



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

A large, glowing 'CRE' logo is centered on the page. The letters are white and set against a dark purple oval. The background is a complex, abstract composition of colorful, ethereal light trails in shades of blue, purple, orange, and green, creating a sense of motion and energy. The overall effect is futuristic and high-tech.

CRE

INTERIM REPORT

2016

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

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STOCK CODE ON THE STOCK EXCHANGE OF HONG KONG LIMITED

769

PUBLIC RELATIONS CONSULTANT

Strategic Financial Relations Limited

INTERIM RESULTS

The Board of Directors (the “Board”) of China Rare Earth Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2016 together with the comparative figures for the corresponding period in 2015 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the six months ended 30 June	
	Note	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited) (Restated)
Revenue	(2)	260,677	441,045
Cost of sales		(260,986)	(503,288)
Gross loss		(309)	(62,243)
Other income		2,373	2,440
Selling and distribution expenses		(7,058)	(16,462)
Administrative expenses		(36,545)	(37,686)
Other net (loss)/gain		(5,392)	31,772
Loss from operations		(46,931)	(82,179)
Finance costs	(4)	(635)	(1,480)
Loss before taxation	(5)	(47,566)	(83,659)
Income tax charge	(6)	(1,111)	(3,753)
Loss for the period		(48,677)	(87,412)
Loss for the period attributable to:			
Owners of the Company		(47,108)	(83,054)
Non-controlling interests		(1,569)	(4,358)
		(48,677)	(87,412)
Loss per share			
Basic and diluted	(8)	HK 2.01 cents	HK 4.14 cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited) (Restated)
Loss for the period	(48,677)	(87,412)
Other comprehensive (loss)/income for the period (net of nil 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	(54,475)	386
Fair value gain on available-for-sale equity securities	–	18,931
Release of fair value reserve upon disposal of available-for-sale equity securities	–	(29,491)
	(54,475)	(10,174)
Total comprehensive loss for the period	(103,152)	(97,586)
Total comprehensive loss for the period attributable to:		
Owners of the Company	(101,327)	(93,237)
Non-controlling interests	(1,825)	(4,349)
	(103,152)	(97,586)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
Non-current assets			
Goodwill		–	–
Property, plant and equipment	(9)	362,657	400,936
Prepaid lease payments on land under operating leases		148,179	153,358
Deferred tax assets		4,723	4,695
Other non-current asset		17,742	18,100
		533,301	577,089
Current assets			
Prepaid lease payments on land under operating leases		4,293	4,379
Inventories		296,945	341,221
Trade and other receivables	(10)	324,184	416,580
Prepayments and deposits		345,498	414,840
Tax recoverable		848	1,258
Restricted bank deposits		17,784	36,178
Cash and cash equivalents		1,564,599	1,396,365
		2,554,151	2,610,821

	Note	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
Current liabilities			
Trade and bills payables	(11)	115,785	166,894
Accruals and other payables		79,393	78,248
Amounts due to directors		3,068	2,804
Bank borrowings	(12)	52,416	–
Tax payable		2,560	2,554
		253,222	250,500
Net current assets		2,300,929	2,360,321
Total assets less current liabilities		2,834,230	2,937,410
Non-current liabilities			
Deferred tax liabilities		858	886
NET ASSETS		2,833,372	2,936,524
CAPITAL AND RESERVES			
Share capital		234,170	234,170
Reserves		2,587,302	2,688,629
Equity attributable to owners of the Company		2,821,472	2,922,799
Non-controlling interests		11,900	13,725
TOTAL EQUITY		2,833,372	2,936,524

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company									
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Statutory reserves HK\$'000	Translation reserve HK\$'000	Fair value reserve HK\$'000	Retained profits/losses (Accumulated) HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 January 2015 (restated)	167,264	1,770,100	22,348	251,948	577,252	10,560	172,253	2,971,725	25,885	2,997,610
Loss for the period	-	-	-	-	-	-	(83,054)	(83,054)	(4,358)	(87,412)
Other comprehensive income/(loss)										
Exchange differences on translation of financial statements of foreign operations	-	-	-	-	377	-	-	377	9	386
Fair value gain on available-for-sale equity securities	-	-	-	-	-	18,931	-	18,931	-	18,931
Release of fair value reserve upon disposal of available-for-sale equity securities	-	-	-	-	-	(29,491)	-	(29,491)	-	(29,491)
Total comprehensive loss for the period	-	-	-	-	377	(10,560)	(83,054)	(93,237)	(4,349)	(97,586)
At 30 June 2015	<u>167,264</u>	<u>1,770,100</u>	<u>22,348</u>	<u>251,948</u>	<u>577,629</u>	<u>-</u>	<u>89,199</u>	<u>2,878,488</u>	<u>21,536</u>	<u>2,900,024</u>
At 1 January 2016	234,170	2,093,306	22,348	251,948	405,424	-	(84,397)	2,922,799	13,725	2,936,524
Loss for the period	-	-	-	-	-	-	(47,108)	(47,108)	(1,569)	(48,677)
Other comprehensive loss										
Exchange differences on translation of financial statements of foreign operations	-	-	-	-	(54,219)	-	-	(54,219)	(256)	(54,475)
Total comprehensive loss for the period	-	-	-	-	(54,219)	-	(47,108)	(101,327)	(1,825)	(103,152)
At 30 June 2016	<u>234,170</u>	<u>2,093,306</u>	<u>22,348</u>	<u>251,948</u>	<u>351,205</u>	<u>-</u>	<u>(131,505)</u>	<u>2,821,472</u>	<u>11,900</u>	<u>2,833,372</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	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited) (Restated)
Operating activities			
Cash generated from/(used in) operations		124,370	(100,968)
Income tax paid		(845)	(1,569)
Net cash generated from/(used in) operating activities		123,525	(102,537)
Investing activities			
Purchase of property, plant and equipment	(9)	(1,411)	(848)
Proceeds from disposal of available-for-sale equity securities		—	36,211
Decrease in restricted bank deposits		17,854	2,844
Increase in pledged bank deposit		—	(38,032)
Interest received		2,373	2,440
Net cash generated from investing activities		18,816	2,615
Financing activities			
Proceeds from new bank borrowings		52,936	74,161
Interest paid on bank borrowings		(635)	(1,480)
Net cash generated from financing activities		52,301	72,681
Net increase/(decrease) in cash and cash equivalents		194,642	(27,241)
Cash and cash equivalents at beginning of the period		1,396,365	1,386,003
Effect of changes in exchange rate		(26,408)	(204)
Cash and cash equivalents at end of the period		1,564,599	1,358,558

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 2015, 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 2015.

In accordance with Hong Kong Accounting Standard 16 "Property, Plant and Equipment", buildings held for own use can either be accounted for using the cost model or the revaluation model after their initial recognition. The Group accounted for its buildings held for own use using the revaluation model in previous years. Given the fact that most of the buildings held for own use held by listed companies in Hong Kong in the manufacturing industries are accounted for using the cost model, the Group has decided to align its accounting policy with the industry practice and stated its buildings held for own use at cost less accumulated depreciation and any accumulated impairment losses with effect from 1 January 2015. The Group also applied this change in accounting policy retrospectively.

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The Group's condensed consolidated statement of profit or loss and condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2015 are restated. The cost of sales and the income tax charge for that period was decreased by approximately HK\$2,146,000 and increased by approximately HK\$352,000, respectively. The loss for that period attributable to owners of the Company and non-controlling interests was decreased by approximately HK\$1,748,000 and HK\$46,000, respectively. The basic and diluted loss per share for that period was decreased by HK 0.09 cents from HK 4.23 cents, after adjusting for the bonus element of rights issue in August 2015, to HK 4.14 cents. Other comprehensive loss for that period and the total comprehensive loss for that period attributable to owners of the Company was increased by approximately HK\$9,000 and decreased by approximately HK\$1,739,000, respectively.

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 and amendments that have been issued but are not yet effective for the six months ended 30 June 2016. The directors of the Company anticipate that the application of these new standards and amendments will have no material impact on the Group's financial performance and positions.

2. REVENUE

	For the six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Sales of rare earth products (including fluorescent products)	131,130	290,496
Sales of refractory products (including high temperature ceramics products and magnesium grains)	129,547	150,549
	<u>260,677</u>	<u>441,045</u>

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	
	2016 HK\$'000	2015 HK\$'000 (Restated)	2016 HK\$'000	2015 HK\$'000 (Restated)	2016 HK\$'000	2015 HK\$'000 (Restated)
For the six months ended 30 June						
REVENUE						
Revenue from external customers	131,130	290,496	129,547	150,549	260,677	441,045
Inter-segment revenue	12	14	–	–	12	14
Reportable segment revenue	<u>131,142</u>	<u>290,510</u>	<u>129,547</u>	<u>150,549</u>	<u>260,689</u>	<u>441,059</u>
RESULTS						
Reportable segment loss	<u>(37,412)</u>	<u>(94,183)</u>	<u>(4,911)</u>	<u>(12,380)</u>	<u>(42,323)</u>	<u>(106,563)</u>
Other income					2,373	2,440
Finance costs					(635)	(1,480)
Unallocated corporate (expenses)/income					(6,981)	21,944
Consolidated loss before taxation					<u>(47,566)</u>	<u>(83,659)</u>
Income tax charge					<u>(1,111)</u>	<u>(3,753)</u>
Consolidated loss after taxation					<u><u>(48,677)</u></u>	<u><u>(87,412)</u></u>

3. SEGMENT INFORMATION *(Continued)*

(b) Geographical information

Revenue from external customers:

	For the six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
The People's Republic of China (the "PRC")	191,297	322,019
Europe	23,786	37,823
Japan	18,736	42,483
The United States of America (the "US")	16,610	23,322
Others	10,248	15,398
	260,677	441,045

4. FINANCE COSTS

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

5. LOSS BEFORE TAXATION

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

	For the six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000 (Restated)
Depreciation of property, plant and equipment	32,064	40,753
Amortisation of prepaid lease payments on land under operating leases	2,168	2,326
Write down of inventories	16,585	60,687
Reversal of write down of inventories	(2,265)	(335)
Gain on disposal of available-for-sale equity securities	–	(29,491)
	32,452	74,040

6. INCOME TAX CHARGE

	For the six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000 (Restated)
Current tax – PRC Enterprise Income Tax		
Provision for the period	1,243	472
Withholding tax on unremitted earning	–	2,430
	1,243	2,902
Deferred taxation		
Origination and reversal of temporary differences	(132)	851
	1,111	3,753

6. INCOME TAX CHARGE *(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 one (2015: two) subsidiary is entitled to a preferential income tax rate of 15%.

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

7. DIVIDEND

No final dividend for previous year was declared and paid during the six months ended 30 June 2016 (2015: Nil).

No interim dividend was declared for the six months ended 30 June 2016 (2015: Nil).

8. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately HK\$47,108,000 (2015: HK\$83,054,000) and the weighted average number of approximately 2,341,700,000 (2015: 2,007,172,000) ordinary shares in issue during the period. The weighted average number of ordinary shares in issue during the six months ended 30 June 2015 has been adjusted to reflect the bonus element of the rights issue in August 2015 on the basis of two rights shares for every five existing ordinary shares.

Diluted loss per share for the six months ended 30 June 2016 and 30 June 2015 are same as the basic loss per share as there is no dilutive potential ordinary share.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the Group spent approximately HK\$1,411,000 (2015: HK\$848,000) 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:

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Trade debtors and bills receivables	253,665	338,594
Amount due from a related company	5,188	5,293
Other receivables	4,407	9,434
Other tax refundable	60,924	63,259
	<hr/> 324,184 <hr/>	<hr/> 416,580 <hr/>

10. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Less than 6 months	118,095	208,747
6 months to less than 1 year	87,492	46,823
1 year to less than 2 years	53,358	84,816
Over 2 years	27,686	28,526
	<hr/>	<hr/>
	286,631	368,912
Less: Impairment loss on trade debtors and bills receivables	(32,966)	(30,318)
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	253,665	338,594
	<hr/> <hr/>	<hr/> <hr/>

11. TRADE AND BILLS PAYABLES

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

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Less than 6 months	80,993	143,233
6 months to less than 1 year	23,960	16,135
1 year to less than 2 years	7,862	4,869
Over 2 years	2,970	2,657
	<hr/>	<hr/>
	115,785	166,894
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12. BANK BORROWINGS

At 30 June 2016, all bank borrowings were denominated in Renminbi, unsecured, fixed rate borrowings which carry prevailing interest rate at a range of 3.4% to 5% per annum and repayable within one year (31 December 2015: Nil).

13. COMMITMENTS

At 30 June 2016, the Group had the following commitments:

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

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Acquisition and construction of property, plant and equipment	9,075	9,364

- (b) Operating lease commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Within one year	1,331	2,203
In the second to fifth year inclusive	473	944
	1,804	3,147

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

After the abolition of export quotas and tariffs on rare earth in 2015, China has embarked on a series of reforms, including the establishment of six major rare earth groups, reform for levying rare earth resources tax based on price and implementation of national and commercial rare earth hoarding reserve plans. At the same time, it has continued to step up efforts to counter illegal and irregular practices in the rare earth industry. Moreover, China has promulgated several industry regulations in the first half of the year, which have had positive effects on the standardized management of the entire rare earth industry, resources conservation and the balanced and healthy development of the ecology and the environment.

Affected by the slowdown of macroeconomic growth and insufficient industry demand, the prices of rare earth products have lacked strong support over the short term. The Chinese Government has continued its actions against smuggling and illegal exploitation of rare earth. Nevertheless, illegal and irregular practices remain rampant due to the attractive return, which led to a downward adjustment of rare earth prices. Besides, during the difficult transition period for the rare earth industry which undergoing consolidation, the Group reduced production of rare earth products and conducted a self-environmental protection assessment in order to prepare its operations for compliance with the national directive for reduction of rare earth production and the regional environmental protection inspection which began in the middle of the year. Consequently, the Group's overall revenue decreased to HK\$260,677,000, representing a drop of 41% when compared with HK\$441,045,000 in the same period last year. Revenue of the rare earth segment declined by approximately 55% from HK\$290,496,000 in the corresponding period last year to approximately HK\$131,130,000, accounting for approximately 50% of the Group's total revenue. As for the refractory materials segment, revenue dropped by approximately 14% from HK\$150,549,000 to HK\$129,547,000, accounting for the remaining 50% of total revenue.

The operation of the Group's rare earth oxides production lines was temporarily suspended for two months due to internal adjustment. Those expenses incurred during the production suspension were recorded in administrative expenses thus such expenses for the period did not show a substantial decline with the decreased revenue. The Group reduced sales in the period and the Group's net loss narrowed to approximately HK\$48,677,000 (2015: HK\$87,412,000). Loss per share was approximately HK 2.01 cents (2015: HK 4.14 cents).

Business Review

Rare Earth Business

In the first half of 2016, the unstable rare earth market conditions and generally weak market demand resulted in the volatility of rare earth prices. The Chinese Government again introduced rare earth hoarding strategic reserve plans with the hoarding of commercial reserves come first this year. Two rounds of commercial reserve measures were implemented and completed on 21 April and 31 May respectively and subsequently stimulated a short term rebound in rare earth prices. However, since a full-fledged national hoarding reserve plan has yet to commence, rare earth prices showed downward adjustments afterwards. The average selling prices of overall rare earth products decreased by approximately 25% year-on-year. The average selling price of lanthanum oxide, dysprosium oxide and erbium oxide dropped by approximately 20% to 30%, while those of cerium oxide, samarium oxide, gadolinium oxide and yttrium oxide declined by approximately 30% to 40%. The range of price declines of praseodymium oxide and neodymium oxide was within 20%.

In view of the weak performance of the overall rare earth market, the Group decreased production to maintain the assets value and endeavoured to enhance its product quality and its environmental protection standards in order to lay the foundation for future development. During the period, the Group sold approximately 770 tonnes of rare earth oxides, representing a drop of more than 50% when compared with approximately 1,600 tonnes in the same period last year. As for the fluorescent materials, as the unit price of rare earth oxides, the key raw material of fluorescent materials, decreased by approximately 30% year-on-year, the average cost of the fluorescent materials declined accordingly. Sales volume of the fluorescent materials increased by approximately 30% during the period. Despite this, revenue recorded a decrease due to the approximately 30% to 40% drop in the average selling prices of fluorescent materials. To enhance operational efficiency, the Group adjusted its internal

manpower structure, leading to a reduction in labour costs when compared with the same period last year. Owing to the reduction of production costs and a slight rebound of rare earth prices during the period, gross loss of the rare earth segment dropped to less than 10%. While the Group has already made an impairment provision of certain under-utilised and idle machineries and equipment last year, the depreciation cost has lessened during the period.

Geographically, China remained the major market for the Group's rare earth products, contributing around 61% of total sales during the period. As for overseas markets, Europe accounted for around 17% while the US and Japan accounted for around 13% and 6% respectively.

Refractory Materials Business

As the Chinese economy continued to slow down during the period, the decreasing overall output of the steel industry in China, over-capacity and the lowest tender strategy prevailing in the steel, cement and glass industries have led to a more intense competition in the refractory materials industry. The reduction of production in Japan's steel industry has also resulted in less procurement of refractory materials in China. During the period, the Group sold approximately 10,800 tonnes of ordinary refractory materials and high temperature ceramics products, a decrease of approximately 20% year-on-year. The selling prices of its main products such as fused magnesium chrome bricks, alumina-graphite bricks, casting materials and Sialon series products remained flat with a variation within 5% when compared with the same period last year. With respect to raw materials, unit price of fused magnesium chrome grains and chromium concentrate decreased by approximately 10%. Regarding the magnesium grain business, the overall performance was relatively stable and production hours had increased when compared with the corresponding period last year. The Group sold approximately 34,000 tonnes of fused magnesium grain and high purity magnesium grain, a growth of more than 40% year-on-year. The change in selling prices was within 10% when compared with the corresponding period last year. Under this waxing-and-waning condition, the segment's gross profit margin maintained at less than 10%.

Geographically, China remained the dominant market for the Group's refractory materials business, with domestic sales accounting for about 86% of the total sales. Sales to the Japanese market decreased to about 9% while sales to other markets such as Europe and the Middle East accounted for about 5%.

Prospects

China's 13th Five-year Plan marks a critical period for the rare earth industry to maintain a sustainable and healthy development. It is also an important time as Chinese Government is exerting great efforts on the standardisation of rare earth resources development, focusing on addressing the over-capacity issue and driving the development of the rare earth industry through an intensive approach and a related shift to manufacture high-end products. At present, due to the persistently sluggish market conditions affecting the entire rare earth industry and uncertainties in the refractory materials application businesses, the demand for rare earth and refractory materials is expected to remain weak. However, as the Chinese Government continues to formulate and announce regulations to reform and consolidate the industry, the Group believes that future prospects of the industry will still present opportunities. Recently, the Ministry of Industry and Information Technology stated that the industry will continue the implementation of the provisions in "Several Opinions of the State Council on Promoting the Sustainable and Healthy Development of the Rare Earth Industry". A series of laws and regulations issued by the Chinese Government were enforced to facilitate the rare earth industrial restructuring, transformation and upgrading in a bid to achieve sustainable and healthy development. In view of these, China is continuing to step up efforts to improve the conditions and better regulate the rare earth market, conserve rare earth resources and combat violations in the rare earth industry. Besides, it is expected that a new round of the national rare earth hoarding reserve plan will be launched within this year. The rare earth prices will rebound, which should then stimulate the improvement in the Group's revenue.

In the short term, the Group will formulate timely and appropriate strategies in close consideration of market trends and will actively pursue the expansion of its upstream business, with the aim to generate synergies with its existing business and boost its overall revenue. The Group has engaged a professional team to conduct due diligence for its acquisition of the magnesium ore mining project in Northeastern China. The work is progressing well and is expected to be concluded within this year.

Aside from accelerating progress of the acquisition, the Group also continues to explore development opportunities in overseas markets and is actively evaluating the opportunities to collaborate with overseas rare earth enterprises.

Liquidity and Financial Resources

The Group continues to implement serious and prudent financial strategies and retains adequate liquidity for future acquisitions and development. As at 30 June 2016, the Group had cash and bank deposits valued at a total of approximately HK\$1,582,383,000.

On 7 August 2015, the Group completed a rights issue and raised approximately HK\$390,112,000. Such net proceeds were utilised as general working capital of the Group. In particular, the Group signed supply contracts with certain rare earth suppliers before the end of last year and applied such proceeds to settle a total amount of about HK\$428,115,000 as prepayment for the rare earth materials and products. The suppliers will provide goods to the Group upon request within one year or at the relevant time. This initiative enables the Group to counter the efforts by the state-owned rare earth groups to control the supply from rare earth mine sources after industry consolidation, and also secures a sufficient supply of raw materials and products at an advantageous price for future production and trading. However, the market has fluctuated during the period under review and the situation was not as expected. A large proportion of the prepayments for rare earth had not been used as at 30 June 2016 and an amount of approximately HK\$332,313,000 remained on book. The Group received the refund of prepayments of about HK\$23,632,000 in cash during the period.

Due to the weak economy, the Group has granted a longer credit period to some of the customers, which has led to an increase in the ageing of trade receivables. The Group is closely monitoring the repayment situation of customers and negotiating with them in a timely manner. At the same time, it will undertake appropriate action and make provision for bad and doubtful debts whenever necessary.

One of the Group's subsidiaries in Mainland China has acquired short term loans of RMB44,800,000 from a bank during the period.

As at 30 June 2016, the Group had net current assets amounted to approximately HK\$2,300,929,000, with the total liabilities to total assets ratio at around 8%. The Group had no charge on its assets, nor has it held any financial derivative products. It was not exposed to any material interest rate risk. As for foreign exchange, most of the Group's assets, liabilities and transactions are denominated in Renminbi, and the rest are in the US dollars or Hong Kong dollars. The exchange rates of these currencies have been relatively stable though with some fluctuations during the period under review.

Staff and Remuneration

To allocate resources more wisely, improve work efficiency and streamline the operation teams, the Group has adjusted its internal structure during the period under review and reduced its headcount. It presently has a workforce of approximately 850. The Group has created a positive working environment and provided a comprehensive staff remuneration and welfare system for employees. During the period, the Group spent approximately HK\$28,050,000 on staff costs, including directors' emoluments, a decrease of 23% year-on-year. It also provided training to employees to enhance their expertise and assist them in maintaining professional competence.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2016.

SHARE OPTION SCHEME

At the Company's annual general meeting held on 6 June 2014, the shareholders of the Company approved the adoption of a share option scheme (the "New Scheme") after the share option scheme, which was previously adopted on 4 June 2004, lapsed on 3 June 2014 for the purpose of providing incentives to participants for their contribution to the Group. During the six months ended 30 June 2016, there was no option granted, cancelled or lapsed under the New Scheme.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

As at 30 June 2016, the interests and short positions of the directors and chief executives of the Company and their close associates in the shares, underlying shares and debentures of the Company and its associated corporations as recorded in the register kept by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("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	744,755,200 (Note)	31.80%
Qian Yuanying	Founder of a trust	744,755,200 (Note)	31.80%

Note:

These shares are held in long position through YY Holdings Limited, the entire issued share capital of which is held by YYT (PTC) Limited, the trustee of YY Trust, the discretionary object of which is a company wholly owned by Ms. Qian Yuanying, the spouse of Mr. Jiang Quanlong, and her sons. Ms. Qian Yuanying is a founder of YY Trust within the meaning under Part XV of the SFO. Mr. Jiang Quanlong and Ms. Qian Yuanying are the directors of YY Holdings Limited.

2. Interests in shares, underlying shares or equity interests in associated corporations

(a) *Microtech Resources Limited*

Director	Nature of interest/Capacity	Number and class of shares	% in the class of shares in the issued share capital of the company
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*

Director	Nature of interest/Capacity	% equity interests
Jiang Quanlong	Interest of controlled corporation	5%

Note:

The equity interest is held by Yixing Xinwei Group Co. Ltd., a PRC domestic enterprise 90% owned by Mr. Jiang Quanlong, with the remaining 10% owned by his son. Mr. Jiang is also the legal representative of the enterprise.

(c) *YY Holdings Limited*

Director	Nature of interest/Capacity	Number and class of shares	% in the class of shares in the issued share capital of the company
Qian Yuanying	Founder of a trust	1 ordinary share	100%
Qian Yuanying	Founder of a trust	25,000 preference shares	100%
Jiang Quanlong	Interest of controlled corporation	1 ordinary share	100%
Jiang Quanlong	Interest of controlled corporation	25,000 preference shares	100%

Note:

The entire issued share capital of YY Holdings Limited is held by YYT (PTC) Limited, the trustee of YY Trust, the discretionary object of which is a company wholly owned by Ms. Qian Yuanying, the spouse of Mr. Jiang Quanlong, and her sons. Ms. Qian Yuanying is a founder of YY Trust within the meaning under Part XV of the SFO. Mr. Jiang Quanlong and Ms. Qian Yuanying are the directors of YYT (PTC) Limited.

Save as disclosed above, as at 30 June 2016, none of the directors or chief executives of the Company and their close associates had or was deemed to have any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations as recorded in the register kept under Section 352 of the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

So far as is known to the directors, as at 30 June 2016, the interests and short positions of shareholders, other than the directors or chief executives of the Company, in the shares and underlying shares of the Company as recorded in the register kept by the Company pursuant to Section 336 of the SFO were as follows:

1. YY Holdings Limited, the entire issued share capital of which is held by YYT (PTC) Limited, was holding 744,755,200 shares of the Company in long position, representing approximately 31.80% of the issued share capital of the Company as beneficial owner.
2. YYT (PTC) Limited was deemed to be interested in long position in 744,755,200 shares of the Company held by YY Holdings Limited, the entire issued share capital of which is held by YYT (PTC) Limited.

Save as disclosed above, no other party, other than the directors or chief executives of the Company, had notified the Company that he had any interest or short position in the shares or underlying shares of the Company as recorded in the register kept under Section 336 of the SFO as at 30 June 2016.

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 2016.

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 2016 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 2016, except for the following:

Pursuant to the 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 3 June 2016 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 its own Securities Dealing Code (the “Company’s Code”) regarding securities transactions by directors on terms no less exacting than the required standards set out in the Model Code. Having made specific enquiry, the Company confirms that all directors have complied with the required standards as stated in the Model Code and the Company’s Code throughout the six months ended 30 June 2016.

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
China Rare Earth Holdings Limited
Jiang Quanlong
Chairman

Hong Kong, 30 August 2016