

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2012

INTERIM RESULTS

The Board of Directors (the “Board”) of China Rare Earth Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2012 together with the comparative figures for the corresponding period in 2011 as follows:

CONSOLIDATED INCOME STATEMENT

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2012 <i>HK\$'000</i> (Unaudited)	2011 <i>HK\$'000</i> (Unaudited) (Restated)
(Loss)/Profit for the period	(179,055)	331,209
Other comprehensive (loss)/income for the period (net of tax):		
Exchange differences on translation of financial statements of foreign operations	(21,063)	75,290
Share of other comprehensive (loss)/income of jointly controlled entities	(618)	1,623
Deferred tax arising on change in tax rate	1,333	–
Fair value loss on available-for-sale equity securities	–	(3,040)
Reclassification adjustments relating to impairment loss on available-for-sale equity securities included in the consolidated income statement	–	18,800
	<hr/>	<hr/>
Total comprehensive (loss)/income for the period	(199,403)	423,882
	<hr/> <hr/>	<hr/> <hr/>
Attributable to:		
Owners of the Company	(192,708)	403,175
Non-controlling interests	(6,695)	20,707
	<hr/>	<hr/>
Total comprehensive (loss)/income for the period	(199,403)	423,882
	<hr/> <hr/>	<hr/> <hr/>
Total comprehensive (loss)/income attributable to owners of the Company		
From continuing operations	(192,708)	399,112
From discontinued operation	–	4,063
	<hr/>	<hr/>
	(192,708)	403,175
	<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2012	31 December 2011
	<i>Note</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Non-current assets			
Goodwill		21,656	21,776
Property, plant and equipment	(10)	440,296	469,568
Prepaid lease payments on land under operating leases		202,325	205,885
Intangible assets		81,446	88,198
Interest in jointly controlled entities		125,412	110,940
Available-for-sale equity securities		6,720	6,720
Pledged bank deposits		52,257	52,547
Deferred tax assets		7,181	8,223
		937,293	963,857
Current assets			
Prepaid lease payments on land under operating leases		4,848	4,874
Inventories		1,375,048	1,296,256
Trade and other receivables	(11)	552,026	603,405
Prepayments and deposits		14,924	101,961
Tax recoverable		1,252	1,450
Pledged bank deposits		51,889	52,177
Cash and cash equivalents		1,290,980	1,530,123
		3,290,967	3,590,246
Current liabilities			
Trade payables	(12)	117,203	94,964
Accruals and other payables		42,679	106,713
Amounts due to directors		739	519
Bank borrowings due within one year	(13)	101,909	98,680
Tax payable		5,696	56,721
		268,226	357,597
Net current assets		3,022,741	3,232,649
Total assets less current liabilities		3,960,034	4,196,506

	30 June 2012	31 December 2011
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Non-current liabilities		
Deferred tax liabilities	<u>27,889</u>	<u>31,505</u>
NET ASSETS	<u>3,932,145</u>	<u>4,165,001</u>
CAPITAL AND RESERVES		
Share capital	167,264	167,264
Reserves	<u>3,701,491</u>	<u>3,927,652</u>
Equity attributable to owners of the Company	3,868,755	4,094,916
Non-controlling interests	<u>63,390</u>	<u>70,085</u>
TOTAL EQUITY	<u>3,932,145</u>	<u>4,165,001</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

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

The condensed consolidated interim financial information does not include all the information and disclosure required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards.

The accounting policies used in the condensed consolidated interim financial information are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2011.

The Group has not early applied any new standards, amendments and interpretations that have been issued but are not yet effective for the six months ended 30 June 2012. The directors of the Company anticipate that the application of these new standards, amendments and interpretations will have no material impact on the results and financial position of the Group.

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

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

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

2. SEGMENT INFORMATION

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

Rare Earth: The manufacture and sale of rare earth products (including fluorescent products)

Refractory: The manufacture and sale of refractory products (including high temperature ceramics products and magnesium grains)

(a) Segment revenue and results

Continuing operations

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

Discontinued operation

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

(b) **Geographical information**

Revenue from external customers:

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

3. TURNOVER

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

4. FINANCE COSTS

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

5. (LOSS)/PROFIT BEFORE TAXATION

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

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

6. INCOME TAX

	Continuing operations		Discontinued operation		Consolidated	
	For the six months ended 30 June					
	2012	2011	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)		(Restated)
Enterprise Income Tax (“EIT”)						
– Provision for the period	5,542	85,737	–	3,447	5,542	89,184
Hong Kong Profits Tax						
– Provision for the period	2,414	–	–	–	2,414	–
Deferred taxation						
– Origination and reversal of temporary differences	(982)	(2,329)	–	(2,021)	(982)	(4,350)
	<u>6,974</u>	<u>83,408</u>	<u>–</u>	<u>1,426</u>	<u>6,974</u>	<u>84,834</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% (2011: 16.5%) of the estimated assessable profits for the six months ended 30 June 2012.

The PRC subsidiaries of the Group are subject to PRC EIT at 25% (2011: 25%). Two PRC subsidiaries are entitled to the exemptions from PRC EIT for two years starting from 2008, followed by a 50% tax relief for the next three years. Two (2011: One) PRC subsidiaries are entitled to a preferential income tax rate of 15%.

7. DISCONTINUED OPERATION

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

8. DIVIDENDS

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

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

9. (LOSS)/EARNINGS PER SHARE

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

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

10. PROPERTY, PLANT AND EQUIPMENT

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

11. TRADE AND OTHER RECEIVABLES

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

Trade and other receivables of the Group comprised:

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

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

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

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

12. TRADE PAYABLES

An ageing analysis of trade payables is as follows:

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

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

13. BANK BORROWINGS

	30 June 2012 HK\$'000	31 December 2011 HK\$'000
Secured	98,135	98,680
Unsecured	3,774	–
	<u>101,909</u>	<u>98,680</u>

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

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

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

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

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

14. CONTINGENT LIABILITIES

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

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

Business Review

Rare Earth Business

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

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

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

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

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

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

Refractory Materials Business

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

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

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

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

Joint Venture Projects

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

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

Prospects

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

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

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

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

Liquidity and Financial Resources

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

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

Staff and Remuneration

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

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2012.

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

There has been no purchase, sale or redemption of any of the Company's listed securities by the Group during the six months ended 30 June 2012.

AUDIT COMMITTEE

The Audit Committee has reviewed, with the assistance of the Company's auditors, the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the interim financial statements for the six months ended 30 June 2012 which have not been audited.

CORPORATE GOVERNANCE

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct (the “Company’s Code”) regarding securities transactions by directors on terms no less exacting than the required standards set out in the Model Code 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 2012.

MEMBERS OF THE BOARD

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

As at the date of this 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, 30 August 2012