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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 2011

INTERIM RESULTS

The Board of Directors (the “Board”) of China Rare Earth Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2011 together with the comparative figures for the corresponding period in 2010 as follows:

CONSOLIDATED INCOME STATEMENT

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | For the six months ended 30 June | |
|--|-------------------------------------|----------------------|
| | 2011 | 2010 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) |
| Profit for the period | 331,209 | 63,519 |
| Other comprehensive income for the period (net of tax): | | |
| Exchange differences on translation of financial statements of foreign operations | 76,913 | 24,475 |
| Fair value loss on available-for-sale equity securities | (3,040) | — |
| Impairment loss on available-for-sale equity securities | 18,800 | — |
| | <hr/> | <hr/> |
| Total comprehensive income for the period | <u>423,882</u> | <u>87,994</u> |
| Attributable to: | | |
| Owners of the Company | 403,175 | 85,654 |
| Non-controlling interests | 20,707 | 2,340 |
| | <hr/> | <hr/> |
| Total comprehensive income for the period | <u>423,882</u> | <u>87,994</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

The accounting policies used in the condensed consolidated interim financial information are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2010.

The Group has not early applied any new standards, amendments and interpretations that have been issued but are not yet effective for the six months ended 30 June 2011. The directors of the Company anticipate that the application of these new standards, amendments and interpretations will have no material impact on the results and financial position of the Group.

2. SEGMENT INFORMATION

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Chief Executive Officer, who has been identified as the Group’s chief operating decision maker, for the purposes of resource allocation and performance assessment, the Group has presented two reportable segments as follows:

| | |
|-------------|---|
| Rare Earth: | The manufacture and sale of rare earth products (including fluorescent products) |
| Refractory: | The manufacture and sale of refractory products (including high temperature ceramics products and magnesium grains) |

(a) Segment results, assets and liabilities

| | Rare Earth | | Refractory | | Total | |
|--|------------------|------------------|----------------------------------|------------------|------------------|------------------|
| | | | | | | |
| | | | For the six months ended 30 June | | | |
| | 2011 HK\$'000 | 2010 HK\$'000 | 2011 HK\$'000 | 2010 HK\$'000 | 2011 HK\$'000 | 2010 HK\$'000 |
| Reportable segment revenue (revenue from external customers) | 819,455 | 383,726 | 208,683 | 214,997 | 1,028,138 | 598,723 |
| Reportable segment profit (adjusted profit before taxation) | 412,759 | 49,129 | 29,380 | 49,425 | 442,139 | 98,554 |
| Interest income | 930 | 470 | 1,339 | 1,028 | 2,269 | 1,498 |
| Finance costs | (6,574) | (201) | (572) | – | (7,146) | (201) |
| Depreciation and amortisation | (39,223) | (37,767) | (27,657) | (25,740) | (66,880) | (63,507) |
| Income tax | (75,763) | (6,910) | (7,872) | (12,609) | (83,635) | (19,519) |
| | 2,917,974 | 2,285,901 | 1,843,714 | 1,794,069 | 4,761,688 | 4,079,970 |
| Additions to non-current segment assets | 40,739 | 37,850 | 900 | 2,138 | 41,639 | 39,988 |
| Reportable segment liabilities | 876,577 | 703,127 | 194,236 | 204,339 | 1,070,813 | 907,466 |

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

| | For the six months ended 30 June | |
|--|---|--------------------|
| | 2011 | 2010 |
| | HK\$'000 | HK\$'000 |
| Profit | | |
| Reportable segment profit | 442,139 | 98,554 |
| Interest income | 2,306 | 3,062 |
| Unallocated other income / (expenses), net | 406 | (18) |
| Finance costs | (7,146) | (4,731) |
| Unallocated corporate expenses | (22,861) | (13,829) |
| | <hr/> | <hr/> |
| Consolidated profit before taxation | 414,844 | 83,038 |
| | <hr/> <hr/> | <hr/> <hr/> |
| | 30 June | 31 December |
| | 2011 | 2010 |
| | HK\$'000 | HK\$'000 |
| Assets | | |
| Reportable segment assets | 4,761,688 | 4,079,970 |
| Elimination of inter-segment receivables | (597,140) | (586,607) |
| | <hr/> | <hr/> |
| | 4,164,548 | 3,493,363 |
| Unallocated cash and cash equivalents | 64,698 | 158,523 |
| Unallocated corporate assets | 113,717 | 114,926 |
| | <hr/> | <hr/> |
| Consolidated total assets | 4,342,963 | 3,766,812 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Liabilities | | |
| Reportable segment liabilities | 1,070,813 | 907,466 |
| Elimination of inter-segment payables | (597,140) | (586,607) |
| | <hr/> | <hr/> |
| | 473,673 | 320,859 |
| Unallocated corporate liabilities | 3,703 | 5,018 |
| | <hr/> | <hr/> |
| Consolidated total liabilities | 477,376 | 325,877 |
| | <hr/> <hr/> | <hr/> <hr/> |

(c) **Geographical information**

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

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

3. TURNOVER

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

4. FINANCE COSTS

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

5. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

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

6. INCOME TAX

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

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

Hong Kong Profits Tax is calculated at 16.5% (2010: 16.5%) of the estimated assessable profits for the six months ended 30 June 2011. No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits subject to Hong Kong Profits Tax during the period (2010: Nil).

The PRC subsidiaries of the Group are subject to PRC EIT at 25% (2010: 25%). Two PRC subsidiaries are entitled to the exemptions from PRC EIT for two years starting from 2008, followed by a 50% tax relief for the next three years. One PRC subsidiary is entitled to a preferential income tax rate of 15%.

7. DIVIDENDS

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

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

8. EARNINGS PER SHARE

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

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

9. PROPERTY, PLANT AND EQUIPMENT

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

10. INTANGIBLE ASSETS

Intangible assets of the Group comprised:

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

11. INTERESTS IN JOINTLY CONTROLLED ENTITIES

The Group had interests in the following jointly controlled entities:

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

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

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

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

12. TRADE AND OTHER RECEIVABLES

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

Trade and other receivables of the Group comprised:

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

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

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

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

13. TRADE PAYABLES

An ageing analysis of trade payables is as follows:

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

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

14. BANK BORROWINGS

Bank borrowings of the Group are repayable as follows:

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

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

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

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

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

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

15. NON ADJUSTING SUBSEQUENT EVENT

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

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

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

Business Review

Rare Earth Business

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

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

With a limited supply and increasing demand, the product prices of rare earth skyrocketed during the period under review. The acute demand even caused the prices to soar on a daily basis during May and June. Domestically, the average prices of most rare earth products were several times higher than in the first half of 2010. The prices of neodymium oxide, dysprosium oxide, terbium oxide and yttrium oxide tripled while those of lanthanum oxide and holmium oxide quadrupled. Prices of europium oxide, gadolinium oxide and cerium oxide soared five to seven folds. Facing export quota limits export prices well exceeded domestic sales prices. The average export prices of lanthanum oxide and yttrium oxide were three times above domestic prices during

the period under review, while those of gadolinium oxide and yttrium-europium co-precipitates were two times higher. While the prices rose significantly, the Group sold only around 1,100 tonnes of rare earth oxides during the period, around 20% less than the corresponding period last year. However the sales amount increased by two folds with the gross profit margin up by more than 60%.

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

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

Refractory Materials Business

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

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

the Sialon product series remaining in operation during the period under review as the others have been shut down. The Group sold a total of 2,600 tonnes of its Sialon product series in the first half of 2011, a slight increase of approximately 5% when compared with the same period last year. However, turnover remained at a similar level as that of last year because of the adjustment in price. The gross profit margin has dropped to about 26%.

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

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

Joint Venture Projects

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

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

Prospects

The prices of rare earth materials are expected to remain particularly sensitive to the increasing market demand as well as changes in the policies of the Chinese Government. The price of specific rare earth products have been reduced during late July and early August. However, the Chinese Government's active initiatives to protect rare earth resources and the industry in China to realise a reasonable value for these scarce resources would continue to drive up the price of rare earth materials. The Chinese

Government also closely monitors the environmental protection measures of rare earth enterprises to safeguard against pollution. Enterprises which fail to meet operating standards would be forced to suspend operations until the improvements implemented are in compliance with specified standards. The net effects of the policy may lead to a reduction of the supply of certain types of rare earths. The Ministry of Commerce has announced the second batch export quota of rare earths for general trading on 14 July 2011. Enterprises in the country are permitted to export a total of 30,184 tonnes for the whole year, a slight decrease of 74 tonnes when compared with 2010. The Group has been granted an export quota of 869 tonnes during the year, a similar level to what it was assigned last year.

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

Liquidity and Financial Resources

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

Staff and Remuneration

As at 30 June 2011, the Group has a workforce of approximately 1,300. It provides a comprehensive staff remuneration and benefits package to its employees. During the period under review, the Group spent approximately HK\$25,629,000 on staff costs including directors' emoluments.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2011. It intends to defer the distribution until the final results announcement.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There has been no purchase, sale or redemption of any of the Company's listed securities by the Group during the six months ended 30 June 2011.

AUDIT COMMITTEE

The Audit Committee has reviewed, with the assistance of the Company's auditors, the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the interim financial statements for the six months ended 30 June 2011 which have not been audited.

CORPORATE GOVERNANCE

The Company is committed to attaining good corporate governance practices and procedures. The Company has adopted its own code of corporate governance based on the principles and code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules and has complied with it throughout the six months ended 30 June 2011.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standards set out in Appendix 10 of the Listing Rules. Having made specific enquiry, the Company confirms that all directors have complied with the required standards as stated in the code throughout the six months ended 30 June 2011.

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 Liu Yujiu, Mr Huang Chunhua and Mr Jin Zhong as independent non-executive directors.

By order of the Board
Jiang Quanlong
Chairman

Hong Kong, 29 August 2011