange rate	(17,505)	50,674
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	<u>1,290,980</u>	<u>1,272,753</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 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 2011, 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 2011.

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 2012. 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.

The Group has changed its accounting policy for accounting of jointly controlled entities from using proportionate consolidation to using equity method in the preparation of the Group's annual financial statements for the year ended 31 December 2011. This change in accounting policy has been applied retrospectively, and the comparative information has been restated as if this new accounting policy had always been applied. The change in accounting policy has no impact on the Group's net profit and net assets in the condensed consolidated interim financial information for each period presented.

China Rare Earth Holdings Limited

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Comparative information has been restated to reflect the change in accounting policy for jointly controlled entities. The effects of restatement on the Group's operating results for the six months ended 30 June 2011 are as follows:

	For the six months ended 30 June 2011
	HK\$'000
	(Unaudited)
Increase in turnover	1,166
Increase in share of losses of jointly controlled entities	(4,129)
	<u> </u>

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)

2. SEGMENT INFORMATION (Continued)

(a) Segment revenue and results

Continuing operations

	Rare Earth		Refractory		Total	
	For the six months ended 30 June					
	2012	2011	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)		(Restated)
REVENUE						
Revenue from external customers	1,033,734	748,085	231,867	208,683	1,265,601	956,768
Inter-segment revenue	44	-	-	-	44	-
Reportable segment revenue	<u>1,033,778</u>	<u>748,085</u>	<u>231,867</u>	<u>208,683</u>	<u>1,265,645</u>	<u>956,768</u>
RESULTS						
Reportable segment (loss)/profit	<u>(178,388)</u>	<u>407,920</u>	<u>20,301</u>	<u>29,380</u>	<u>(158,087)</u>	<u>437,300</u>

Discontinued operation

	Rare Earth	
	For the six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
		(Restated)
REVENUE		
Revenue from external customers	-	72,536
Inter-segment revenue	-	-
Reportable segment revenue	<u>-</u>	<u>72,536</u>
RESULTS		
Reportable segment profit	<u>-</u>	<u>5,702</u>

China Rare Earth Holdings Limited

2. SEGMENT INFORMATION (Continued)

(b) Geographical information

Revenue from external customers:

	Continuing operations		Discontinued operation		Consolidated	
	For the six months ended 30 June					
	2012	2011	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)		(Restated)
The People's Republic of China (the "PRC")	1,002,788	604,509	–	72,536	1,002,788	677,045
Japan	123,336	95,150	–	–	123,336	95,150
Europe	111,811	157,148	–	–	111,811	157,148
The United States of America	13,586	87,936	–	–	13,586	87,936
Others	14,080	12,025	–	–	14,080	12,025
	1,265,601	956,768	–	72,536	1,265,601	1,029,304

3. TURNOVER

	Continuing operations		Discontinued operation		Consolidated	
	For the six months ended 30 June					
	2012	2011	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)		(Restated)
Sales of rare earth products (including fluorescent products)	1,033,734	748,085	–	72,536	1,033,734	820,621
Sales of refractory products (including high temperature ceramics products and magnesium grains)	231,867	208,683	–	–	231,867	208,683
	1,265,601	956,768	–	72,536	1,265,601	1,029,304

4. FINANCE COSTS

Finance costs represented interest expenses on bank borrowings wholly repayable within five years.

5. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/Profit before taxation has been arrived at after charging/(crediting):

	Continuing operations		Discontinued operation		Consolidated	
	For the six months ended 30 June					
	2012	2011	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)		(Restated)
Depreciation of property, plant and equipment	37,607	46,464	–	1,292	37,607	47,756
Amortisation of prepaid lease payments on land under operating leases	2,430	2,716	–	296	2,430	3,012
Amortisation of intangible assets	6,282	6,071	–	9,834	6,282	15,905
Write down of inventories	114,353	–	–	–	114,353	–
Reversal of write down of inventories	(34,012)	–	–	–	(34,012)	–
Impairment loss on available-for-sale equity securities	–	18,800	–	–	–	18,800
	–	–	–	–	–	–

China Rare Earth Holdings Limited

6. INCOME TAX

	Continuing operations		Discontinued operation		Consolidated	
	For the six months ended 30 June					
	2012 HK\$'000	2011 HK\$'000 (Restated)	2012 HK\$'000	2011 HK\$'000 (Restated)	2012 HK\$'000	2011 HK\$'000 (Restated)
Enterprise Income Tax ("EIT")						
– Provision for the period	5,542	85,737	–	3,447	5,542	89,184
Hong Kong Profits Tax						
– Provision for the period	2,414	–	–	–	2,414	–
Deferred taxation						
– Origination and reversal of temporary differences	(982)	(2,329)	–	(2,021)	(982)	(4,350)
	6,974	83,408	–	1,426	6,974	84,834

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% (2011: 16.5%) of the estimated assessable profits for the six months ended 30 June 2012.

The PRC subsidiaries of the Group are subject to PRC EIT at 25% (2011: 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. Two (2011: One) PRC subsidiaries are entitled to a preferential income tax rate of 15%.

7. DISCONTINUED OPERATION

During 2011, the Group disposed of its entire interest in Jianghua Yao Nationality Autonomous County Xinghua Rare Earth Company Limited at a consideration of RMB257,000,000 for cash. The disposal was completed on 12 August 2011.

8. DIVIDENDS

A final dividend for previous year at 2 HK cents per share amounting to approximately HK\$33,453,000 was proposed and paid during the six months ended 30 June 2012 (2011: Nil).

No interim dividend was proposed for the six months ended 30 June 2012 (2011: Nil).

9. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the loss attributable to owners of the Company of approximately HK\$172,730,000 (2011 (Restated): profit of HK\$307,517,000) for continuing operations and HK\$nil (2011 (Restated): profit of HK\$4,063,000) for discontinued operation and the weighted average number of approximately 1,672,643,000 (2011: 1,672,009,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the six months ended 30 June 2011 is based on the restated profit attributable to owners of the Company of approximately HK\$307,517,000 for continuing operations and HK\$4,063,000 for discontinued operation and the weighted average number of approximately 1,672,437,000 ordinary shares in issue after adjusting for the effect of all dilutive potential ordinary shares in respect of outstanding share options. Diluted loss per share for the six months ended 30 June 2012 is same as the basic loss per share as there is no dilutive potential ordinary share.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2012, the Group spent approximately HK\$10,855,000 (2011 (Restated): HK\$1,576,000) on additions to property, plant and equipment.

China Rare Earth Holdings Limited

11. 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 2012 HK\$'000	31 December 2011 HK\$'000
Trade debtors and bills receivables	417,203	370,354
Amounts due from jointly controlled entities	15,421	21,318
Amount due from a former subsidiary	–	166,380
Other receivables	119,402	45,353
	<hr/> 552,026 <hr/>	<hr/> 603,405 <hr/>

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

	30 June 2012 HK\$'000	31 December 2011 HK\$'000
Current to less than 6 months	368,823	332,690
6 months to less than 1 year	37,864	33,507
1 to less than 2 years	21,334	15,924
Over 2 years	23,411	23,777
	<hr/> 451,432 <hr/>	<hr/> 405,898 <hr/>
Less: Impairment loss	(34,229)	(35,544)
	<hr/> 417,203 <hr/>	<hr/> 370,354 <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.

12. TRADE PAYABLES

An ageing analysis of trade payables is as follows:

	30 June 2012 HK\$'000	31 December 2011 HK\$'000
Current to less than 6 months	106,980	81,152
6 months to less than 1 year	6,183	8,455
1 to less than 2 years	2,048	4,161
Over 2 years	1,992	1,196
	117,203	94,964

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.

13. BANK BORROWINGS

	30 June 2012 HK\$'000	31 December 2011 HK\$'000
Secured	98,135	98,680
Unsecured	3,774	-
	101,909	98,680

All bank borrowings are repayable within one year or on demand.

Secured bank borrowings are denominated in Renminbi and unsecured bank borrowings are denominated in United States dollar.

All bank borrowings are variable-rate borrowings which carry prevailing interest rates ranging from 5.97% to 6.22% (2011: ranging from 5.10% to 6.41%) per annum.

China Rare Earth Holdings Limited

13. BANK BORROWINGS (Continued)

Secured bank borrowings are secured by the pledged bank deposits of approximately HK\$104,146,000 (2011: HK\$104,724,000).

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

14. COMMITMENTS

At 30 June 2012, the Group had the following commitments:

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

	30 June 2012 HK\$'000	31 December 2011 HK\$'000
Acquisition and construction of property, plant and equipment	—	8,531

- (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 2012 HK\$'000	31 December 2011 HK\$'000
Within one year	2,310	2,326
In the second to fifth year inclusive	1,374	2,532
	3,684	4,858

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 periods of two to five years. None of the leases includes contingent rentals.

15. CONTINGENT LIABILITIES

At 30 June 2012, the jointly controlled entities of the Group are covered by guarantees issued by subsidiaries of the Group to banks in respect of banking facilities granted to the jointly controlled entities to the extent of HK\$331,207,000 (2011: HK\$271,370,000). The maximum liability of the Group under the guarantees is the amount of the facilities drawn down by the jointly controlled entities, being HK\$69,479,000 (2011: HK\$49,340,000). No recognition of the guarantees was made because the fair value of it was insignificant and that the director did not consider it probable that a claim will be made against the Group under the guarantees.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

After the rapid growth enjoyed in the first half of 2011, the rare earth market began a downward move in the second half of the year. During the period under review, the selling price of rare earths dropped further in step with the declining trend, in contrary to the sharp increase in selling prices during the corresponding period last year. Although the sales volume and turnover of the Group's rare earth business grew during the period under review when compared with the corresponding performance of last year, the Group recorded a loss during the period under review due to the higher cost of the inventory on hand and surges in other costs. For the six months ended 30 June 2012, the Group's turnover reached HK\$1,265,601,000, 32% higher than HK\$956,768,000 recorded in the corresponding period last year. The turnover from the rare earth business was HK\$1,033,734,000, an increase of 38% from HK\$748,085,000 recorded in the first half of 2011, and accounted for approximately 82% of the Group's total turnover. Turnover of the refractory materials business increased by around 11% from HK\$208,683,000 in the same period last year to HK\$231,867,000, representing around 18% of the Group's total turnover. Cost of inventories was relatively low early last year and relatively high early this year. Affected by the increase in costs including raw materials for both rare earth and refractory materials businesses, and the additional net write down of over HK\$80,000,000 for inventories for the rare earth business made by the end of the period under review, the Group recorded an overall gross loss of about -7.5% in the first half of 2012 compared to a gross profit margin of approximately 56% in the first half of 2011. Taking into account of other sales and management expenses, the Group recorded a net loss of HK\$179,055,000 during the period under review (same period last year: profit after taxation of HK\$331,209,000). The loss per share was 10.33 HK cents (same period last year: earnings per share of 18.64 HK cents).

Business Review

Rare Earth Business

During the period under review, the Group sold approximately 1,300 tonnes of rare earth oxides, up by about 18% compared to 1,100 tonnes sold during the same period last year. Sales volume of rare earth metals increased by approximately 100 tonnes year-on-year. Turnover of the rare earth business increased by 38% from HK\$748,085,000 the same period last year to HK\$1,033,734,000 this year.

The prices of rare earth oxides have generally slumped during the period under review. For example, average selling price of lanthanum oxide and cerium oxide in June this year dropped by about 50% when compared with last December. The average selling price of dysprosium oxide dropped by about 25%. The average selling price of erbium oxide and yttrium-europium coprecipitates dropped by about 40%, while that of yttrium oxide dropped by about 80%. The average procurement price of the raw material rare earth minerals maintained at a similar level during the period with fluctuations within 20%.

While sales volume of rare earth oxides increased by approximately 18% year-on-year, production volume dropped by about 30%. The difference between the two volumes was satisfied by procurement of finished goods in the market. The reduction in production volume was mainly attributable to the tighter supervision and regulation by the Chinese Government on the rare earth industry. This has reduced the extraction of minerals from rare earth mines upstream, which has resulted in an unstable market supply of raw materials of rare earths. The uneven quality of products caused the production yield to drop. The Chinese Government has also strengthened the implementation of indicative production limit for rare earth enterprises. As a leading enterprise within the rare earth industry, the Group has adjusted its production volume in line with the policies.

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As production volume dropped, the average cost shared by finished goods increased. The procurement price of raw materials was relatively high in contrast to the continuous declining selling price of finished goods. This, plus the surge in production costs including wages has greatly challenged the profitability of rare earth business. In addition, as the Group's inventories are carried at the lower of cost and net realisable value, the provision for inventories should have been made according to the net realisable value when the market price of inventories continued to drop. As at 30 June 2012, the Group made a further write down of approximately HK\$114,353,000 for the raw materials, work in progress and finished goods of rare earth business (at the same time there was a reversal of write down of HK\$33,963,000). This has led to a notable increase in gross loss during the period under review.

For rare earth metals, sales volume approximately tripled over that of the same period last year but the sales amount only increased by about 60% due to the change in product mix. Due to the change in rare earth market, the Group produced more lanthanum metals which is cheaper in price in the period and produced less praseodymium-neodymium alloy which is higher in value. Although the raw materials prices increased sharply, the Group was still able to maintain a thin margin for its rare earth metals business.

By market segment, the fluctuations in the prices of rare earth products led overseas customers to adopt prudent measures and take a wait-and-see attitude towards purchasing the Group's products. About 80% of the Group's rare earth business came from China while the markets of Europe, Japan and the US only accounted for the remaining 20%.

Refractory Materials Business

Total turnover of the Group's refractory materials business rose by around 10% from HK\$208,683,000 in the first half of 2011 to HK\$231,867,000 while the gross profit margin dropped to below 20%.

The Mainland economy achieved slower expansion affected by the sluggish global economic situation in the first half of 2012 and therefore the demand for refractory materials used in the construction and steel industries subsequently remained weak. The Group sold about 20,000 tonnes of ordinary refractory materials and high temperature ceramics during the period under review, a slight decrease of about 8% year-on-year while turnover increased by less than 10%. Selling prices of different products adjusted according to the market during the period. Among the main products, the average selling price of fused magnesium-chrome bricks decreased by about 10% when compared with the corresponding period last year, while that of alumina-graphite bricks increased by about 8%. However, due to the increase in procurement prices of certain raw materials, such as that of silicon carbide which is often used in making high temperature ceramics increased by 70-80% compared to the same period last year, and the rise in labour cost, the gross profit margin dropped to about 13% during the period under review.

Regarding the magnesium grain business, the Group sold a total of about 33,000 tonnes of fused magnesium grain and high purity magnesium grain during the period, an increase of about 10% year-on-year while turnover rose by more than 20%. The average selling price of fused magnesium grain remained at a similar level to that of 2011, while that of high purity magnesium grain rose by 15%. However, as the procurement price of magnesium stone, a major type of raw materials, increased by 30-40%, gross profit margin declined to about 20%.

By market segment, the proportion of domestic sales accounted for approximately 70% and export business accounted for the remaining 30%.

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Joint Venture Projects

Subsequent to the completion of Phase I of the production facility of OSRAM (China) Fluorescent Materials Co., Ltd., a joint venture set up with OSRAM GmbH, and the commencement of trial production in July 2011, some of the machinery and equipment are currently still undergoing testing. The production volume of such company was only about 100 tonnes in the first half of 2012. Further adjustments on production technologies are needed before full operation to be commenced. The fluorescent materials produced by such company is mainly used for energy-saving lighting. As this is one of the new advanced materials that Chinese Government focuses to support, its prospects is believed to be promising.

In June 2011, the Group set up another joint venture, Yixing AGC Ceramics Co., Ltd., with Asahi Glass Ceramics Co., Ltd. from Japan to produce shaped and sintered refractory materials to be used for the cement industry. Trial production has been conducted on Phase I of the production line after its completion in April 2012. Such company produced about 1,000 tonnes of products during the period under review which were sold to Japan. The company possesses industry-leading production techniques. It aims to reach an annual production capacity of 34,000 tonnes upon commencement of full operation.

Prospects

The Chinese Government has raised entry barriers of the rare earth sector in recent years to preserve the rare earth resources and ecological environment and standardise production and operation of the industry in a bid to facilitate the healthy and steady development of the entire industry. To regulate rare earth enterprises, China introduced a special value-added tax invoice for rare earth enterprises effective from 1 June 2012. Later, the Government announced the “Provisional Measures on the Indicative Production Plan for Rare Earths”, which imposes strict control over the indicators for rare earth mining, production and sets quotas for imports and exports plans with an aim to eliminate obsolete production capacity and advance industry consolidation within the rare earth sector. Meanwhile, the Government has allocated state subsidies for the procurement of rare earth reserves and encouraged the enterprises to strengthen the management of rare earth reserves so as to stabilise product prices.

In June 2012, the State Council Information Office published its first white paper entitled “Situation and Policies of China’s Rare Earth Industry”. The white paper stated that the Chinese Government will enhance the regulation of rare earth mining, production and exports and, at the same time, will guarantee a supply of rare earths to the international market. The Group believes that the introduction of a series of consolidation measures and establishment of a rare earth trading platform will help organize the development of the industry in China. In the second half of 2012, the Group will reinforce its industry leadership, actively support the nation’s regulatory initiatives and continue to enhance its processing capability. The Group also believes that with more regulated practices in the industry development can drive the prices of rare earths, such “industrial gold,” to more reasonable levels. This together with the increasing demands of rare earths for both domestic and overseas high-tech industries, the Group is optimistic about the long term development of its business.

As a result of the state policies, the Group believes that the supply of rare earth materials will be tightening and the prices of rare earth materials will continue an upward trend over the mid-to-long term. In its business and operations, the Group will continue to follow the national directives to increase rare earth reserves at reasonable prices and secure a stable supply in the long run.

Regarding the refractory materials business, development will depend on the overall market situation. The Group will strive to expand its customer base and enrich its product mix so as to achieve stable development.

Liquidity and Financial Resources

The Group has continued to maintain prudent capital arrangements, and has sufficient cash on hand. As at 30 June 2012, the Group had cash and bank deposits of approximately HK\$1,395,126,000, of which RMB84,900,000 was pledged to a domestic bank to secure short-term loans at RMB80,000,000 for its subsidiaries in China. As at the end of the review period, the Group had a balance of net current assets valued at approximately HK\$3,022,741,000, with the total liabilities to total assets ratio lowered to around 7%.

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During the period, Yixing Xinwei Leeshing Refractory Materials Co., Ltd. and Yixing Xinwei Leeshing Rare Earth Company Limited, subsidiaries of the Group in China, provided corporate guarantees to two local banks to facilitate OSRAM (China) Fluorescent Materials Co., Ltd. and Yixing AGC Ceramics Co., Ltd., joint ventures of the Group, to obtain loan financing. At 30 June 2012, the two joint ventures had drawn loans of RMB50,000,000 and RMB6,639,000 in total from the banks with the guarantees.

Staff and Remuneration

As at 30 June 2012, the Group had a workforce of approximately 1,100. The Group provided a comprehensive staff remuneration and welfare system. During the period, the Group spent approximately HK\$28,391,000 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 2012.

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 (the "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. During the six months ended 30 June 2012, there was no option outstanding under the Old Scheme, and there was no option granted, cancelled or lapsed under the New Scheme.

DIRECTORS' INTERESTS AND SHORT POSITIONS

As at 30 June 2012, 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 (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

1. Interests in shares of the Company

Director	Nature of interest/ Capacity	Number of shares	% to the issued share capital of the Company
Jiang Quanlong	Interest of spouse/ Interest of controlled corporation	595,492,000 (Note)	35.60%
Qian Yuanying	Founder of a trust	595,492,000 (Note)	35.60%

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.

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

(a) *Microtech Resources Limited*

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

(b) *Yixing Xinwei Leeshing Rare Earth Company Limited*

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

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

(c) *YY Holdings Limited*

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

Note: The entire issued share capital of YY Holdings Limited is held by YYT (PTC) Limited, the trustee of YY Trust, the discretionary object of which is a company wholly owned by Ms. Qian Yuanying, the spouse of Mr. Jiang Quanlong, and her 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 2012, 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 2012, 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 595,492,000 shares of the Company, representing approximately 35.60% of the issued share capital of the Company as beneficial owner.
2. YYT (PTC) Limited was deemed to be interested in 595,492,000 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 2012.

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 2012.

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 2012 which have not been audited.

CORPORATE GOVERNANCE

The Company is committed to attaining good corporate governance practices and procedures. The Company has adopted its own code of corporate governance based on the principles and code provisions of the Corporate Governance Code which were effective from 1 April 2012 (the “CG Code”) contained in Appendix 14 of the Listing Rules.

For the six months ended 30 June 2012, in the opinion of the Board, the Company has complied with the Code on Corporate Governance Practices, which were effective until 31 March 2012 set out in Appendix 14 of the Listing Rules, during the period from 1 January 2012 to 31 March 2012 and the CG Code during the period from 1 April 2012 to 30 June 2012 save for the Code Provision A.6.7 of the CG Code.

Code Provision A.6.7 of the CG Code provides that the independent non-executive directors and non-executive directors should attend general meetings of the Company. Due to other prior business engagements, all independent non-executive directors were not able to attend the annual general meeting of the Company held on 8 June 2012.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct (the “Company’s Code”) regarding securities transactions by directors on terms no less exacting than the required standards set out in the Model Code. Having made specific enquiry, the Company confirms that all directors have complied with the required standards as stated in the Model Code and the Company’s Code throughout the six months ended 30 June 2012.

SUFFICIENCY OF PUBLIC FLOAT

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

MEMBERS OF THE BOARD

On 1 August 2012, Mr. Liu Yujiu resigned as an independent non-executive director, the chairman of Audit Committee, committee member of Remuneration Committee and Nomination Committee of the Company and on the same date, Mr. Wang Guozhen was appointed as an independent non-executive director, the chairman of Audit Committee, committee member of Remuneration Committee and Nomination Committee.

As at the date of this report, the Board consists of Mr. Jiang Quanlong, Ms. Qian Yuanying and Mr. Jiang Cainan as executive directors and Mr. Huang Chunhua, Mr. Jin Zhong and Mr. Wang Guozhen as independent non-executive directors.

By order of the Board

Jiang Quanlong

Chairman

Hong Kong, 30 August 2012