中國稀土控股有限公司

China Rare Earth Holdings Limited

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

Interim Report 2018

CORPORATE INFORMATION

DIRECTORS

Executive Directors
Ms. Qian Yuanying *(Chairman)*
Mr. Jiang Quanlong
Mr. Jiang Dawei
Mr. Jiang Cainan

Independent Non-executive Directors
Mr. Huang Chunhua
Mr. Jin Zhong
Mr. Wang Guozhen

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. Huang Chunhua
Mr. Wang Guozhen

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

Dingshu Town, Yixing City
Jiangsu Province, the PRC

PLACE OF BUSINESS IN HONG KONG

Room 2509, Harcourt House
39 Gloucester Road, Wanchai
Hong Kong

HONG KONG LEGAL ADVISERS

Chiu & Partners

AUDITOR

Ascenda Cachet CPA Limited

PRINCIPAL BANKERS

PRC

China Construction Bank Corporation
China Merchants Bank Company Limited
China Bank of Communications Company Limited
Agricultural Bank of China Limited
Bank of China Limited

Hong Kong

Standard Chartered Bank (Hong Kong) Limited
BNP Paribas
China CITIC Bank International Limited
Bank of China (Hong Kong) Limited
Nanyang Commercial Bank, Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road
P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
17th Floor, Hopewell Centre
183 Queen's Road East, Hong Kong

INTERNET WEBSITE

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STOCK CODE ON THE STOCK EXCHANGE OF HONG KONG LIMITED

769

PUBLIC RELATIONS CONSULTANT

Strategic Financial Relations Limited

INTERIM RESULTS

The Board of Directors (the "Board") of China Rare Earth Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2018 together with the comparative figures for the corresponding period in 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	For the six months ended 30 June **2018** **HK$'000** **(Unaudited)**	 2017 HK$'000 (Unaudited)
Revenue	(3)	**434,626**	243,047
Cost of sales		**(416,221)**	(236,040)
Gross profit		**18,405**	7,007
Other income		**2,411**	2,800
Selling and distribution expenses		**(5,262)**	(8,658)
Administrative expenses		**(26,606)**	(26,052)
Other operating expenses		**(8,647)**	(18,696)
Other net gain		**10,487**	1,681
Loss from operations		**(9,212)**	(41,918)
Finance costs	(5)	**–**	(1,255)
Loss before taxation	(6)	**(9,212)**	(43,173)
Income tax charge	(7)	**(2,470)**	(166)
Loss for the period		**(11,682)**	(43,339)
Loss for the period attributable to:			
Owners of the Company		**(11,372)**	(42,669)
Non-controlling interests		**(310)**	(670)
		(11,682)	(43,339)
Loss per share			
Basic and diluted	(9)	**HK0.49 cents**	HK1.82 cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Loss for the period	**(11,682)**	(43,339)
Other comprehensive (loss)/income for the period (net of nil tax and reclassification adjustments)		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	**(21,975)**	77,555
Total comprehensive (loss)/income for the period	**(33,657)**	34,216
Total comprehensive (loss)/income for the period attributable to:		
Owners of the Company	**(33,281)**	34,610
Non-controlling interests	**(376)**	(394)
	(33,657)	34,216

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**As at 30 June 2018 HK$'000 (Unaudited)**	As at 31 December 2017 HK$'000 (Audited)
Non-current assets			
Goodwill		**–**	–
Property, plant and equipment	(10)	**201,172**	254,983
Prepaid lease payments on land under operating leases		**103,957**	135,958
Other non-current asset		**17,986**	18,141
		323,115	409,082
Current assets			
Prepaid lease payments on land under operating leases		**3,229**	4,007
Inventories		**328,869**	172,762
Trade and other receivables	(11)	**510,403**	337,091
Prepayments and deposits		**260,829**	331,796
Tax recoverable		**783**	1,751
Cash and cash equivalents		**1,394,060**	1,665,102
		2,498,173	2,512,509
Assets classified as held for sale	(13)	**80,919**	–
		2,579,092	2,512,509

	Note	As at 30 June 2018 HK$'000 (Unaudited)	As at 31 December 2017 HK$'000 (Audited)
Current liabilities			
Trade and bills payables	(12)	**88,875**	81,473
Accruals and other payables		**44,609**	76,021
Amounts due to directors		**2,460**	3,774
Tax payable		**3,418**	6,513
		139,362	167,781
Liabilities directly associated with assets classified as held for sale	(13)	**48,048**	–
		187,410	167,781
Net current assets		**2,391,682**	2,344,728
NET ASSETS		**2,714,797**	2,753,810
CAPITAL AND RESERVES			
Share capital		**234,170**	234,170
Reserves		**2,473,142**	2,511,665
Equity attributable to owners of the Company		**2,707,312**	2,745,835
Non-controlling interests		**7,485**	7,975
TOTAL EQUITY		**2,714,797**	2,753,810

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company								
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Statutory reserves HK$'000	Translation reserve HK$'000	Accumulated losses HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2017	234,170	2,093,306	22,348	251,948	232,551	(188,639)	2,645,684	9,331	2,655,015
Loss for the period	–	–	–	–	–	(42,669)	(42,669)	(670)	(43,339)
Other comprehensive income									
Exchange differences on translation of financial statements of foreign operations	–	–	–	–	77,279	–	77,279	276	77,555
Total comprehensive income/(loss) for the period	–	–	–	–	77,279	(42,669)	34,610	(394)	34,216
At 30 June 2017	234,170	2,093,306	22,348	251,948	309,830	(231,308)	2,680,294	8,937	2,689,231
At 1 January 2018 (originally presented)	234,170	2,093,306	22,348	251,948	415,541	(271,478)	2,745,835	7,975	2,753,810
Change in accounting policies (note 2)	–	–	–	–	(177)	(5,065)	(5,242)	(114)	(5,356)
At 1 January 2018 (restated)	234,170	2,093,306	22,348	251,948	415,364	(276,543)	2,740,593	7,861	2,748,454
Loss for the period	–	–	–	–	–	(11,372)	(11,372)	(310)	(11,682)
Other comprehensive loss									
Exchange differences on translation of financial statements of foreign operations	–	–	–	–	(21,909)	–	(21,909)	(66)	(21,975)
Total comprehensive loss for the period	–	–	–	–	(21,909)	(11,372)	(33,281)	(376)	(33,657)
At 30 June 2018	234,170	2,093,306	22,348	251,948	393,455	(287,915)	2,707,312	7,485	2,714,797

Note:

Under the Companies Law (Revised) 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

	Note	2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
		For the six months ended 30 June	
Operating activities			
Cash (used in)/generated from operations		**(239,995)**	37,412
Income tax paid		**(5,544)**	(223)
Net cash (used in)/generated from operating activities		**(245,539)**	37,189
Investing activities			
Purchase of property, plant and equipment	(10)	**(14,863)**	(215)
Proceeds from disposal of property, plant and equipment		**60**	–
Interest received		**2,412**	2,800
Net cash (used in)/generated from investing activities		**(12,391)**	2,585
Financing activities			
Proceeds from new bank and other borrowings		**–**	108,034
Repayment of bank and other borrowings		**–**	(107,581)
Interest paid		**–**	(1,255)
Net cash used in financing activities		**–**	(802)

	Note	For the six months ended 30 June 2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Net (decrease)/increase in cash and cash equivalents		**(257,930)**	38,972
Cash and cash equivalents at beginning of the period		**1,665,102**	1,649,125
Effect of changes in exchange rate		**(11,631)**	47,929
Cash and cash equivalents at end of the period		**1,395,541**	1,736,026
Analysis of balances of cash and cash equivalents			
Cash and cash equivalents as stated in the condensed consolidated statement of financial position		**1,394,060**	1,736,026
Cash and cash equivalents included in assets classified as held for sale	(13)	**1,481**	–
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows		**1,395,541**	1,736,026

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

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

The condensed consolidated interim financial information does not include all the information and disclosure required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

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 2017, except for the adoption of HKFRS 9 "Financial Instruments", HKFRS 15 "Revenue from Contracts with Customers" and other new and revised HKFRSs that are first effective for the current accounting period of the Group.

Save for changes in accounting policies as disclosed in note 2, the application of other new and revised HKFRSs has no material impact on the Group's financial performance and positions for the current and prior accounting periods. 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 2018.

2. CHANGES IN ACCOUNTING POLICIES

A number of new and revised HKFRSs became applicable for the current accounting period and the Group had to change its accounting policies and make adjustments as a results of adopting HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers".

(a) HKFRS 9 "Financial Instruments"

The adoption of HKFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the condensed consolidated interim financial information as described below.

In accordance with the transitional provisions in HKFRS 9, HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the consolidated statement of financial position as at 31 December 2017, but are recognised in the opening condensed consolidated statement of financial position on 1 January 2018.

HKFRS 9 replaces the provisions of HKAS 39 "Financial Instruments: Recognition and Measurement" that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

There is no significant impact on the classification and measurement of its financial assets as the Group does not have:

- Debt instruments that are classified as available-for-sale financial assets;
- Debt instruments classified as held-to-maturity and measured at amortised cost;
- Equity investment measured at fair value through profit or loss.

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities which are subject to HKFRS 9.

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) HKFRS 9 "Financial Instruments" *(Continued)*

The derecognition rules have been transferred from HKAS 39 and have not been changed.

The new hedge accounting rules has aligned the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group does not have any hedge instrument. Therefore, the Group does not expect any impact on the new hedge accounting rules.

The Group has trade debtors and bills receivables and other receivables that are subject to HKFRS 9's new expected credit loss model, and the Group revised its impairment methodology under HKFRS 9 for these receivables.

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected losses for all trade debtors and bills receivables and other receivables. To measure the expected credit losses, trade debtors and bills receivables and other receivables have been grouped based on shared credit risk characteristics. Future cash flows for each group receivables are estimated on the basis of historical loss experience, adjusted to reflect the effects of current conditions as well as forward looking information.

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) HKFRS 9 "Financial Instruments" *(Continued)*

The following table reconciles the closing impairment loss on receivables determined in accordance with HKAS 39 as at 31 December 2017 with the opening impairment loss determined in accordance with HKFRS 9 as at 1 January 2018.

	HK$'000
Impairment loss on receivables as at 31 December 2017 under HKAS 39	32,736
Additional credit loss recognised as at 1 January 2018 on receivables	5,356
Impairment loss on receivables as at 1 January 2018 under HKFRS 9	38,092

(b) HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 replaces HKAS 18 "Revenue", which covers revenue arising from sale of goods and rendering of services, and HKAS 11 "Construction Contracts", which specifies the accounting for revenue from construction contracts.

The Group is principally engaged in manufacturing and sales of rare earth products and refractory products. Sales are recognised when control of the products has transferred, being when the products are delivered to the customers, the customer has accepted the products and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) HKFRS 15 "Revenue from Contracts with Customers" *(Continued)*

A contract liability is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. The Group recognised its contract liabilities under accruals and other payables in the condensed consolidated statement of financial position.

The adoption of HKFRS 15 did not have any material impact on the Group's condensed consolidated interim financial information.

3. REVENUE

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Sales of rare earth products (including fluorescent products)	**279,501**	137,310
Sales of refractory products (including high temperature ceramics products and magnesium grains)	**155,125**	105,737
	434,626	243,047

4. 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)

4. SEGMENT INFORMATION *(Continued)*

(a) Segment revenue and results

	Rare Earth		Refractory		Total	
	For the six months ended 30 June					
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
REVENUE						
Revenue from external customers	**279,501**	137,310	**155,125**	105,737	**434,626**	243,047
Inter-segment revenue	**88**	70	**–**	–	**88**	70
Reportable segment revenue	**279,589**	137,380	**155,125**	105,737	**434,714**	243,117
RESULTS						
Reportable segment profit/(loss)	**4,140**	(12,610)	**17,942**	4,778	**22,082**	(7,832)
Other income					**2,411**	2,800
Depreciation of property, plant and equipment					**(25,493)**	(28,033)
Amortisation of prepaid lease payments on land under operating leases					**(1,995)**	(2,008)
Finance costs					**–**	(1,255)
Unallocated corporate expenses					**(6,217)**	(6,845)
Consolidated loss before taxation					**(9,212)**	(43,173)
Income tax charge					**(2,470)**	(166)
Consolidated loss after taxation					**(11,682)**	(43,339)

4. SEGMENT INFORMATION *(Continued)*

(b) Geographical information

Revenue from external customers:

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
The People's Republic of China (the "PRC")	**396,879**	177,063
Japan	**22,956**	35,628
Europe	**2,950**	12,316
The United States of America (the "US")	**–**	6,879
Others	**11,841**	11,161
	434,626	243,047

5. FINANCE COSTS

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

6. LOSS BEFORE TAXATION

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

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Depreciation of property, plant and equipment	**25,493**	28,033
Amortisation of prepaid lease payments on land under operating leases	**1,995**	2,008
Write down of inventories	**10,942**	4,262
Reversal of write down of inventories	**(3,548)**	(695)

7. INCOME TAX CHARGE

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Current tax – PRC Enterprise Income Tax		
Provision for the period	**2,470**	128
Deferred taxation		
Origination and reversal of temporary differences	**–**	38
	2,470	166

The Company and its subsidiaries incorporated in the Cayman Islands and the British Virgin Islands respectively, are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.

No provision for Hong Kong Profits Tax is provided for as the Group did not have estimated assessable profits arising in Hong Kong during the period.

PRC Enterprise Income Tax is calculated at the statutory income tax rate of 25% on the estimated assessable profits of the Company's subsidiaries established in the PRC during the period, among which one subsidiary is entitled to a preferential income tax rate of 15%.

PRC Enterprise Income Tax Law also requires withholding tax of 5% or 10% upon distribution of profits by the PRC subsidiaries since 1 January 2008 to its overseas (including Hong Kong) shareholders.

8. DIVIDEND

No final dividend for the previous year was declared and paid during the six months ended 30 June 2018 (2017: Nil).

No interim dividend was declared for the six months ended 30 June 2018 (2017: Nil).

9. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately HK$11,372,000 (2017: HK$42,669,000) and the weighted average number of approximately 2,341,700,000 (2017: 2,341,700,000) ordinary shares in issue during the period.

Diluted loss per share for the six months ended 30 June 2018 and 30 June 2017 are 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 2018, the Group spent approximately HK$14,863,000 (2017: HK$215,000) on additions to property, plant and equipment.

11. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 0 to 180 days to its customers.

Trade and other receivables of the Group comprised:

	30 June 2018 HK$'000	31 December 2017 HK$'000
Trade debtors and bills receivables	**345,570**	138,508
Other receivables	**140,502**	150,531
Other tax refundable	**24,331**	48,052
	510,403	337,091

11. TRADE AND OTHER RECEIVABLES *(Continued)*

An ageing analysis of trade debtors based on the invoice date and bills receivables based on the issuance date is as follows:

	30 June 2018 HK$'000	31 December 2017 HK$'000
Less than 6 months	**285,644**	93,271
6 months to less than 1 year	**43,074**	23,264
1 year to less than 2 years	**11,327**	14,099
Over 2 years	**41,294**	38,546
	381,339	169,180
Less: Impairment loss on trade debtors and bills receivables	**(35,769)**	(30,672)
	345,570	138,508

12. TRADE AND BILLS PAYABLES

An ageing analysis of trade payables based on the invoice date and bills payables based on the issuance date is as follows:

	30 June 2018 HK$'000	31 December 2017 HK$'000
Less than 6 months	**52,882**	38,471
6 months to less than 1 year	**7,368**	10,480
1 year to less than 2 years	**12,449**	18,578
Over 2 years	**16,176**	13,944
	88,875	81,473

13. EVENTS AFTER THE REPORTING PERIOD AND ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

On 6 July 2018, the Group entered into an agreement with an independent third party to dispose of its 100% equity interest in Hai Cheng Xinwei Leeshing Magnesium Resources Co., Ltd. ("Hai Cheng Xinwei") at a cash consideration of RMB28,000,000 (equivalent to approximately HK$32,933,000) (the "Disposal"). Hai Cheng Xinwei was principally engaged in manufacturing and sales of magnesium products. The Disposal was completed on 18 July 2018.

Assets and liabilities attributable to Hai Cheng Xinwei have been classified as held for sale and are presented separately in the condensed consolidated statement of financial position as at 30 June 2018.

The major classes of assets and liabilities classified as held for sale as at 30 June 2018 are as follows:

	HK$'000
Property, plant and equipment	40,890
Prepaid lease payments on land under operating leases	29,598
Inventories	2,898
Trade and other receivables	5,099
Tax recoverable	953
Cash and cash equivalents	1,481
Assets classified as held for sale	80,919
Trade and bills payables	1,799
Accruals and other payables	46,249
Liabilities classified as held for sale	48,048

13. EVENTS AFTER THE REPORTING PERIOD AND ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE *(Continued)*

Gain on disposal of a subsidiary to be recognised on 18 July 2018 is as follows:

	HK$'000
Consideration received	32,933
Net assets disposed of	(32,501)
Cumulated exchange gain in respect of the net assets of the subsidiary reclassified from equity to profit or loss on loss of control in the subsidiary	1,493
Gain on disposal of a subsidiary to be recognised in the profit or loss	1,925

14. COMMITMENTS

At 30 June 2018, the Group had the following commitments:

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

	30 June 2018 HK$'000	31 December 2017 HK$'000
Acquisition and construction of property, plant and equipment	**1,961**	3,581

14. 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 2018 HK$'000	31 December 2017 HK$'000
Within one year	**1,272**	884
In the second to fifth year inclusive	**–**	–
	1,272	884

Operating lease payments represent rentals payable by the Group for certain of its offices. Leases and rentals are negotiated and fixed for periods of one to five years. None of the leases includes contingent rentals.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

In the first half of 2018, government reform policies to improve the rare earth industry in the PRC started to bear fruit, with market demand warming up, sending the industry on the uptrend at large. The Ministry of Industry and Information Technology set up a rare earth industry discipline expert team to provide additional support and assistance to industry players in such areas as operation, inspection and relevant rectification. In addition, the "Guiding Opinions on Standardizing Major Product Traceability", jointly compiled by a number of government authorities, which covers seven major product categories including rare earth, had promoted the full implementation of standardizing tracing of these major products. The two government initiatives mentioned have helped drive adjustment of industry discipline and brought positive impact on the rare earth market.

During the period under review, cracking down on "black rare earth" remained a main task of the country. To have the rare earth industry under strict and effective control, on top of carrying out regular inspection of emission standards compliance, different government authorities working together also exercised strict control over the total output of rare earth smelting. As such, there has been a decline in supply of "black rare earth" in the PRC. The prices of rare earth oxides increased notably in March and June this year. However, downstream customers remained cautious about the market, and product prices came down moderately after rebounding. Moreover, tight supply pushed up the price of magnesium grains in the PRC, and in turn the selling price of the Group's refractory materials. In the first half of 2018, overall revenue of the Group rose to HK$434,626,000, up by approximately 79% from HK$243,047,000 in the same period last year. Revenue of the rare earth segment had an about 104% leap from HK$137,310,000 in the same period of 2017 to approximately HK$279,501,000, making up about 64% of the Group's total revenue. Refractory materials brought in revenue amounted to HK$155,125,000, representing an about 47% increase from HK$105,737,000 in the last corresponding period, accounting for about 36% of the Group's total revenue. Although product prices picked up during the period, the Group had written-down certain inventory kept for longer periods. Continuing the development trend in the second half of 2017, the Group's overall gross profit margin was around 4% in the first half of 2018, similar to the level in the same period last year. Net loss of approximately HK$11,682,000 was incurred by the Group for the period, narrowing by more than 70% relative to the HK$43,339,000 in the same period last year. Loss per share was approximately HK0.49 cents (2017: HK1.82 cents).

Business Review

Rare Earth Business

The rare earth market continued to stabilize at the beginning of the year. After adjusting the production flow and recruiting some frontline workers, the Group's rare earth separating line gradually resumed production, freeing it from basically relying on trading products last year to meet customer demands. In the first half of 2018, about one-fourth of the Group's rare earth products were its own output, and the rest three-fourth were purchased from outsiders. In the first half of 2018, the Group sold about 700 tonnes of rare earth oxides, approximately 36% less than that in the same period last year. Nevertheless, as average selling price was increased during the period and the Group sold more higher price products such as terbium oxide and dysprosium oxide and less lower price products such as lanthanum oxide and yttrium oxide, the rare earth segment earned approximately 104% more revenue than that in the same period last year.

Regarding product price, when compared with the last corresponding period, average selling prices of praseodymium oxide, neodymium oxide and gadolinium oxide increased by approximately 15% to 25% during the period, that of yttrium oxide went up approximately 30%, whereas that of lanthanum oxide climbed by approximately 50%. However, average prices of terbium oxide and dysprosium oxide declined by approximately 5% to 15%.

After the disposal of the persistently loss incurring phosphors business at the end of 2017, the overall performance of rare earth business has improved. In addition, the increase in prices offset the impact from drop of sales volume. Gross loss margin of the Group's rare earth business segment was approximately 2% for the period.

Taking into account the product price fluctuation and the proportion of trading and production, the Group reduced rare earth export in the first half year. During the period under review, China market accounted for approximately 97% of the revenue of the Group's rare earth business, and Japan and Europe less than 3%. The Group did not sell any rare earth products to the US during the period under review. However, it expects export business to improve in the second half year.

Refractory Materials Business

During the period under review, market demand for refractory materials increased at the drive of downstream steel manufacturer customers selling products at higher prices and making more profits. At the same time, as a result of suspension or restricted production imposed by state environmental protection authority in some regions such as Henan, Shandong and Ningxia, there was a shortage in supply of magnesium grains, and the resulting substantial increase in the price of magnesium grains contributed to the rise of refractory materials prices. However, as some customers put price before quality in tendering process, the Group lost some customers. The Group is currently adjusting the structure of its customer base, working hard on maintaining good relations with quality customers and gradually exiting the less quality ones in a bid to reinforce its brand as well as shorten turnover days of receivables.

In the first half of 2018, the Group sold about 11,700 tonnes of ordinary refractory materials and high temperature ceramics products, approximately 14% less than that in the same period last year. Prices of the products generally rose, with the average selling price of major products like magnesium chrome bricks and casting materials up by approximately 50% against the same period last year, at the pull of the rising price of magnesium grains. As for alumina-graphite bricks and high temperature ceramics, their average selling price increased by less than 10%. Regarding raw materials, relative to the same period last year, the average selling price of fused magnesia chrome sinter rose by approximately 50% to 60% and that of high purity magnesium grains and fused magnesium grains surged by more than 100%. Regarding the magnesium grains business, the Group's production lines located in the region of Anshan and Haicheng were affected by the large-scale environmental recovery and rectification pursuit of state authority. Several local government authorities jointly inspected all enterprises and those failed to meet environmental production and safety standards had to halt production and make relevant rectifications. The Group's fused magnesium grains production lines were among the very few meeting the standards. During the period, the Group sold approximately 12,700 tonnes of products with average selling price more than doubled that in the same period last year. The increase in production volume led to decrease in average costs. However, despite the repeated efforts of the Group to modify and adjust its high purity magnesium grains production line, dust emissions of the production line still fell short of required standards. Thus, the production line suspended production and sales during the period under review. The total expenses of approximately HK$8,647,000 incurred during suspension of production were categorized as other operating expenses in the consolidated statement of profit or loss. In the first half of 2018, gross profit margin of the Group's refractory materials segment was approximately 15%.

By geographical market, China remained as the Group's core market for refractory materials and accounted for about 81% of the segmental revenue. Japan accounted for about 12%, similar to that of the same period last year, and Europe and the Middle East made up the remaining 7%.

Disposal of subsidiary

Affected by China's environmental recovery and rectification initiative, production at Hai Cheng Xinwei Leeshing Magnesium Resources Company Limited, the Group's subsidiary responsible for producing high purity magnesium grains, has been suspended since 2017. Repeated efforts to resume production were made, but there was still no sign of it happening. After careful deliberation, taking into account the uncertain outlook of the production line, the Group decided to sell the subsidiary this year.

On 6 July 2018, the Group sold the entire equity of the subsidiary for a cash consideration of RMB28,000,000 and the transaction was completed on 18 July 2018. As such, the Group will record an approximately HK$1,925,000 gain from the disposal at the second half year. The move will also help lower the Group's overall loss from operations and allow the Group to reallocate resources to develop rare earth and refractory materials businesses, which are in the interest of the Group and shareholders as a whole.

Prospects

While the Chinese government's measures to regulate the rare earth industry are starting to see result, growth of the magnetic materials and new energy vehicle industries is expected to have positive impact on the rare earth price. However, considering that downstream rare earth operators are relatively prudent hence not active in procurement, the Group expects the rare earth market in China to be on a mixed uptrend in the second half year. The Group will continue to negotiate with overseas rare earth operators, to the end of opening more raw material supply channels and also exploring opportunities to invest in overseas rare earth mines, thereby being able to control costs and supply most effectively.

For refractory materials business, the Group expects the market to continue to improve in the second half year, and product price to continue to rise steadily at the drive of strong iron and steel demand. In addition to providing quality products as always, the Group will also strengthen and maintain relationship with existing quality customers and actively develop potential customers, aiming to enlarge market share and lower bad debt risk. Although the country has, for environmental protection reasons, tightened production control over refractory materials manufacturers, the Group remains positive about the prospects of the industry. Thus, it hopes to, after disposing of the underperforming production line, continue to look for merger and acquisition opportunities with quality upstream plants to expand production scale, reap greater synergies and improve production efficiency and effectiveness.

Liquidity and Financial Resources

The Group continues to adopt prudent financial arrangement and retains adequate liquidity for future acquisitions and development. As at 30 June 2018, it had cash and bank deposits of approximately HK$1,394,060,000. Alongside its growing business volume, its inventory and trade receivables also increased. Net current assets of the Group amounted to approximately HK$2,391,682,000, including prepayments for materials in the amount of approximately HK$235,826,000 made to secure adequate material supply for supporting the Group's operations. Total liabilities to total assets ratio remained at around 6%.

As at 30 June 2018, the Group had no charge on its assets or in holding any financial derivative products. It was not exposed to any material interest rate risk. As for foreign exchange exposure, most of the Group's assets, liabilities and transactions are denominated in Renminbi, and the rest are in US dollars or Hong Kong dollars. During the period under review, Hong Kong dollars and Renminbi depreciated slightly, but the overall exchange rate trend had been stable.

Staff and Remuneration

Because of the disposal of its phosphor business last year and the suspension of its high purity magnesium grains production line in the period under review, the Group saw a shrink in its workforce. It currently has about 500 employees. The Group provides its staff with a good working environment and comprehensive remuneration and welfare systems. During the six months ended 30 June 2018, its staff costs including directors' emoluments amounted to approximately HK$21,899,000. The Group also offers on-the-job training to employees to help them maintain professional competence.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (2017: Nil).

SHARE OPTION SCHEME

At the Company's annual general meeting held on 6 June 2014, the shareholders of the Company approved the adoption of a share option scheme (the "New Scheme") after the share option scheme, which was previously adopted on 4 June 2004, lapsed on 3 June 2014 for the purpose of providing incentives to participants for their contribution to the Group. During the six months ended 30 June 2018, there was no option granted, cancelled or lapsed under the New Scheme.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

As at 30 June 2018, the interests and short positions of the directors and chief executives of the Company and their respective close 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 (the "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
Qian Yuanying	Founder of a trust	744,755,200 (Note 1)	31.80%
Qian Yuanying	Interest of controlled corporation	21,000,000 (Note 2)	0.90%
Jiang Quanlong	Interest of spouse/Interest of controlled corporation	765,755,200 (Notes 1 & 2)	32.70%
Jiang Dawei	Beneficial owner	530,077 (Note 3)	0.02%

Notes:

1. 744,755,200 shares are held in long position 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 sons. Ms. Qian Yuanying is a founder of YY Trust within the meaning under Part XV of the SFO. Mr. Jiang Quanlong and Ms. Qian Yuanying are the directors of YY Holdings Limited.

2. 21,000,000 shares are held in long position through Praise Fortune Limited, 39.93% of its issued share capital is held by Ms. Qian Yuanying, the spouse of Mr. Jiang Quanlong. Ms. Qian Yuanying is a director of Praise Fortune Limited.

3. All the shares are held in long position.

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 issued shares	% in the class of shares in the issued share capital of the company
Qian Yuanying	Beneficial owner	3,000,000 non-voting deferred shares	30%
Jiang Quanlong	Beneficial owner	7,000,000 non-voting deferred shares	70%

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

Director	Nature of interest/Capacity	% equity interest
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 issued 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 sons. Ms. Qian Yuanying is a founder of YY Trust within the meaning under Part XV of the SFO. Mr. Jiang Quanlong and Ms. Qian Yuanying are the directors of YYT (PTC) Limited.

Save as disclosed above, as at 30 June 2018, none of the directors or chief executives of the Company and their respective close 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 2018, the interests and short positions of shareholders, other than the directors or chief executives 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 744,755,200 shares of the Company in long position, representing approximately 31.80% of the issued share capital of the Company as beneficial owner.

2. YYT (PTC) Limited was deemed to be interested in long position in 744,755,200 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 executives 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 2018.

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 2018.

AUDIT COMMITTEE

The Audit Committee has reviewed, with the assistance of the Company's auditor, 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 2018 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 2018.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its own Securities Dealing Code (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 2018.

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

As at the date of this report, the Board consists of Ms. Qian Yuanying, Mr. Jiang Quanlong, Mr. Jiang Dawei 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
China Rare Earth Holdings Limited
Qian Yuanying
Chairman

Hong Kong, 28 August 2018