



中國稀土控股有限公司

China Rare Earth Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock code : 769

Interim Report
2017

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

Ascenda Cachet CPA Limited

PRINCIPAL BANKERS

PRC

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

Hong Kong

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

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 2017 together with the comparative figures for the corresponding period in 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the six months ended 30 June	
	Note	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Revenue	(2)	243,047	260,677
Cost of sales		(236,040)	(260,986)
Gross profit/(loss)		7,007	(309)
Other income		2,800	2,373
Selling and distribution expenses		(8,658)	(7,058)
Administrative expenses		(44,748)	(36,545)
Other net gain/(loss)		1,681	(5,392)
Loss from operations		(41,918)	(46,931)
Finance costs	(4)	(1,255)	(635)
Loss before taxation	(5)	(43,173)	(47,566)
Income tax charge	(6)	(166)	(1,111)
Loss for the period		(43,339)	(48,677)
Loss for the period attributable to:			
Owners of the Company		(42,669)	(47,108)
Non-controlling interests		(670)	(1,569)
		(43,339)	(48,677)
Loss per share			
Basic and diluted	(8)	HK1.82 cents	HK2.01 cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Loss for the period	<u>(43,339)</u>	<u>(48,677)</u>
Other comprehensive income/(loss) 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	<u>77,555</u>	<u>(54,475)</u>
	<u>77,555</u>	<u>(54,475)</u>
Total comprehensive income/(loss) for the period	<u><u>34,216</u></u>	<u><u>(103,152)</u></u>
Total comprehensive income/(loss) for the period attributable to:		
Owners of the Company	<u>34,610</u>	<u>(101,327)</u>
Non-controlling interests	<u>(394)</u>	<u>(1,825)</u>
	<u><u>34,216</u></u>	<u><u>(103,152)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Non-current assets			
Goodwill		–	–
Property, plant and equipment	(9)	300,751	319,212
Prepaid lease payments on land under operating leases		141,935	139,692
Deferred tax assets		4,615	4,525
Other non-current asset		17,472	16,953
		464,773	480,382
Current assets			
Prepaid lease payments on land under operating leases		4,077	3,956
Inventories		186,988	192,975
Trade and other receivables	(10)	289,382	281,622
Prepayments and deposits		242,530	288,306
Tax recoverable		1,693	1,642
Restricted bank deposits		17,513	16,993
Cash and cash equivalents		1,736,026	1,649,125
		2,478,209	2,434,619

	Note	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Current liabilities			
Trade and bills payables	(11)	89,777	101,317
Accruals and other payables		76,249	74,019
Amounts due to directors		3,545	3,245
Bank and other borrowings	(12)	80,885	78,033
Tax payable		2,469	2,561
		<u>252,925</u>	<u>259,175</u>
Net current assets		<u>2,225,284</u>	<u>2,175,444</u>
Total assets less current liabilities		<u>2,690,057</u>	<u>2,655,826</u>
Non-current liabilities			
Deferred tax liabilities		826	811
NET ASSETS		<u>2,689,231</u>	<u>2,655,015</u>
CAPITAL AND RESERVES			
Share capital		234,170	234,170
Reserves		2,446,124	2,411,514
Equity attributable to owners of the Company		<u>2,680,294</u>	<u>2,645,684</u>
Non-controlling interests		<u>8,937</u>	<u>9,331</u>
TOTAL EQUITY		<u>2,689,231</u>	<u>2,655,015</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company						Non-		Total
	Share	Share	Capital	Statutory	Translation	Accumulated	Sub-total	controlling	
	capital	premium	reserve	reserves	reserve	losses			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
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>(131,505)</u>	<u>2,821,472</u>	<u>11,900</u>	<u>2,833,372</u>
At 1 January 2017	234,170	2,093,306	22,348	251,948	232,551	(188,639)	2,645,684	9,331	2,655,015
Loss for the period	-	-	-	-	-	(42,669)	(42,669)	(670)	(43,339)
Other comprehensive income									
Exchange differences on translation of financial statements of foreign operations	-	-	-	-	77,279	-	77,279	276	77,555
Total comprehensive income/(loss) for the period	-	-	-	-	77,279	(42,669)	34,610	(394)	34,216
At 30 June 2017	<u>234,170</u>	<u>2,093,306</u>	<u>22,348</u>	<u>251,948</u>	<u>309,830</u>	<u>(231,308)</u>	<u>2,680,294</u>	<u>8,937</u>	<u>2,689,231</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 FLOWSFor the six months
ended 30 June

	Note	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Operating activities			
Cash generated from operations		37,412	124,370
Income tax paid		(223)	(845)
Net cash generated from operating activities		37,189	123,525
Investing activities			
Purchase of property, plant and equipment	(9)	(215)	(1,411)
Decrease in restricted bank deposits		–	17,854
Interest received		2,800	2,373
Net cash generated from investing activities		2,585	18,816
Financing activities			
Proceeds from new bank and other borrowings		108,034	52,936
Repayment of bank and other borrowings		(107,581)	–
Interest paid		(1,255)	(635)
Net cash (used in)/generated from financing activities		(802)	52,301
Net increase in cash and cash equivalents		38,972	194,642
Cash and cash equivalents at beginning of the period		1,649,125	1,396,365
Effect of changes in exchange rate		47,929	(26,408)
Cash and cash equivalents at end of the period		1,736,026	1,564,599

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 "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 2016, 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 2016.

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 2017. 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. REVENUE

	For the six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Sales of rare earth products (including fluorescent products)	137,310	131,130
Sales of refractory products (including high temperature ceramics products and magnesium grains)	105,737	129,547
	<u>243,047</u>	<u>260,677</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	
	For the six months ended 30 June					
	2017	2016	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE						
Revenue from external customers	137,310	131,130	105,737	129,547	243,047	260,677
Inter-segment revenue	70	12	–	–	70	12
Reportable segment revenue	<u>137,380</u>	<u>131,142</u>	<u>105,737</u>	<u>129,547</u>	<u>243,117</u>	<u>260,689</u>
RESULTS						
Reportable segment (loss)/profit	<u>(12,610)</u>	<u>(20,224)</u>	<u>4,778</u>	<u>12,129</u>	<u>(7,832)</u>	<u>(8,095)</u>
Other income					2,800	2,373
Depreciation of property, plant and equipment					(28,033)	(32,064)
Amortisation of prepaid lease payments on land under operating leases					(2,008)	(2,168)
Finance costs					(1,255)	(635)
Unallocated corporate expenses					<u>(6,845)</u>	<u>(6,977)</u>
Consolidated loss before taxation					<u>(43,173)</u>	<u>(47,566)</u>
Income tax charge					<u>(166)</u>	<u>(1,111)</u>
Consolidated loss after taxation					<u>(43,339)</u>	<u>(48,677)</u>

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

Revenue from external customers:

	For the six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
The People's Republic of China (the "PRC")	177,063	191,297
Japan	35,628	18,736
Europe	12,316	23,786
The United States of America (the "US")	6,879	16,610
Others	11,161	10,248
	243,047	260,677

4. FINANCE COSTS

Finance costs represented interest expenses on bank and other 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	
	2017 HK\$'000	2016 HK\$'000
Depreciation of property, plant and equipment	28,033	32,064
Amortisation of prepaid lease payments on land under operating leases	2,008	2,168
Write down of inventories	4,262	16,585
Reversal of write down of inventories	(695)	(2,265)
	<u>33,608</u>	<u>48,552</u>

6. INCOME TAX CHARGE

	For the six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Current tax – PRC Enterprise Income Tax Provision for the period	128	1,243
Deferred taxation Origination and reversal of temporary differences	38	(132)
	<u>166</u>	<u>1,111</u>

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 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 the previous year was declared and paid during the six months ended 30 June 2017 (2016: Nil).

No interim dividend was declared for the six months ended 30 June 2017 (2016: 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\$42,669,000 (2016: HK\$47,108,000) and the weighted average number of approximately 2,341,700,000 (2016: 2,341,700,000) ordinary shares in issue during the period.

Diluted loss per share for the six months ended 30 June 2017 and 30 June 2016 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 2017, the Group spent approximately HK\$215,000 (2016: HK\$1,411,000) 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 2017 HK\$'000	31 December 2016 HK\$'000
Trade debtors and bills receivables	232,764	224,132
Amount due from a related company	5,109	4,957
Other receivables	3,686	4,859
Other tax refundable	47,823	47,674
	<hr/> 289,382 <hr/>	<hr/> 281,622 <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 2017 HK\$'000	31 December 2016 HK\$'000
Less than 6 months	166,145	130,307
6 months to less than 1 year	36,935	34,062
1 year to less than 2 years	31,964	47,532
Over 2 years	32,422	46,414
	267,466	258,315
Less: Impairment loss on trade debtors and bills receivables	(34,702)	(34,183)
	232,764	224,132

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 2017 HK\$'000	31 December 2016 HK\$'000
Less than 6 months	48,190	62,869
6 months to less than 1 year	16,760	21,137
1 year to less than 2 years	19,275	13,168
Over 2 years	5,552	4,143
	89,777	101,317

12. BANK AND OTHER BORROWINGS

	30 June 2017 HK\$'000	31 December 2016 HK\$'000
Bank borrowings	52,080	50,084
Other borrowings	28,805	27,949
	80,885	78,033

As at 30 June 2017 and 31 December 2016, all bank borrowings were denominated in Renminbi, unsecured, fixed rate borrowings which carried prevailing interest rate at 5% per annum and repayable within one year.

As at 30 June 2017, the other borrowings were denominated in Renminbi with monthly finance charge at a rate of 2.7% and with zero interest rate, secured by the Group's buildings situated in the PRC with aggregate carrying amount of approximately HK\$30,629,000 (31 December 2016: HK\$32,393,000) and the Group's leasehold land situated in the PRC with carrying amount of approximately HK\$9,278,000 (31 December 2016: HK\$9,108,000) and repayable within one year.

13. COMMITMENTS

At 30 June 2017, the Group had the following commitments:

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

	30 June 2017 HK\$'000	31 December 2016 HK\$'000
Acquisition and construction of property, plant and equipment	<u>1,448</u>	<u>1,405</u>

- (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 2017 HK\$'000	31 December 2016 HK\$'000
Within one year	1,616	2,015
In the second to fifth year inclusive	<u>288</u>	<u>882</u>
	<u>1,904</u>	<u>2,897</u>

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

In the first half of 2017, the rare earth industry was rosy in general. With three rounds of national rare earth hoarding reserve tenders completed, supply and demand balance in the rare earth market improved. The five rare earth-related tasks in the “2017 Working Plan for Formulation of National Resources Standards” issued by the Ministry of Land and Resources of the PRC have constructive effect on the regulation and management of the entire rare earth industry. Furthermore, the authority continued to step up effort in crackdown on illegal and irregular practices. Local authorities, following the guidance of eight departments and commissions including the Ministry of Industry and Information Technology of the PRC (the “MIIT”), rolled out “Special Action Plan to Counter Illegal and Irregular Rare Earth Practices” to gradually affect rare earth supply and effectively regulate the industry, and as such hopefully market price will keep recovering moderately.

During the period under review, the industry faced challenges but also welcomed opportunities. The rare earth industry continued to be affected by macro-economic conditions. The “Illegal rare earth” still existed. In addition, to comply with the rare earth total production volume control plan published by the MIIT and increasingly stringent environmental requirements, the Group’s rare earth separation production line only operated intermittently in the first half year and self-inspection and rectification were made the rest of the time, so the production volume of rare earth products of the Group decreased and customer demands were met mainly via trading activities. In addition, the magnesium grain production line of the Group in Liaoning Province suspended operation for rectification to facilitate inspection by the Central Environmental Protection Inspection Team. In the first half of 2017, revenue of the Group amounted to approximately HK\$243,047,000, representing a decrease of about 7% when compared with HK\$260,677,000 in the same period last year. Revenue from rare earth segment increased by approximately 5% from HK\$131,130,000 in the same period last year to approximately HK\$137,310,000, and accounted for around 56% of the Group’s total revenue. Segment revenue of the Group’s refractory materials was HK\$105,737,000, down about 18% from HK\$129,547,000 in

the same period last year, making up approximately 44% of the Group's total revenue. As product prices rebounded at the end of the review period, provision for inventories was saved in cost of sales. In the first half of the year, continuing the development trend in the second half of last year, the Group recorded an about 3% gross profit margin (gross loss margin nearly zero in the same period last year). After deducting the outgoings incurred during suspension of operations and all expenses, the Group recorded net loss of approximately HK\$43,339,000 for the period (2016: HK\$48,677,000). Loss per share was around HK1.82 cents (2016: HK2.01 cents).

Business Review

Rare Earth Business

In the first half of the year, to facilitate return of rare earth price to a reasonable level, three rounds of national rare earth hoarding reserve tenders in China were completed in January, March and May respectively, which gave increase of rare earth prices a strong brace. The move to counter illegal and irregular operations led by the MIIT has become routine and, as a result, rare earth supply reduced in the mainland. In addition, the integration of the six major rare earth groups was basically completed, meaning prices of rare earth are going to move upward.

During the period under review, the supply of rare earth shrank in the market. As enterprises began to replenish stock and costs increased, the prices of rare earth picked up faster in second quarter of the year than first quarter, and the chances of them coming down in the future are slim. Compared with the same period last year, the price of dysprosium oxide sold by the Group during the review period was basically flat; that of neodymium oxide rose by less than 10%; erbium oxide and gadolinium oxide prices went up 15% to 20%; europium oxide, cerium oxide and terbium oxide prices shot up around 30% or more, while the prices of lanthanum oxide and yttrium oxide were down by around 20% to 30%. As crackdown on illegal and irregular rare earth practices continued in the PRC, supply of rare earth resources was tight, plus the authority stepping up rare

earth total production volume control, and the Group itself taking cost control into consideration, the Group expected to lean on trading in the first half year and increase output in the second half year, and had met and will meet customer demands accordingly. Up to 30 June 2017, the Group had sold around 1,100 tonnes of rare earth oxides, over 40% more than the approximately 770 tonnes in the same period last year. During the period, revenue derived from rare earth oxides was similar to the costs. Regarding fluorescent materials, with the LED industry in China prospering, demand for trichromatic fluorescent lamps has been decreasing gradually. During the period under review, the sales amount and sales volume of fluorescent materials fell around 40% when compared with the same period last year. Average costs also increased because of lower production volume and the increased unit price of rare earth oxides. Gross loss margin rose to around 10%. The Group's rare earth segment recorded, after consolidation, a gross loss margin of around 2% only for period under review.

The Group reduced production and preserved capital in coping with risks. It also strived to achieve sustainable development and strengthen environmental protection standards. It was just announced that the Group's subsidiary Yixing Xinwei Leeshing Rare Earth Company Limited was recognised as a "green enterprise" ranked top in the grading in the environmental credit evaluation conducted in 2016 by the Jiangsu Environmental Protection Department on 1,064 national key pollution control enterprises, which is a testament to the Group's outstanding achievement in the rare earth industry.

By geographical market, China remained the largest market for the Group's rare earth products, accounting for around 65% of the revenue of its rare earth business. Among overseas markets, Japan, Europe and the US accounted for around 18%, 8% and 5% respectively.

Refractory Materials Business

During the period under review, steel price continued to rise in China and profit and valuation followed, so the demand for refractory materials also increased. In the first half of the year, the Central Environmental Protection Inspection Team launched large scale environmental protection inspection in Liaoning Province to investigate such illegal conducts as collusion between government officials and businesses, hence industrial activities grinded to halt in the region, and that led to severe shortage in supply of magnesium grain in the country. Facing raw materials shortage, large refractory materials suppliers asked for higher prices in tenders, as such previously prevalent price competition in the market was eased.

In the first half of 2017, sales volume of ordinary refractory materials and high temperature ceramics products of the Group picked up to around 13,600 tonnes, approximately 25% more than in the same period last year. Selling prices of principal products such as magnesium chrome bricks, alumina-graphite bricks and casting materials were basically similar to the prices in the last corresponding period with less than 10% fluctuation. Thanks to the effective cost control and a leaner labour force, gross profit margin of the division rose to more than 10%. Regarding the magnesium grain business, as the Group was required to facilitate the investigation of the Central Environmental Protection Inspection Team, production of high purity magnesium grain was suspended most of the time for rectification work. The impact on fused magnesium grain business was, however, minimal. During the period, the Group sold around 14,000 tonnes of magnesium grain products in total, around 60% less than that in the same period of 2016. Unit sale price dropped in the first two months and rebounded notably in April and May. The significant drop in sales amount dragged down gross profit margin to around 5%. Gross profit margin of the refractory materials segment, after consolidation, was around 9% for the period under review.

By geographical market, China remained the Group's core market for refractory materials business with sales accounting for about 83% of all sales made by the segment. Sales to Japan accounted for about 11%, while Europe and other markets occupied about 6%.

Prospects

In July this year, the MIIT announced the second batch of rare earth total production volume control plan for 2017. According to its original plan, the Group will increase production volume of rare earth oxide in the second half this year to retain long-term customers and secure new ones. From the end of review period till present, prices of rare earth still seem to be advancing on the uptrend, and high prices are expected for the two rounds of hoarding reserve plan in the second half of the year. As the supply of rare earth minerals in China is under growing pressure at the crackdown on related illegal activities, the Group will keep close communication with suppliers to secure sufficient supply. Furthermore, the Group is negotiating with overseas rare earth operators on cooperation, with the hope of opening more raw materials supply channels. The Group will also explore opportunities to invest in overseas rare earth mines.

Regarding refractory materials, the market is expected to grow in steady strides. The Group will keep improving product and service quality and take the initiative to maintain communication with existing and potential customers in the bid to expand market share. The Group will also push to do better on collection of receivables to lower the risk of bad debts. As for the magnesium grain business, environmental protection rectification at the Group's factory is expected to be completed in the third quarter of the year, and with the increasing trend of the price of magnesium grain, it is hoped to boost the Group's profit. On the other hand, as the government has changed its policy in relation to mine resources, the Group's original plan of investing in a magnesite mine in northeastern China was affected. Currently, the Group is carefully evaluating the plan.

Liquidity and Financial Resources

The Group maintains a stringent financial strategy and retains adequate liquidity for future potential acquisition and development. As at 30 June 2017, the Group had cash and bank deposits valued at a total of approximately HK\$1,753,539,000. Net current assets amounted to approximately HK\$2,225,284,000, with the total liabilities to total assets ratio at around 9%. Carrying from last year, the Group had short-term loans of RMB70,200,000 provided by domestic banks and financial institutions, part of which was secured with land and plant of a carrying value of approximately HK\$39,907,000 as pledge.

Save for the above, as at 30 June 2017, the Group had no charge on its assets, nor had 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. During the period, the exchange rates of Renminbi increased slightly, but the overall trend was stable.

Staff and Remuneration

The Group continued to reduce employee number during the period and currently it has a workforce of approximately 570. The Group provides employees with a good working environment and a comprehensive staff remuneration and welfare system. During the period, the Group's staff costs amounted to approximately HK\$21,560,000, including directors' emoluments, 23% less year-on-year. The Group also offers training to employees to maintain their professional competence.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2017 (2016: Nil).

SHARE OPTION SCHEME

At the Company's annual general meeting held on 6 June 2014, the shareholders of the Company approved the adoption of a share option scheme (the "New Scheme") after the share option scheme, which was previously adopted on 4 June 2004, lapsed on 3 June 2014 for the purpose of providing incentives to participants for their contribution to the Group. During the six months ended 30 June 2017, there was no option granted, cancelled or lapsed under the New Scheme.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

As at 30 June 2017, 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 (the "SFO") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

1. Interests in shares of the Company

Director	Nature of interest/Capacity	Number of shares	% to the issued share capital of the Company
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.

YY Holdings Limited pledged its 740,000,000 shares of the Company, representing approximately 31.60% of the issued share capital of the Company, to Advanced Idea Global Limited in respect of a term loan facility granted by Advanced Idea Global Limited to 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 2017, 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 2017, 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.
3. YY Holdings Limited pledged its 740,000,000 shares of the Company, representing approximately 31.60% of the issued share capital of the Company, to Advanced Idea Global Limited in respect of a term loan facility granted by Advanced Idea Global Limited to YY Holdings Limited. Advanced Idea Global Limited is wholly owned by VMS Investment Group Limited, which is in turn wholly owned by VMS Holdings Limited, a company wholly owned by Ms. Mak Siu Hang Viola.

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 2017.

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 2017.

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 2017 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 2017.

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 2017.

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 2017