中國稀土控股有限公司

China Rare Earth Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 769)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2013

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 2013 together with the comparative figures for the corresponding period in 2012 as follows:

CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2013	2012
	Note	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Turnover	(3)	**744,176**	1,265,601
Cost of sales		**(1,017,656)**	(1,360,628)
Gross loss		**(273,480)**	(95,027)
Other revenue		**2,328**	3,856
Selling and distribution expenses		**(22,768)**	(40,284)
Administrative expenses		**(41,620)**	(29,588)
Other expenses, net		**(79)**	(207)
Loss from operations		**(335,619)**	(161,250)
Finance costs	(4)	**–**	(1,590)
Share of losses of jointly controlled entities		**(4,101)**	(9,241)
Loss before taxation	(5)	**(339,720)**	(172,081)
Income tax	(6)	**(4,435)**	(6,974)
Loss for the period		**(344,155)**	(179,055)

		For the six months ended 30 June	
		2013	2012
	Note	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Attributable to:			
Owners of the Company		**(331,328)**	(172,730)
Non-controlling interests		**(12,827)**	(6,325)
		(344,155)	(179,055)
		HK cents	*HK cents*
Loss per share	(8)		
Basic		**(19.81)**	(10.33)
Diluted		**(19.81)**	(10.33)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss for the period	**(344,155)**	(179,055)
Other comprehensive loss for the period (net of tax):		
Exchange differences on translation of financial statements of foreign operations	**60,599**	(21,063)
Share of other comprehensive income/(loss) of jointly controlled entities	**1,923**	(618)
Deferred tax arising on change in tax rate	**–**	1,333
Fair value loss on available-for-sale equity securities	**(1,760)**	–
Total comprehensive loss for the period	**(283,393)**	(199,403)
Attributable to:		
Owners of the Company	**(271,347)**	(192,708)
Non-controlling interests	**(12,046)**	(6,695)
Total comprehensive loss for the period	**(283,393)**	(199,403)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**30 June 2013** *HK$'000* **(Unaudited)**	31 December 2012 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment	(9)	**471,863**	405,411
Prepaid lease payments on land under operating leases		**183,676**	182,709
Intangible assets		**38,335**	43,963
Interests in jointly controlled entities		**107,828**	109,930
Available-for-sale equity securities		**7,760**	9,520
Deferred tax assets		**5,519**	6,321
Other non-current asset		**19,036**	18,703
		834,017	776,557
Current assets			
Prepaid lease payments on land under operating leases		**4,527**	4,448
Inventories		**534,688**	975,218
Trade and other receivables	(10)	**465,219**	478,577
Prepayments and deposits		**120,819**	116,098
Tax recoverable		**817**	943
Pledged bank deposits		**53,477**	52,541
Restricted bank balances		**–**	494
Cash and cash equivalents		**1,328,295**	1,236,290
		2,507,842	2,864,609
Current liabilities			
Trade payables	(11)	**79,341**	94,664
Accruals and other payables		**30,492**	28,439
Amounts due to directors		**1,203**	1,074
Bank borrowings due within one year	(12)	**50,213**	49,334
Tax payable		**3,825**	5,932
		165,074	179,443
Net current assets		**2,342,768**	2,685,166
Total assets less current liabilities		**3,176,785**	3,461,723

	Note	**30 June 2013** **HK$'000** **(Unaudited)**	31 December 2012 *HK$'000* (Audited)
Non-current liabilities			
Deferred tax liabilities		**24,267**	25,812
NET ASSETS		**3,152,518**	3,435,911
CAPITAL AND RESERVES			
Share capital		**167,264**	167,264
Reserves		**2,947,041**	3,218,388
Equity attributable to owners of the Company		**3,114,305**	3,385,652
Non-controlling interests		**38,213**	50,259
TOTAL EQUITY		**3,152,518**	3,435,911

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 2012, 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 2012.

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 2013. 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.

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 revenue and results

	Rare Earth		Refractory		Total	
	For the six months ended 30 June					
	2013	2012	**2013**	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
REVENUE						
Revenue from external customers	**549,401**	1,033,734	**194,775**	231,867	**744,176**	1,265,601
Inter-segment revenue	**16**	44	**–**	–	**16**	44
Reportable segment revenue	**549,417**	1,033,778	**194,775**	231,867	**744,192**	1,265,645
RESULTS						
Reportable segment (loss)/profit	**(342,518)**	(178,388)	**10,201**	20,301	**(332,317)**	(158,087)

(b) **Geographical information**

Revenue from external customers:

	For the six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
The People's Republic of China (the "PRC")	**592,399**	1,002,788
Europe	**69,595**	111,811
Japan	**56,947**	123,336
The United States of America	**24,387**	13,586
Others	**848**	14,080
	744,176	1,265,601

3. TURNOVER

	For the six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
Sales of rare earth products (including fluorescent products)	**549,401**	1,033,734
Sales of refractory products (including high temperature ceramics products and magnesium grains)	**194,775**	231,867
	744,176	1,265,601

4. FINANCE COSTS

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

5. LOSS BEFORE TAXATION

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

	For the six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**33,420**	37,607
Amortisation of prepaid lease payments on land under operating leases	**2,270**	2,430
Amortisation of intangible assets	**6,355**	6,282
Write down of inventories	**181,457**	114,353
Reversal of write down of inventories	**(286,360)**	(34,012)

6. INCOME TAX

	For the six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
Enterprise Income Tax ("EIT")		
– Provision for the period	**5,515**	5,542
Hong Kong Profits Tax		
– Provision for the period		
– Under provision in prior year	**–**	2,414
Deferred taxation		
– Origination and reversal of temporary differences	**(1,080)**	(982)
	4,435	6,974

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% of the estimated assessable profits.

The PRC subsidiaries of the Group are subject to PRC EIT at 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 PRC subsidiaries are entitled to a preferential income tax rate of 15%.

7. DIVIDENDS

During the six months ended 30 June 2013, no final dividend for previous year was declared and paid. During the six months ended 30 June 2012, final dividend for previous year of HK$0.02 per share amounted to approximately HK$33,453,000 was declared and paid.

No interim dividend was declared for the six months ended 30 June 2013 (2012: Nil).

8. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately HK$331,328,000 (2012: HK$172,730,000) and the weighted average number of approximately 1,672,643,000 (2012: 1,672,643,000) ordinary shares in issue during the period.

Diluted loss per share for the six months ended 30 June 2013 and 30 June 2012 are same as the basic loss per share as there is no dilutive potential ordinary share.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2013, the Group spent approximately HK$92,122,000 (2012: HK$10,855,000) on additions to property, plant and equipment.

10. 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 2013 *HK$'000*	31 December 2012 *HK$'000*
Trade debtors and bills receivables	**399,060**	373,963
Amounts due from jointly controlled entities	**13,375**	51,978
Other receivables	**52,784**	52,636
	465,219	478,577

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

	30 June 2013 *HK$'000*	31 December 2012 *HK$'000*
Current to less than 6 months	**258,357**	341,050
6 months to less than 1 year	**118,611**	29,083
1 to less than 2 years	**38,697**	21,695
Over 2 years	**30,508**	28,423
	446,173	420,251
Less: Impairment loss	**(47,113)**	(46,288)
	399,060	373,963

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.

11. TRADE PAYABLES

An ageing analysis of trade payables is as follows:

	30 June 2013 *HK$'000*	31 December 2012 *HK$'000*
Current to less than 6 months	**66,755**	83,096
6 months to less than 1 year	**7,807**	6,766
1 to less than 2 years	**2,644**	2,070
Over 2 years	**2,135**	2,732
	79,341	94,664

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.

12. BANK BORROWINGS

All bank borrowings are bills of exchange, interest free, denominated in Renminbi, repayable within one year or on demand, and secured by the pledged bank deposits of approximately HK$53,477,000 (2012: HK$52,541,000).

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

13. CONTINGENT LIABILITIES

At 30 June 2013, 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$370,324,000 (2012: HK$333,004,000). The maximum liability of the Group under the guarantees is the amount of the facilities drawn down by the jointly controlled entities, being HK$102,933,000 (2012: HK$102,715,000). 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.

14. LITIGATIONS

At 30 June 2013, there was still no final judgment on the following disputes involving a jointly controlled entity of the Group and a contractor about the quality and settlement of certain plant constructed:

(a) The contractor claimed the jointly controlled entity for settling the remaining contract fee unpaid at HK$34,517,000 (2012: HK$33,912,000) for the plant constructed.

(b) The jointly controlled entity claimed the contractor for returning the contract fee paid at HK$61,822,000 (2012: HK$60,739,000) for poor construction quality that cannot meet the relevant construction standards.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

Affected by the persistent uncertainty in the global economy and the weak demand in the downstream market, the rare earth market remained sluggish in the first half of 2013. Following the downward trend observed in 2012, the selling prices of rare earth products continued to fall during the period. The weak downstream product market affected the sales of rare earth oxides, as well as the overall product prices and sales volumes in the industry. In light of the unfavourable industry environment, most players in the industry have underperformed. During the period, the Group's overall turnover was HK$744,176,000, a significant reduction of approximately 41% compared to HK$1,265,601,000 in the corresponding period last year. The turnover from rare earth products decreased by around 47% to HK$549,401,000 compared to HK$1,033,734,000 in the corresponding period last year, accounting for about 74% of the Group's total turnover. While the downturn was persistent across the steel, construction materials and non-ferrous metal industries, turnover in the Group's refractory materials business was down by 16% to approximately HK$194,775,000 when compared to HK$231,867,000 in the same period last year and accounting for about 26% of the Group's total turnover. As the decrease in material costs could not offset the impact from declining product prices, the Group recorded a gross loss of HK$273,480,000 in the first half of 2013, with a gross loss margin of around 36.8% (1H 2012: gross loss margin of 7.5%). After taking into account other sales and management expenses and taxation, the Group recorded a net loss of HK$344,155,000 (1H 2012: net loss of HK$179,055,000). Loss per share was approximately 19.81 HK cents (1H 2012: loss per share of 10.33 HK cents).

Business Review

Rare Earth Business

The price of rare earth continued last year's downward trend albeit with some fluctuation, which contributed substantially to the decline of around 47% in the segmental turnover of the Group from HK$1,033,734,000 in the same period last year to HK$549,401,000. The prices of most rare earth products declined significantly during the period. The average selling price of neodymium oxide, europium oxide, erbium oxide and yttrium-europium coprecipitates decreased by around 50% compared to the same period last year, while those of lanthanum oxide, cerium oxide and dysprosium oxide dropped by more than 60%. To cope with such uncertain market conditions, the Group gradually reduced its inventory. The inventory of rare earth raw materials and finished products were around 10% and 25% less at the end than they were at the beginning of the period. During the period, the Group sold around 2,200 tonnes of rare earth oxides, which was around 65% more than the same period last year. The increase was mainly in lanthanum oxide and cerium oxide with the purity ranging from 99% to 99.9%. Their selling prices were relatively cheaper, with an average selling price of less than HK$100 per kilogram. Such increase could only offset the decrease in turnover to a limited extent.

During the period, while the production volume of rare earth oxides was maintained at a similar level to the same period last year, the trading volume dropped by approximately 40%. The production cost remained high, but the prices of the major rare earth minerals were around 25% to 30% lower in average when compared to the same period last year. Even though overall material cost recorded a year-on-year decrease of around 40%, it still accounted for more than 90% of the total production cost. As the decrease in production cost was less than that in the selling price, the gross loss margin expanded to around 55% during the period under review.

For the rare earth metals division, the main products produced by the Group continued to be lanthanum metals and neodymium metals during the period under review. Adversely affected by the weak downstream market, the sales volume declined around 30% from the same period last year, as did the average selling price which dropped around 30% to 40%. As a result, the sales amount decreased by more than 50% when compared to the first half of 2012. After deducting costs including amortisation of intangible assets, the gross loss margin enlarged to around 15%.

By market segments, China remained as the major market of the Group's rare earth products, accounting for around 79% of the total sales of rare earth products. Europe, its largest market overseas, accounted for around 13% of the total while imports to Japan recorded a significantly decrease, occupying only around 4% of the total, similar to the sales in the US.

Refractory Materials Business

During the period, turnover of the Group's refractory materials business decreased by around 16% from HK$231,867,000 in the first half of 2012 to HK$194,775,000. Gross profit margin decreased to around 12%.

The continued sluggish industrial market in China and the reduction in construction of large infrastructure projects have adversely affected the steel, cement and glass industries. In addition, the overcapacity in the steel industry has also dragged down the sales volume and prices of refractory materials. Thus, the revenue of most players in the industry has decreased accordingly. On the other hand, despite the weak Japanese market, the depreciation of the Japanese yen has made its export products less attractive, so the Group has received fewer orders for refractory materials from China as well as overseas. Moreover, after the Group's joint venture Yixing AGC Ceramics Co., Ltd. started operation last year, some Japanese orders for products such as magnesia-alumina spinel bricks have been shifted to the joint venture. Such shift has affected the sales volume of the Group and led to a substantial drop of more than 90% in the sales amount of that product of the Group itself. During the period under review, the Group sold only 14,000 tonnes of ordinary refractory materials and high temperature ceramics products, down by around 30% when compared with the corresponding period last year. The selling price of those key products such as fused magnesium chrome bricks and alumina-graphite bricks was similar to that of last year, with marginal difference of less than 5%. While the reduction of production volume led to an increase of the average production cost, the gross profit margin further declined to around 10%.

For the magnesium grain business, after the Group commenced production of its high purity magnesium grain at the end of 2010, the production workflow has proceeded more smoothly. During the period under review, the production volume of the Group's high purity magnesium grain increased when compared to the same period last year. Sales volume of its fused magnesium grain and high purity magnesium grain rose by around 15% to approximately 38,000 tonnes. A slight adjustment to the average selling price resulted in a growth of less than 10% in the turnover. The gross profit margin stood at around 20%.

By market segment, as mentioned earlier, some orders for exports to Japan were shifted to the joint venture. Therefore, the proportion of the Group's refractory materials export business dropped to approximately 17% and domestic sales accounted for approximately 83%.

Joint Venture Projects

The operation of OSRAM (China) Fluorescent Materials Co., Ltd., a joint venture set up with OSRAM GmbH, has proceeded smoothly after testing and modulation of the production workflow. However, affected by the unfavourable market conditions, the company sold only approximately 135 tonnes of fluorescent materials. Despite a notable growth of around 80% in sales volume over the corresponding period of last year, the sales volume did not achieve the target. Due to pressure on the selling price, turnover rose by approximately 30%. As the small profit generated from sales could not offset other administrative and financial expenses, this joint venture still operated at a loss during the period under review.

There is another joint venture, Yixing AGC Ceramics Co., Ltd., set up with Asahi Glass Ceramics Co., Ltd. from Japan to produce shaped and sintered refractory materials that are used by the cement industry. During the period under review, the company sold approximately 5,400 tonnes of products, which were mainly sold to Japan. Since the operations of this joint venture are still at an early stage, it has yet to contribute a profit to the Group.

Prospects

Stepping into the second half of 2013, there are signs suggesting that the rare earth industry in China is making an improvement. The regulation and supervision measures imposed on the rare earth industries and mining operation as a whole by some provinces and cities have begun to produce results. Particularly noteworthy in this regard was in Ganzhou where many illegal mines were sealed. On 7 August 2013, eight ministries in China, including the Ministry of Industry and Information Technology, the Ministry of Land and Resources and the Ministry of Commerce, jointly announced a "Special Action Plan to Counter Illegal and Irregular Acts in Rare Earth Mining, Production and Market Distribution". This plan outlines specific actions to combat illegal and irregular actions, such as investigating illegal and irregular industry practices, combating illegal rare earth mining, regulating illegal production and stopping improper market distribution. As the Chinese Government has taken serious measures to regulate the rare earth industry and some major rare earth enterprises have reduced production volume to maintain the prices of rare earth products, the market price of rare earth in China began to rise in July 2013. Comparing the end of July with the end of June, the market price of praseodymium-neodymium oxide climbed by approximately 30% while the market price of dysprosium oxide surged by more than 80%. Despite lingering uncertainty about the external economic environment, the Group hopes that the performance of the rare earth business will improve in the second half of the year amidst a turnaround in market conditions.

The reconstruction of the polishing powder production line, which the Group decided to implement at the end of 2012, was completed. Trial production has begun since July 2013. Several samples were produced in mid-August for customers to inspect and conduct testing and evaluation. The new line is designed to produce 1,000 tonnes a year after ramping up full production. Products will mainly be sold to customers in China and such division is expected to broaden the Group's sources of income.

For the refractory materials business, the entire industry has encountered challenges as the European and Japanese economies continued their weak performances and the major downstream industries have generally encountered conditions of high costs and low profit. However, the Ministry of Industry and Information Technology announced "Guidelines for Promoting Healthy and Sustainable Development of the Refractory Materials Industry" in March 2013 intended to more effectively regulate the refractory materials industry. It is believed that the new regulations would help reverse the trend of increasingly adverse conditions afflicting the refractory materials industry. The Group for its part is strictly adhering to a market-oriented approach while enhancing product development and optimizing its allocation and utilization of resources.

Liquidity and Financial Resources

The Group has continued to maintain prudent capital arrangements, and has sufficient cash on hand for its operations. As at 30 June 2013, the Group had cash and bank deposits valued at approximately HK$1,381,772,000, of which RMB42,600,000 was pledged to a bank to secure a RMB40,000,000 short-term loan. At the end of the period under review, the Group had a balance of net current assets valued at approximately HK$2,342,768,000, with the total liabilities to total assets ratio of around 6%.

Except for the deposit pledged as previously mentioned, the Group had no other charge on assets, nor has it held any financial derivative products. The Group was not exposed to any material interest rate risk. Regarding foreign exchange, most of the Group's assets, liabilities and transactions are denominated in Renminbi, and the rest are denominated in US dollars or Hong Kong dollars. During the period under review, the exchange rates of the Renminbi, US dollar and Hong Kong dollar remained stable.

Two subsidiaries of the Group in China provided corporate guarantees to two local banks to facilitate its two joint ventures to obtain loan financing. As at the end of the period under review, the two joint ventures had drawn loans of RMB45,000,000 and RMB36,996,000 from the banks respectively based on the guarantees.

Staff and Remuneration

As at 30 June 2013, the Group had a workforce of approximately 1,000 staff. The Group provided a comprehensive staff remuneration and welfare system. During the period, the Group spent approximately HK$29,117,000 on staff costs including directors' emoluments. It has also continued to provide on-the-job training and study opportunities to employees to assist them in enhancing their professional standards as well as advancing their career development.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2013.

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 2013.

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 2013 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 (the "CG Code") contained in Appendix 14 of the Listing Rules. In the opinion of the Board, the Company has complied with the CG Code throughout the six months ended 30 June 2013.

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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") as 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 Model Code and the Company's Code throughout the six months ended 30 June 2013.

MEMBERS OF THE BOARD

As at the date of this announcement, 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, 28 August 2013