



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



2014

Interim Report

## **CORPORATE INFORMATION DIRECTORS**

### *Executive Directors*

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

### *Independent Non-executive Directors*

Mr. Wang Guozhen  
Mr. Huang Chunhua  
Mr. Jin Zhong

## **AUDIT COMMITTEE**

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

## **REMUNERATION COMMITTEE**

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

## **NOMINATION COMMITTEE**

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

## **COMPANY SECRETARY**

Mr. Law Lap Tak

## **REGISTERED OFFICE**

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

## **HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS**

Dingshu Town, Yixing City  
Jiangsu Province, the PRC

## **PLACE OF BUSINESS IN HONG KONG**

15/F, Club Lusitano  
16 Ice House Street, Central  
Hong Kong

## **HONG KONG LEGAL ADVISERS**

Chiu & Partners

## **AUDITOR**

Crowe Horwath (HK) CPA Limited

## **PRINCIPAL BANKERS**

### *PRC*

Bank of China Limited  
Industrial & Commercial Bank of China Limited  
China Construction Bank Corporation  
China Merchants Bank Company Limited

### *Hong Kong*

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

## **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

Royal Bank of Canada Trust  
Company (Cayman) Limited  
4th Floor, Royal Bank House  
24 Shedden Road  
George Town  
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**

[www.creh.com.hk](http://www.creh.com.hk)

## **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 2014 together with the comparative figures for the corresponding period in 2013 as follows:

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months  
ended 30 June

	Note	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Turnover	(2)	<b>565,834</b>	744,176
Cost of sales		<b>(514,836)</b>	(1,017,656)
Gross profit/(loss)		<b>50,998</b>	(273,480)
Other revenue		<b>2,485</b>	2,328
Selling and distribution expenses		<b>(21,607)</b>	(22,768)
Administrative expenses		<b>(35,113)</b>	(32,298)
Gain on deemed disposal of interests	(13)	<b>2,750</b>	–
Gain on bargain purchase of interests	(13)	<b>24,225</b>	–
Other net income/(loss)		<b>3,779</b>	(9,401)
Profit/(loss) from operations		<b>27,517</b>	(335,619)
Finance costs	(4)	<b>(3,681)</b>	–
Share of losses of joint ventures		<b>(2,342)</b>	(4,101)
Profit/(loss) before taxation	(5)	<b>21,494</b>	(339,720)
Income tax	(6)	<b>(2,071)</b>	(4,435)
Profit/(loss) for the period		<b>19,423</b>	(344,155)

		<b>For the six months ended 30 June</b>	
	Note	<b>2014 HK\$'000 (Unaudited)</b>	2013 HK\$'000 (Unaudited)
Attributable to:			
Owners of the Company		<b>21,947</b>	(331,328)
Non-controlling interests		<b>(2,524)</b>	(12,827)
		<b>19,423</b>	(344,155)
		<b>HK cents</b>	HK cents
Earnings/(loss) per share			
Basic and diluted	(8)	<b>1.31</b>	(19.81)

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the six months ended 30 June	
	Note	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Profit/(loss) for the period		<b>19,423</b>	(344,155)
Other comprehensive (loss)/income for the period (net of tax and reclassification adjustments)			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of financial statements of foreign operations		<b>(32,359)</b>	60,599
Exchange differences on translation of financial statements of joint ventures		<b>(629)</b>	1,923
Release of translation reserve upon deemed disposal of interests	(13)	<b>(8,706)</b>	–
Fair value loss on available-for-sale equity securities		<b>(800)</b>	(1,760)
Other comprehensive (loss)/income for the period		<b>(42,494)</b>	60,762
Total comprehensive loss for the period		<b>(23,071)</b>	(283,393)
Attributable to:			
Owners of the Company		<b>(20,209)</b>	(271,347)
Non-controlling interests		<b>(2,862)</b>	(12,046)
		<b>(23,071)</b>	(283,393)

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
Non-current assets			
Goodwill		–	–
Property, plant and equipment	(9)	605,570	490,781
Prepaid lease payments on land under operating leases		190,429	183,844
Interests in joint ventures		56,987	105,087
Available-for-sale equity securities		8,880	9,680
Deferred tax assets		8,682	4,749
Other non-current asset		19,103	19,288
		<b>889,651</b>	813,429
Current assets			
Prepaid lease payments on land under operating leases		4,782	4,587
Inventories		629,258	567,908
Trade and other receivables	(10)	418,670	510,922
Prepayments and deposits		28,163	48,919
Tax recoverable		2,928	2,774
Pledged bank deposits		37,793	–
Cash and cash equivalents		1,388,977	1,369,054
		<b>2,510,571</b>	2,504,164

	Note	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
Current liabilities			
Trade payables	(11)	87,483	103,652
Accruals and other payables		73,653	25,650
Amounts due to directors		1,771	1,557
Bank borrowings	(12)	74,430	–
Tax payable		3,670	4,938
		<b>241,007</b>	135,797
Net current assets		<b>2,269,564</b>	2,368,367
Total assets less current liabilities		<b>3,159,215</b>	3,181,796
Non-current liabilities			
Deferred tax liabilities		6,891	6,401
NET ASSETS		<b>3,152,324</b>	3,175,395
CAPITAL AND RESERVES			
Share capital		167,264	167,264
Reserves		2,951,382	2,971,591
Equity attributable to owners of the Company		<b>3,118,646</b>	3,138,855
Non-controlling interests		33,678	36,540
TOTAL EQUITY		<b>3,152,324</b>	3,175,395

## 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	Buildings revaluation reserve HK\$'000	Statutory reserves HK\$'000	Translation reserve HK\$'000	Fair value reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 January 2014	167,264	1,770,100	22,348	23,865	258,795	636,235	2,960	257,288	3,138,855	86,540	3,175,395
<b>Comprehensive income</b>											
Profit for the period	-	-	-	-	-	-	-	21,947	21,947	(2,524)	19,423
<b>Other comprehensive income</b>											
Exchange differences on translation of financial statements of foreign operations	-	-	-	-	-	(32,021)	-	-	(32,021)	(338)	(32,359)
Exchange differences on translation of financial statements of joint ventures	-	-	-	-	-	(629)	-	-	(629)	-	(629)
Release of translation reserve upon deemed disposal of interests	-	-	-	-	-	(8,706)	-	-	(8,706)	-	(8,706)
Fair value loss on available-for-sale equity securities	-	-	-	-	-	-	(800)	-	(800)	-	(800)
<b>Total comprehensive loss for the period</b>	-	-	-	-	-	(41,356)	(800)	21,947	(20,209)	(2,862)	(23,071)
Transfer to retained profits in respect of depreciation on revaluation of buildings held for own use	-	-	-	(1,754)	-	-	-	1,754	-	-	-
At 30 June 2014	<u>167,264</u>	<u>1,770,100</u>	<u>22,348</u>	<u>22,111</u>	<u>258,795</u>	<u>594,879</u>	<u>2,160</u>	<u>280,989</u>	<u>3,118,646</u>	<u>33,678</u>	<u>3,152,324</u>
At 1 January 2013	167,264	1,770,100	22,348	27,358	256,686	528,542	2,800	610,554	3,385,652	50,259	3,435,911
<b>Comprehensive income</b>											
Loss for the period	-	-	-	-	-	-	-	(331,328)	(331,328)	(12,827)	(344,155)
<b>Other comprehensive income</b>											
Exchange differences on translation of financial statements of foreign operations	-	-	-	-	-	59,818	-	-	59,818	781	60,599
Exchange differences on translation of financial statements of joint ventures	-	-	-	-	-	1,923	-	-	1,923	-	1,923
Fair value loss on available-for-sale equity securities	-	-	-	-	-	-	(1,760)	-	(1,760)	-	(1,760)
<b>Total comprehensive loss for the period</b>	-	-	-	-	-	61,741	(1,760)	(331,328)	(271,347)	(12,046)	(283,393)
Appropriations to statutory reserves	-	-	-	-	134	-	-	(134)	-	-	-
Transfer to retained profits in respect of depreciation on revaluation of buildings held for own use	-	-	-	(1,745)	-	-	-	1,745	-	-	-
At 30 June 2013	<u>167,264</u>	<u>1,770,100</u>	<u>22,348</u>	<u>25,613</u>	<u>256,820</u>	<u>590,283</u>	<u>1,040</u>	<u>280,837</u>	<u>3,114,305</u>	<u>38,213</u>	<u>3,152,518</u>

### 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**For the six months  
ended 30 June

	Note	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Operating activities			
Cash generated from operations		<b>104,893</b>	133,474
Income tax paid		<b>(2,980)</b>	(7,524)
		<hr/>	<hr/>
Net cash generated from operating activities		<b>101,913</b>	125,950
		<hr/>	<hr/>
Investing activities			
Purchase of property, plant and equipment	(9)	<b>(5,623)</b>	(92,122)
Increase in pledged bank deposits		<b>(37,793)</b>	–
Decrease in restricted bank balances		–	494
Interest received		<b>2,485</b>	2,328
Net cash outflow on acquisition of a subsidiary	(13)	<b>(11,162)</b>	–
		<hr/>	<hr/>
Net cash used in investing activities		<b>(52,093)</b>	(89,300)
		<hr/>	<hr/>
Financing activities			
Proceeds from new bank borrowings		<b>74,788</b>	49,770
Repayment of bank borrowings		<b>(85,079)</b>	(49,770)
Interest paid on bank borrowings		<b>(3,681)</b>	–
		<hr/>	<hr/>
Net cash used in financing activities		<b>(13,972)</b>	–
		<hr/>	<hr/>
Net increase in cash and cash equivalents		<b>35,848</b>	36,650
Cash and cash equivalents at beginning of the period		<b>1,369,054</b>	1,236,290
Effect of changes in exchange rate		<b>(15,925)</b>	55,355
		<hr/>	<hr/>
Cash and cash equivalents at end of the period		<b>1,388,977</b>	1,328,295
		<hr/> <hr/>	<hr/> <hr/>

## **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 (“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 2013, 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 2013.

The HKICPA has issued certain new and revised HKFRSs that are first effective for the current accounting period of the Group, the application of which 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 2014. The directors of the Company anticipate that the application of these new standards, amendments and interpretations will have no material impact on the Group’s financial performance and positions.

**2. TURNOVER**

	<b>For the six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Sales of rare earth products (including fluorescent products)	<b>393,052</b>	549,401
Sales of refractory products (including high temperature ceramics products and magnesium grains)	<b>172,782</b>	194,775
	<b>565,834</b>	744,176

**3. 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)

**3. SEGMENT INFORMATION** (Continued)**(a) Segment revenue and results**

	Rare Earth		Refractory		Total	
	For the six months ended 30 June					
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
<b>REVENUE</b>						
Revenue from external customers	<b>393,052</b>	549,401	<b>172,782</b>	194,775	<b>565,834</b>	744,176
Inter-segment revenue	<b>22</b>	16	-	-	<b>22</b>	16
Reportable segment revenue	<b>393,074</b>	549,417	<b>172,782</b>	194,775	<b>565,856</b>	744,192
<b>RESULTS</b>						
Reportable segment (loss)/profit	<b>(10,537)</b>	(345,989)	<b>9,153</b>	9,571	<b>(1,384)</b>	(336,418)
Other revenue					<b>2,485</b>	2,328
Gain on deemed disposal of interests					<b>2,750</b>	-
Gain on bargain purchase of interests					<b>24,225</b>	-
Finance costs					<b>(3,681)</b>	-
Unallocated corporate expenses					<b>(2,901)</b>	(5,630)
Consolidated profit/(loss) before taxation					<b>21,494</b>	(339,720)
Income tax					<b>(2,071)</b>	(4,435)
Consolidated profit/(loss) after taxation					<b>19,423</b>	(344,155)

**3. SEGMENT INFORMATION** *(Continued)***(b) Geographical information**

Revenue from external customers:

	<b>For the six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
The People's Republic of China (the "PRC")	<b>439,205</b>	592,399
Japan	<b>51,520</b>	56,947
The United States of America	<b>26,495</b>	24,387
Europe	<b>24,804</b>	69,595
Others	<b>23,810</b>	848
	<hr/>	<hr/>
	<b>565,834</b>	744,176
	<hr/> <hr/>	<hr/> <hr/>

**4. FINANCE COSTS**

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

**5. PROFIT/(LOSS) BEFORE TAXATION**

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

	<b>For the six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Depreciation of property, plant and equipment	<b>40,558</b>	33,420
Amortisation of prepaid lease payments		
on land under operating leases	<b>2,387</b>	2,270
Amortisation of intangible assets	–	6,355
Write down of inventories	<b>79,166</b>	181,457
Reversal of write down of inventories	<b>(11,844)</b>	(286,360)
	<b><u>          </u></b>	<b><u>          </u></b>

**6. INCOME TAX**

	<b>For the six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Current tax – PRC Enterprise Income Tax		
Provision for the period	<b>1,549</b>	5,515
Deferred taxation		
Origination and reversal of temporary differences	<b>522</b>	(1,080)
	<b><u>          </u></b>	<b><u>          </u></b>
	<b><u>2,071</u></b>	<b><u>4,435</u></b>

**6. INCOME TAX** *(Continued)*

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 two subsidiaries are entitled to a preferential income tax rate of 15%.

**7. DIVIDEND**

No final dividend for previous year was declared and paid during the six months ended 30 June 2014 (2013: Nil).

No interim dividend was declared for the six months ended 30 June 2014 (2013: Nil).

**8. EARNINGS/(LOSS) PER SHARE**

The calculation of basic earnings/(loss) per share is based on the profit attributable to owners of the Company of approximately HK\$21,947,000 (2013: loss of HK\$331,328,000) and the weighted average number of approximately 1,672,643,000 (2013: 1,672,643,000) ordinary shares in issue during the period.

Diluted earnings/(loss) per share for the six months ended 30 June 2014 and 30 June 2013 are same as the basic earnings/(loss) per share as there is no dilutive potential ordinary share.

**9. PROPERTY, PLANT AND EQUIPMENT**

During the six months ended 30 June 2014, the Group spent approximately HK\$5,623,000 (2013: HK\$92,122,000) on additions to property, plant and equipment.

**10. 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:

	<b>30 June 2014 HK\$'000</b>	31 December 2013 HK\$'000
Trade debtors and bills receivables	<b>326,225</b>	380,441
Amounts due from joint ventures	<b>6,002</b>	65,468
Amount due from a related company	<b>5,586</b>	–
Other receivables	<b>13,585</b>	9,273
Other tax refundable	<b>67,272</b>	55,740
	<hr/> <b>418,670</b> <hr/>	<hr/> 510,922 <hr/>

**10. TRADE AND OTHER RECEIVABLES** *(Continued)*

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

	<b>30 June 2014 HK\$'000</b>	31 December 2013 HK\$'000
Less than 6 months	<b>274,784</b>	345,994
6 months to less than 1 year	<b>43,881</b>	28,344
1 year to less than 2 years	<b>16,367</b>	13,621
Over 2 years	<b>28,164</b>	29,811
	<hr/>	<hr/>
	<b>363,196</b>	417,770
Less: Allowance for doubtful debts	<b>(36,971)</b>	(37,329)
	<hr/>	<hr/>
	<b>326,225</b>	380,441
	<hr/> <hr/>	<hr/> <hr/>

**11. TRADE PAYABLES**

An ageing analysis of trade payables is as follows:

	<b>30 June 2014 HK\$'000</b>	31 December 2013 HK\$'000
Less than 6 months	<b>77,064</b>	96,092
6 months to less than 1 year	<b>6,406</b>	3,167
1 year to less than 2 years	<b>1,272</b>	2,170
Over 2 years	<b>2,741</b>	2,223
	<hr/>	<hr/>
	<b>87,483</b>	103,652
	<hr/> <hr/>	<hr/> <hr/>

**12. BANK BORROWINGS**

All bank borrowings are denominated in US dollars, fix-rate borrowings which carry prevailing interest rate ranging from 4.1% to 4.2% per annum, repayable within one year and secured by pledged bank deposits of approximately HK\$37,793,000 (2013: Nil).

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

**13. ACQUISITION OF A SUBSIDIARY**

On 27 September 2013, the Group entered into an agreement to acquire the remaining 50.1% equity interests in Yixing Silver Mile Fluorescent Materials Co., Ltd. ("Yixing Silver Mile") at a cash consideration of HK\$15,133,000. The acquisition was completed on 22 January 2014 and subsequent to the acquisition, the Group's equity interest in Yixing Silver Mile increased from 49.9% to 100%. Details of the acquisition are as follows:

- (a) Fair value of the net assets recognised at the date of acquisition:

	HK\$'000
Property, plant and equipment	155,491
Prepaid lease payments on land under operating leases	11,048
Deferred tax assets	4,968
Inventories	38,504
Trade and other receivables	79,250
Cash and cash equivalents	3,971
Trade and other payables	(128,603)
Bank borrowings	(85,079)
Deferred tax liabilities	(990)
	<hr/>
Fair value of the net assets recognised	78,560
	<hr/> <hr/>

**13. ACQUISITION OF A SUBSIDIARY** *(Continued)*

(b) Gain on deemed disposal of interests:

	HK\$'000
Fair value of 49.9% equity interests previously held	39,202
Less: Carrying value of 49.9% equity interests previously held	(45,158)
	<hr/>
Loss from re-measurement of interests	(5,956)
Add: Release of translation reserve upon deemed disposal of interests	8,706
	<hr/>
Gain on deemed disposal of interests	<u>2,750</u>

(c) Gain on bargain purchase of interests:

	HK\$'000
Consideration transferred:	
– Cash consideration paid	15,133
– Fair value of 49.9% equity interests previously held	39,202
	<hr/>
	54,335
Less: Net assets acquired	(78,560)
	<hr/>
Gain on bargain purchase of interests	<u>24,225</u>

**13. ACQUISITION OF A SUBSIDIARY** *(Continued)*

(d) An analysis of cash flows in respect of the acquisition:

	HK\$'000
Cash and cash equivalent acquired	3,971
Less: Cash consideration paid	(15,133)
	<hr/>
Net cash outflow on acquisition	<u>(11,162)</u>

**14. COMMITMENTS**

At 30 June 2014, the Group has the following commitments:

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

	<b>30 June 2014 HK\$'000</b>	31 December 2013 HK\$'000
Acquisition and construction of property, plant and equipment	<u><b>10,184</b></u>	<u>12,399</u>

**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:

	<b>30 June 2014 HK\$'000</b>	31 December 2013 HK\$'000
Within one year	<b>1,925</b>	2,385
In the second to fifth year inclusive	<b>2,323</b>	3,212
	<b>4,248</b>	5,597

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

**15. FINANCIAL GUARANTEE ISSUED**

At 30 June 2014, the Group has given unconditional guarantee to a bank to secure bank facilities made available to the Group's joint venture to the extent of approximately HK\$62,988,000 (31 December 2013: HK\$375,223,000). The maximum liabilities of the Group under the guarantee were the amount of facilities drawn by the joint venture, being approximately HK\$17,632,000 (31 December 2013: HK\$85,215,000). No recognition of the guarantee 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 guarantee.

## **16. LITIGATIONS**

At 30 June 2014, there was still no final judgment on the following disputes involving a subsidiary of the Group and a contractor about the quality and settlement of certain plant constructed:

- (a) The contractor claimed the subsidiary for settling the remaining contract fee unpaid at approximately HK\$34,638,000 (31 December 2013: HK\$34,973,000) for the plant constructed.
- (b) The subsidiary claimed the contractor for returning the contract fee paid at approximately HK\$62,040,000 (31 December 2013: HK\$62,639,000) for poor construction quality that cannot meet the relevant construction standards.

## **17. SUBSEQUENT EVENT**

On 9 July 2014, the Group entered into an agreement to dispose of its 40% equity interests in Yixing AGC Ceramics Co., Ltd., the Group's joint venture, at a cash consideration of approximately HK\$71,300,000. The transaction was completed on 1 August 2014.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Results

For the first half of 2014, the rare earth market remained volatile due to the impact of a range of industry-wide factors. As a result of the unfavourable conditions, the Group's overall turnover dropped by 24% from HK\$744,176,000 in the same period last year to HK\$565,834,000. Rare earth business remained as the Group's principal business during the period. Despite the rebound in the selling prices of some rare earth products, the weak downstream product market demand still affected the sales of rare earth oxides, which has led to the decline in overall sales volumes. Turnover of this business segment decreased by around 28% from HK\$549,401,000 in the same period last year to approximately HK\$393,052,000, accounting for around 69% of the Group's total turnover. As the cement and steel industries, key sectors for refractory materials, are still facing overcapacity, demand of the refractory materials has been inevitably affected. Turnover of the refractory materials business decreased by 11% from HK\$194,775,000 in the corresponding period last year to HK\$172,782,000, accounting for around 31% of the Group's total turnover. During the period, the Chinese government has launched the policy of the rare earth hoarding plan and the Group sold the lutetium oxides which were stored for more than five years. As the cost of these lutetium oxides had been written off in previous years, more than HK\$80,000,000 of the sales amount was fully reflected as net profit during the period, which offset the operating loss incurred in other businesses. The Group's results have turned around from a gross loss of HK\$273,480,000 in the same period last year to a gross profit of HK\$50,998,000 this year, with gross profit margin reaching 9% (1H 2013: gross loss margin of 37%). On the other hand, the Group has acquired the remaining 50.1% equity interests in Yixing Silver Mile Fluorescent Materials Company Limited (previously known as OSRAM (China) Fluorescent Materials Co., Ltd.) in January this year. Through the transaction that turned the joint venture company into its wholly owned subsidiary, the Group recorded an aggregate gain of approximately HK\$26,975,000. After further deducting selling and administrative expenses and taxation, the Group recorded a net profit of HK\$19,423,000 during the period (1H 2013: net loss of HK\$344,155,000). Earnings per share was HK1.31 cents (1H 2013: loss per share of HK19.81 cents).

## **Business Review**

### *Rare Earth Business*

During the period under review, the persistent weak demand for downstream rare earth products led to the continual decline in sales volume. The sales volume of the Group's rare earth oxides was approximately 1,200 tonnes, a reduction of around 45% compared to approximately 2,200 tonnes in the corresponding period last year. The total sales volume of light rare earth elements including lanthanum, cerium, praseodymium and neodymium dropped by about 700 tonnes. With rare earth mines in the United States ("US") and Australia starting operation, sales of lanthanum oxide and cerium oxide were affected and their average selling price declined by about 20% to 60% compared to the corresponding period last year. Variations in the price trends of other rare earth products were also evident. The average selling price of yttrium oxide, europium oxide and yttrium-europium coprecipitates decreased by 10% to 30% compared to the same period last year while those of dysprosium oxide, terbium oxide and gadolinium oxide remained stable. The average selling price of holmium oxide, lutetium oxide, neodymium oxide and praseodymium-neodymium oxide increased steadily in a range of about 10% to 40% compared to the corresponding period last year. On the other hand, with the government launching the programme of hoarding up rare earth resources, the Group sold some products with comparatively higher in prices such as lutetium oxide, dysprosium oxide, terbium oxide and praseodymium-neodymium oxide. Among these products, the lutetium oxide had been stored for many years and their cost had already been written off, thus its sales amount was fully reflected as net profit during the period. In respect to production costs, the price of rare earth minerals dropped by about 15% to 20% compared to the same period last year while the improved pay for labourers boosted average labour cost. Overall, the gross profit margin of the rare earth oxide business was about 9% during the period.

As for the rare earth polishing powder division, no significant sales contribution was recorded since its production line had commenced trial production. In light of the technology enhancement and changing needs in the market, the Group will continue product development and enhance its research and development so as to better meet customers' diverse demands for product performance.

In the rare earth metals division, in view of the market changes, the Group shifted production mainly to praseodymium-neodymium alloys and neodymium metals during the period under review. Amidst the weak market conditions, the Group sold approximately 50 tonnes of rare earth metals, a drop of about 50% compared to the same period last year. The gross loss margin was about 5% during the period.

Geographically, China remained as the major market of the Group's rare earth products, accounting for around 75% of the total sales. Elsewhere each of Europe, Japan and the US markets accounted for around 6% to 7% of total sales. During the period, the Group had also expanded its reach to deliver a small amount of sales to other regions such as Russia and South Africa.

#### *Refractory Materials Business*

During the period under review, the overcapacity in the steel and cement production had hindered development of these industries, which had adversely affected the refractory materials business and led to more intense competition. The Group sold approximately 11,300 tonnes of ordinary refractory materials and high temperature ceramics products during the period, down by approximately 20% compared to last year. Fused magnesium chrome bricks and alumina-graphite bricks remained as the Group's principal refractory materials products. During the period, the average price of these products remained flat when compared with the corresponding period last year with less than a 5% deviation. The average selling price of unshaped refractory materials rose by less than 10% compared to the same period last year while that of the Sialon series product of high temperature ceramics products was virtually unchanged compared to the corresponding period last year. As for costs, major material prices did not change significantly. Gross profit margin stood at about 12%.

Regarding the magnesium grain business, the Group sold about 37,000 tonnes of fused magnesium grain and high purity magnesium grain during the period, similar to the quantity sold in the same period last year. The average selling price of these products also remained similar to that of the same period last year. However, the average price of magnesium ore, one of the most important raw materials, rose by approximately 10%. This together with the increase in labour cost led to a lower gross profit margin at approximately 12%.

By market segments, domestic sales accounted for 84% while sales to overseas market, mainly Japan, occupied the remaining 16%.

#### *Joint Venture Projects*

The interests transfer of OSRAM (China) Fluorescent Materials Co., Ltd., a joint venture set up by the Group and its joint venture partner OSRAM GmbH, was completed on 22 January this year, after the transfer agreement signed in September last year. OSRAM (China) Fluorescent Materials Co., Ltd. has since been renamed as Yixing Silver Mile Fluorescent Materials Company Limited and the Group's shareholding was increased from 49.9% to 100%. After the acquisition, the subsidiary had sold a total of approximately 140 tonnes of fluorescent materials. Its gross loss margin was about 5% and the results have been included in the consolidated financial statements.

Another joint venture, Yixing AGC Ceramics Co., Ltd., had sold approximately 5,900 tonnes of products during the period under review. Its gross profit margin was about 17%, which just offset all of its selling and administrative costs. To optimise its management capability and the allocation of resources, the Group had entered into an agreement with the joint venture partner, Asahi Glass Ceramics Co., Ltd. from Japan, on 9 July this year. Pursuant to the agreement, the Group agreed to sell the 40% equity interests it previously held in the joint venture to the counter party. The transaction amount was HK\$71,300,000, equal to the Group's original investment cost. The transaction was completed on 1 August this year. After the transfer, the Group will continue to sell materials to that company and consistently generate sales contribution to the Group.

## Prospects

The management is cautiously optimistic about the global macroeconomic environment in the future. The launch of policies on industry reform measures by the central government will also facilitate the continuous improvement of the rare earth industry in China. In May this year, the Ministry of Industry and Information Technology has announced the elimination of obsolete production capacity and planning to eliminate production capacity of about 100,000 tonnes of rare earth oxide gradually. This initiative will help improve the overall quality of the industry. In July this year, the central government has increased the exploration and production quota of the rare earth industry to support the stronger development of the industry. In addition, a new round of hoarding up rare earth resources by the central government is also expected, which will push up the market price of rare earth products while facilitating a more orderly and healthier development of the rare earth industry.

Some overseas countries have begun to explore for rare earth resources. This development along with the World Trade Organisation's declaration that China's imposition of rare earth export quotas and tariff management methods constitute unfair practices have posed pressure on the price of rare earth products. Nevertheless, based on the competitive advantages in production scale and exploration costs of Chinese enterprises, the Group believes that China will remain as the largest supplier of rare earth products to the global market in the future.

To take advantage of the ongoing opportunities, the Group will continue to adhere to the pragmatic yet aggressive business approach to enhance its service standard and optimise its product mix. At the same time, it will embark on initiatives to streamline its business and optimally deploy resources in order to realise greater economies of scale and achieve sustainable development.

### **Liquidity and Financial Resources**

The Group has continued to maintain prudent capital arrangements. As at 30 June 2014, the Group had cash and bank deposits valued at approximately HK\$1,426,770,000, of which RMB30,000,000 was pledged to a bank to secure a US\$9,510,000 short-term loan. Net current assets amounted at approximately HK\$2,269,564,000, with the total liabilities to total assets ratio at around 7%.

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

A subsidiary of the Group in China provided corporate guarantee to a local bank to facilitate a joint venture to obtain loan financing. As at the end of the period under review, the joint venture had drawn loan of HK\$17,632,000 from the bank based on the guarantee.

**Staff and Remuneration**

As at 30 June 2014, the Group had a workforce of approximately 1,000 including a number of experienced professionals. The Group has provided a comprehensive staff remuneration and welfare system. During the period under review, the Group spent approximately HK\$35,641,000 on staff costs, including directors' emoluments. It also provided regular training and study opportunities to employees to assist them in maintaining professional standards.

**INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2014.

**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 (the "Old Scheme") for the purpose of providing incentives to participants for their contribution to the Group. During the period from 1 January 2014 to the expiration of the Old Scheme, there was no option outstanding under the Old Scheme. For the period from the adoption of the New Scheme to 30 June 2014, there was no option granted, cancelled or lapsed under the New Scheme.

## DIRECTORS' INTERESTS AND SHORT POSITIONS

As at 30 June 2014, the interests and short positions of the directors and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations as recorded in the register kept by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

### 1. Interests in shares of the Company

Director	Nature of interest/ Capacity	Number of shares	% to the issued share capital of the Company
Jiang Quanlong	Interest of spouse/Interest of controlled corporation	562,820,000 (Note)	33.65%
Qian Yuanying	Founder of a trust	562,820,000 (Note)	33.65%

Note:

These shares are held through YY Holdings Limited, the entire issued share capital of which is held by YYT (PTC) Limited, the trustee of YY Trust, the discretionary object of which is a company wholly owned by Ms. Qian Yuanying, the spouse of Mr. Jiang Quanlong, and her 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. Interests in shares, underlying shares or equity interests in associated corporations

### (a) *Microtech Resources Limited*

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

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

<b>Director</b>	<b>Nature of interest/Capacity</b>	<b>% equity interests</b>
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*

<b>Director</b>	<b>Nature of interest/ Capacity</b>	<b>Number and class of shares</b>	<b>% in the class of shares in the issued share capital of the company</b>
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 2014, none of the directors or chief executive of the Company and their associates had or was deemed to have any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations as recorded in the register kept under Section 352 of the SFO.

## **SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS**

So far as is known to the directors, as at 30 June 2014, the interests and short positions of shareholders, other than the directors or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register kept by the Company pursuant to Section 336 of the SFO were as follows:

1. YY Holdings Limited, the entire issued share capital of which is held by YYT (PTC) Limited, was holding 562,820,000 shares of the Company, representing approximately 33.65% of the issued share capital of the Company as beneficial owner.
2. YYT (PTC) Limited was deemed to be interested in 562,820,000 shares of the Company held by YY Holdings Limited, the entire issued share capital of which is held by YYT (PTC) Limited.

Save as disclosed above, no other party, other than the directors or chief executive of the Company, had notified the Company that he had any interest or short position in the shares or underlying shares of the Company as recorded in the register kept under Section 336 of the SFO as at 30 June 2014.

## **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 2014.

## **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 2014 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 2014, except for the following:

Under CG Code provision E.1.2, the chairman of the board should attend the annual general meeting. Mr. Jiang Quanlong, the Chairman of the Board, was unable to attend the annual general meeting of the Company held on 6 June 2014 due to other business commitment. Ms. Qian Yuanying, the Deputy Chairman of the Board, was delegated to attend and answer questions on behalf of Mr. Jiang Quanlong.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code of conduct (the “Company’s Code”) regarding securities transactions by directors on terms no less exacting than the required standards set out in the Model Code. Having made specific enquiry, the Company confirms that all directors have complied with the required standards as stated in the Model Code and the Company’s Code throughout the six months ended 30 June 2014.

## **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 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, 27 August 2014