



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 2009

CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Independent Non-executive Directors

Mr Liu Yujiu
Mr Huang Chunhua
Mr Jin Zhong

AUDIT COMMITTEE

Mr Liu Yujiu
Mr Huang Chunhua
Mr Jin Zhong

REMUNERATION COMMITTEE

Mr Jiang Quanlong
Mr Liu Yujiu
Mr Huang Chunhua
Mr Jin Zhong

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

Yixing
Jiangsu Province, PRC

PLACE OF BUSINESS IN HONG KONG

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

HONG KONG LEGAL ADVISERS

Chiu & Partners

AUDITORS

CCIF CPA Limited

PRINCIPAL BANKERS

PRC

Bank of China
Industrial & Commercial Bank of China
China Construction Bank
China Merchants Bank

Hong Kong

Standard Chartered Bank
BNP Paribas
Citic Ka Wah Bank Limited
Bank of China
Nanyang Commercial Bank, Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705, George Town
Grand Cayman
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 consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2009 together with the comparative figures for the corresponding period in 2008 as follows:

CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
	<i>Note</i>	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Turnover	(3)	499,943	783,880
Cost of sales		(414,488)	(497,026)
Gross profit		85,455	286,854
Interest income		6,907	4,551
Selling and distribution expenses		(14,273)	(28,033)
Administrative expenses		(27,694)	(18,438)
Other income, net		100	49,411
Finance costs	(4)	(9,453)	(3,385)
Profit before taxation	(5)	41,042	290,960
Income tax	(6)	(20,437)	(66,131)
Profit for the period		<u>20,605</u>	<u>224,829</u>
Attributable to:			
Equity shareholders of the Company		21,011	222,934
Minority interests		(406)	1,895
Profit for the period		<u>20,605</u>	<u>224,829</u>
Dividends	(7)	–	14,211
Earnings per share	(8)		
Basic		<u>1.48 cents</u>	<u>15.69 cents</u>
Diluted		<u>1.48 cents</u>	<u>15.68 cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**For the six months
ended 30 June**

	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period	20,605	224,829
Other comprehensive income for the period:		
Exchange differences on translation of financial statements of overseas subsidiaries	—	99,160
	<hr/>	<hr/>
Total comprehensive income for the period	20,605	323,989
	<hr/>	<hr/>
Attributable to:		
Equity shareholders of the Company	21,011	320,195
Minority interests	(406)	3,794
	<hr/>	<hr/>
Total comprehensive income for the period	20,605	323,989
	<hr/>	<hr/>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	30 June 2009 HK\$'000 (Unaudited)	31 December 2008 HK\$'000 (Audited)
Non-current assets			
Goodwill		85,843	85,843
Property, plant and equipment	(9)	668,096	715,124
Prepaid lease payments			
on land under operating leases		259,571	262,444
Intangible assets	(10)	363,842	379,014
Pledged bank deposit		–	15,000
Restricted bank balance		23,250	22,678
Deferred tax assets		20,819	20,432
		1,421,421	1,500,535
Current assets			
Prepaid lease payments			
on land under operating leases		5,746	5,746
Inventories		285,100	308,837
Trade and other receivables	(11)	376,911	412,019
Prepayments and deposits		46,372	70,042
Tax recoverable		17,232	27,799
Pledged bank deposits		127,298	119,797
Restricted bank balances		4,536	4,309
Cash and cash equivalents		860,530	765,252
		1,723,725	1,713,801
Current liabilities			
Trade payables	(12)	108,747	116,189
Accruals and other payables		69,798	97,120
Amounts due to directors		778	667
Bank borrowings due within one year	(13)	167,452	140,123
Tax payable		8,457	9,712
Deferred consideration payables			
for acquisition of subsidiaries	(14)	–	115,659
		355,232	479,470
Net current assets		1,368,493	1,234,331
Total assets less current liabilities		2,789,914	2,734,866

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	<i>Note</i>	30 June 2009 HK\$'000 (Unaudited)	31 December 2008 HK\$'000 (Audited)
Non-current liabilities			
Bank borrowings		193,750	155,000
Deferred tax liabilities		102,030	106,337
		<hr/> 295,780 <hr/>	<hr/> 261,337 <hr/>
NET ASSETS		<u>2,494,134</u>	<u>2,473,529</u>
CAPITAL AND RESERVES			
Share capital		142,114	142,114
Reserves		2,323,264	2,302,253
		<hr/> 2,465,378 <hr/>	<hr/> 2,444,367 <hr/>
Equity attributable to equity shareholders of the Company		28,756	29,162
Minority interests		<hr/> 28,756 <hr/>	<hr/> 29,162 <hr/>
TOTAL EQUITY		<u>2,494,134</u>	<u>2,473,529</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity shareholders of the Company

	Share capital		Building		Statutory reserves	Exchange		Retained profits	Total	Minority interests	Total equity
	HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	revaluation reserve HK\$'000		Dividend reserve HK\$'000	translation reserve HK\$'000				
At 1 January 2009	142,114	1,152,531	22,348	29,796	138,307	-	278,469	680,802	2,444,367	29,162	2,473,529
Profit for the period	-	-	-	-	-	-	-	21,011	21,011	(406)	20,605
Other comprehensive income for the period	-	-	-	(1,434)	-	-	-	1,434	-	-	-
Total comprehensive income for the period	-	-	-	(1,434)	-	-	-	22,445	21,011	(406)	20,605
Appropriations to statutory reserves	-	-	-	-	1,416	-	-	(1,416)	-	-	-
At 30 June 2009	142,114	1,152,531	22,348	28,362	139,723	-	278,469	701,831	2,465,378	28,756	2,494,134
At 1 January 2008	142,114	1,152,531	22,348	-	117,962	56,846	143,561	886,330	2,521,692	28,232	2,549,924
Profit for the period	-	-	-	-	-	-	-	222,934	222,934	1,895	224,829
Other comprehensive income for the period	-	-	-	-	-	-	97,261	-	97,261	1,899	99,160
Total comprehensive income for the period	-	-	-	-	-	-	97,261	222,934	320,195	3,794	323,989
Final dividend paid for 2007	-	-	-	-	-	(56,846)	-	-	(56,846)	-	(56,846)
Dividend set aside	-	-	-	-	-	14,211	-	(14,211)	-	-	-
Appropriations to statutory reserves	-	-	-	-	7,729	-	-	(7,729)	-	-	-
At 30 June 2008	142,114	1,152,531	22,348	-	125,691	14,211	240,822	1,087,324	2,785,041	32,026	2,817,067

Note:

Under the Companies Law (1998 Revision) of the Cayman Islands, the share premium account is distributable to the shareholders 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**

	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	141,052	193,078
Net cash used in investing activities	(102,400)	(43,581)
Net cash generated from/(used in) financing activities	56,626	(35,717)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	95,278	113,780
Cash and cash equivalents at beginning of the period	765,252	651,992
Effect of changes in exchange rate	–	44,549
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	860,530	810,321
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. BASIS OF PREPARATION AND CHANGES IN 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 ("HKAS") 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 2008, 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 2008, except for the accounting policy changes that are expected to be reflected in the annual financial statements for the year ending 31 December 2009. Details of these changes in accounting policies are set out below.

The HKICPA has issued a number of new standards, amendments and interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's condensed consolidated interim financial information:

- HKFRS 8 "Operating segments"
- HKAS 1 (revised 2007) "Presentation of financial statements"
- Improvements to HKFRSs (2008)
- Amendments to HKAS 27 "Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate"
- Amendments to HKFRS 7 "Financial instruments: Disclosures – improving disclosures about financial instruments"
- Amendments to HKFRS 2 "Share-based payment – vesting conditions and cancellations"

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

The key impact of these developments on the condensed consolidated interim financial information is as follows:

- HKFRS 8 requires segment disclosures to be based on the way that the Group's chief operation decision maker regards and manages the Group. The adoption of HKFRS 8 has resulted in the basis presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management. It has no material effect on the condensed consolidated interim financial information of the Group for the current or prior accounting periods.
- As a result of adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expenses are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. This change in presentation has no effect on reported profit and loss, total income and expense or net assets for the period presented.

The application of other new standards, amendments and interpretations have no material impact on the results and the financial position of the Group for the current or prior accounting periods. Accordingly, no prior year adjustment is required.

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 2009. The directors of the Company anticipate that the application of these new standards, amendments and interpretations will have no material impact on the results and financial position of the Group.

2. SEGMENT INFORMATION

The Group manages its businesses by divisions, which are organised by business lines. On first-time adoption of HKFRS 8 and in a manner consistent with the way in which information is reported internally to 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 identified two reportable segments as follows:

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

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

(a) Segment results, assets and liabilities

	Rare Earth		Refractory		Total	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
For the six months ended 30 June						
Reportable segment revenue (revenue from external customers)	259,670	346,947	240,273	436,933	499,943	783,880
Reportable segment profit (adjusted profit before taxation)	4,758	81,566	47,289	164,330	52,047	245,896
Interest income	4,436	914	941	1,432	5,377	2,346
Finance costs	(2,902)	(3,364)	-	-	(2,902)	(3,364)
Depreciation and amortisation	(39,216)	(23,055)	(26,202)	(22,539)	(65,418)	(45,594)
Income tax	(8,531)	(21,844)	(11,906)	(44,287)	(20,437)	(66,131)

2. SEGMENT INFORMATION (Continued)

(a) Segment results, assets and liabilities (Continued)

	Rare Earth		Refractory		Total	
	30 June 2009 HK\$'000	31 December 2008 HK\$'000	30 June 2009 HK\$'000	31 December 2008 HK\$'000	30 June 2009 HK\$'000	31 December 2008 HK\$'000
Reportable segment assets	<u>1,762,650</u>	<u>1,757,339</u>	<u>1,598,474</u>	<u>1,589,510</u>	<u>3,361,124</u>	<u>3,346,849</u>
Additions to non-current segment assets	<u>233</u>	<u>545</u>	<u>115</u>	<u>59,334</u>	<u>348</u>	<u>59,879</u>
Reportable segment liabilities	<u>637,927</u>	<u>652,470</u>	<u>207,428</u>	<u>235,825</u>	<u>845,355</u>	<u>888,295</u>

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

	For the six months ended 30 June	
	2009 HK\$'000	2008 HK\$'000
Profit		
Reportable segment profit	52,047	245,896
Interest income	6,907	4,551
Other income, net	100	49,411
Finance costs	(9,453)	(3,385)
Unallocated corporate expenses	(8,559)	(5,513)
Profit before taxation	<u>41,042</u>	<u>290,960</u>

2. SEGMENT INFORMATION (Continued)

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

	30 June 2009 HK\$'000	31 December 2008 HK\$'000
Assets		
Reportable segment assets	3,361,124	3,346,849
Elimination of inter-segment receivables	(446,048)	(332,379)
	2,915,076	3,014,470
Unallocated corporate assets	230,070	199,866
Total assets	3,145,146	3,214,336
Liabilities		
Reportable segment liabilities	845,355	888,295
Elimination of inter-segment payables	(446,048)	(332,379)
	399,307	555,916
Unallocated corporate liabilities	251,705	184,891
Total liabilities	651,012	740,807

3. TURNOVER

	For the six months ended 30 June	
	2009 HK\$'000	2008 HK\$'000
Sales of rare earth products (including fluorescent products)	259,670	346,947
Sales of refractory products (including high temperature ceramics products and magnesium grains)	240,273	436,933
	499,943	783,880

4. FINANCE COSTS

	For the six months ended 30 June	
	2009 HK\$'000	2008 HK\$'000
Interest expenses on bank borrowings wholly repayable within five years	<u>9,453</u>	<u>3,385</u>

5. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	For the six months ended 30 June	
	2009 HK\$'000	2008 HK\$'000
Depreciation of property, plant and equipment	47,376	43,524
Amortisation of prepaid lease payments on land under operating leases	2,873	2,075
Amortisation of intangible assets	<u>15,172</u>	<u>-</u>

6. INCOME TAX

	For the six months ended 30 June	
	2009 HK\$'000	2008 HK\$'000
Current tax – Enterprise income tax (“EIT”) – Provision for the period	25,131	66,131
Deferred taxation – Origination and reversal of temporary differences	<u>(4,694)</u>	<u>-</u>
Income tax charge	<u>20,437</u>	<u>66,131</u>

6. INCOME TAX *(Continued)*

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

No provision for Hong Kong profits tax has been made as the Group had no assessable profits subject to Hong Kong profits tax during the period.

The PRC subsidiaries of the Group are subject to PRC EIT at 25% (2008: 25%), except for two PRC subsidiaries of the Group, which are entitled to the exemptions from PRC EIT for two years starting from 2008, followed by a 50% tax relief for the next three years.

7. DIVIDENDS

During the six months ended 30 June 2009, no final dividend for previous year was declared and paid. For the six months ended 30 June 2008, final dividend for the previous year of HK\$0.04 per share amounted to approximately HK\$56,846,000 was declared and paid.

For the six months ended 30 June 2009, no interim dividend was declared. For the six months ended 30 June 2008, an interim dividend of HK\$0.01 per share amounted to approximately HK\$14,211,000 was declared.

8. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's profit attributable to equity shareholders of the Company of approximately HK\$21,011,000 (2008: HK\$222,934,000) and the weighted average number of ordinary shares of 1,421,143,059 (2008: 1,421,143,059) in issue during the six months ended 30 June 2009.

Diluted earnings per share for the six months ended 30 June 2009 is the same as the basic earnings per share as there is no potential dilutive ordinary shares outstanding during the period. For the six months ended 30 June 2008, the calculation of the diluted earnings per share is based on the Group's profit attributable to equity shareholders of the Company of approximately HK\$222,934,000 and the weighted average number of ordinary shares of 1,421,679,172 in issue after adjusting for the effect of all dilutive potential ordinary shares during the period.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2009, the Group spent approximately HK\$348,000 (2008: HK\$59,879,000) on additions to property, plant and equipment.

10. INTANGIBLE ASSETS

At 30 June 2009, intangible assets comprised:

	30 June 2009 HK\$'000	31 December 2008 HK\$'000
Exclusive right to purchase rare earth minerals	195,205	201,502
Technical know-how for preliminary separation of rare earth minerals	58,603	61,687
Technical know-how for rare earth metal products	110,034	115,825
	<hr/> 363,842 <hr/>	<hr/> 379,014 <hr/>

11. TRADE AND OTHER RECEIVABLES

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

At 30 June 2009, trade and other receivables comprised:

	30 June 2009 HK\$'000	31 December 2008 HK\$'000
Trade and bills receivables	366,812	402,751
Other receivables	10,099	9,268
	<hr/> 376,911 <hr/>	<hr/> 412,019 <hr/>

11. TRADE AND OTHER RECEIVABLES (Continued)

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

	30 June 2009 HK\$'000	31 December 2008 HK\$'000
Current to less than 6 months	307,780	324,764
6 months to less than 1 year	59,474	82,510
1 to less than 2 years	21,011	17,603
Over 2 years	5,513	4,840
	<hr/>	<hr/>
	393,778	429,717
Less: Impairment loss	(26,966)	(26,966)
	<hr/>	<hr/>
	366,812	402,751
	<hr/> <hr/>	<hr/> <hr/>

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

12. TRADE PAYABLES

An ageing analysis of trade payables is as follows:

	30 June 2009 HK\$'000	31 December 2008 HK\$'000
Current to less than 6 months	90,778	104,530
6 months to less than 1 year	12,701	6,854
1 to less than 2 years	3,450	3,329
Over 2 years	1,818	1,476
	<hr/>	<hr/>
	108,747	116,189
	<hr/> <hr/>	<hr/> <hr/>

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

13. BANK BORROWINGS

At 30 June 2009, the bank borrowings are repayable as follows:

	30 June 2009 HK\$'000	31 December 2008 HK\$'000
Within 1 year or on demand	167,452	140,123
After 1 year but within 2 years	116,250	77,500
After 2 years but within 5 years	77,500	77,500
	361,202	295,123
Denominated in:		
Renminbi	105,511	108,062
United States Dollars	242,691	164,561
Hong Kong Dollars	13,000	22,500
	361,202	295,123

All bank borrowings are fixed rate borrowings which carry prevailing interest rates ranging from 1.45% to 6.5% (2008: ranging from 1.88% to 6.5%) per annum.

Except for unsecured long-term bank borrowings of HK\$232,500,000 (2008: HK\$155,000,000), the remaining bank borrowings were secured by the pledged bank deposits of approximately HK\$127,298,000 (2008: HK\$134,797,000) and trade receivables of approximately HK\$10,782,000 (2008: HK\$10,672,000). As at 30 June 2009, the bank had undrawn banking facilities of approximately HK\$22,000,000 (2008: HK\$90,000,000).

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

14. DEFERRED CONSIDERATION PAYABLES FOR ACQUISITION OF SUBSIDIARIES

During the six months ended 30 June 2009, deferred consideration payables for acquisition of subsidiaries was fully settled in cash.

15. COMMITMENTS

At end of the period, the Group had the following commitments, so far as not provided for in the condensed consolidated interim financial information, in respect of:

- (a) Capital commitments in respect of acquisition and construction of property, plant and equipment:

	30 June 2009 HK\$'000	31 December 2008 HK\$'000
Contracted but not provided for	<u>17</u>	<u>57,220</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 2009 HK\$'000	31 December 2008 HK\$'000
Within one year	<u>1,379</u>	1,413
In the second to fifth year inclusive	<u>725</u>	1,415
	<u>2,104</u>	<u>2,828</u>

Operating lease payments represent rentals payable by the Group for certain of its office and factory premises. Leases and rentals are negotiated and fixed for an average of three years.

16. RELATED PARTY TRANSACTIONS

Save as those disclosed elsewhere in the condensed consolidated interim financial information, there was no material related party transactions during the period.

17. SUBSEQUENT EVENTS

Pursuant to a placing and subscription agreement dated 28 July 2009, the Company issued 130,000,000 new ordinary shares at HK\$1.50 per share with total cash consideration at HK\$195,000,000 on 11 August 2009.

18. COMPARATIVE FIGURES

As a result of the application of HKAS 1 (revised 2007) and HKFRS 8 as mentioned in note 1, certain comparative figures have been provided to conform to the current period's presentation in respect of items disclosed for the first time in 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

During the period under review, given the slow resolution of the global financial crisis, all business development of the Group was adversely affected by the consistently weak economy condition, a stark difference when compared with the same period last year when the market was booming. The Jianghua Yao Nationality Autonomous County Xinghua Rare Earth Company Limited (“Xinghua Rare Earth”) and Heping County Dongye Rare Earth Company Limited (“Dongye Rare Earth”), which were acquired late last year by the Group, began to contribute profit to the Group during the period.

For the six months ended 30 June 2009, the Group recorded a turnover of HK\$499,943,000, approximately 36% less than the HK\$783,880,000 made in the same period last year. Turnover from rare earth products (including fluorescent materials) was HK\$259,670,000, around 25% less than the HK\$346,947,000 in the same period last year and accounting for 52% of the Group's total turnover. Refractory materials business (including high temperature ceramics and magnesium grains) brought in HK\$240,273,000 in turnover, around 45% less than the HK\$436,933,000 recorded in the corresponding period last year and accounting for 48% of the Group's total turnover. The Group's overall gross profit margin was around 17%.

The Group made profit before taxation of HK\$41,042,000, a sharp decline of about 86% when compared to HK\$290,960,000 of the last corresponding period. After deducting taxation of HK\$20,437,000, net profit of the Group amounted to HK\$20,605,000. Earnings per share for the period were 1.48 HK cents.

Business Review*Rare Earth Business*

Hit hard by the global financial crisis, economies around the world continued to deteriorate and consumer confidence plummeted in the first half of 2009 which affected the demand for various products such as motor vehicles and consumer electronics. As a result, the turnover of the Group's rare earth business decreased by 25% to HK\$259,670,000. During the period, the Group only sold approximately 1,000 tonnes of rare earth oxides and downstream products, about 67% less than the quantity sold in the same period last year. Average gross profit margin of the business decreased to about 11%.

Regarding rare earth oxides, the prices of most products dropped amid the sluggish market. For example, praseodymium, neodymium, terbium and dysprosium which are mainly used in magnetic materials dropped by around 30% to 70% in price when compared with the last corresponding period. With sales volume down notably and the general reduction in product price, turnover for the period decreased by more than 50% when compared with the same period last year. Regarding raw material supply, although the prices of major rare earth resources dropped, they were not as sharp as the drop in selling price of products, and with production volume reduced, average cost was pushed up. Thus, the Group recorded operating loss for rare earth oxides business.

The performance of fluorescent materials was also less satisfactory than last year. As the majority of lighting factories in China are exporters to overseas markets in Europe and the United States and those economies went into recession, and correspondingly sales of the Group's fluorescent materials were hampered, turnover was dragged down by about 60%. With reduced production volume leading to rise in average cost, gross profit margin of the division was squeezed to below 15%.

Despite the lack lustre performances of the aforementioned rare earth oxides and downstream products, thanks to the additional contribution from the businesses of rare earth salt derived from preliminary separation of rare earth by groups and rare earth metal products which were newly acquired by the Group, rare earth business was bolstered in both sales and profit. During the period under review, the Group sold about 1,100 tonnes of rare earth salt and about 180 tonnes of rare earth metal. With gross profit margins higher than those of the other rare earth products, these two kinds of products helped to partially offset the decrease in sales of rare earth oxides and fluorescent materials. However, eroded by amortisation of intangible assets, the net profit contribution from these two kinds of products amounted to only approximately HK\$20,000,000 in the first half of the year.

Refractory Materials Business

Refractory materials business was not spared either and shrank substantially in the undesirable macroeconomic climate. The operating environment of the steel and glass industries was affected by the macro economy under pressure in China. Although the demand for refractory materials began to pick up in the second quarter of this year, sales were still sluggish. Turnover from the business for the first half year dropped 45% to HK\$240,273,000 against HK\$436,933,000 of the last corresponding period. As for ordinary refractory materials and high temperature ceramics, sales amount and sales volume were dropped by 42% and 48% respectively. Of the different products in this segment, unshaped casting materials which command a higher gross profit margin recorded a relatively bigger drop of around 90% in turnover when compared with the last corresponding period, making it the main attributor to the dwarfed turnover of the segment. The selling price of most of the products in this segment also declined. The selling price of high temperature ceramics was down overall whereas the average price of fused magnesium bricks in the ordinary refractory materials category had an approximately 40% rise in average selling price which mitigated the overall reduction. In terms of gross profit margin, that of ordinary refractory materials was maintained at above 30% during the period under review and that of high temperature ceramics was at about 20% because of the drop in selling price and sales volume.

As for the fused magnesium grains business, its performance was also restricted by the drop in demand for refractory materials. The Group externally sold only approximately 5,000 tonnes of fused magnesium grains during the period under review, down by more than 70% when compared with the last corresponding period. The drop in sales volume also led to a significant rise in average cost and in turn gross profit margin to narrow to less than 20%.

Prospects

The rare earth market has remained uncertain entering the second half year. Although demand has been recovering gradually, it will still take time for the prices of products to climb. In around May and June of the year, demand for fluorescent materials started to rise, which is an indicator of the worst time for the industry has passed. The synergies resulting from the acquisition of Xinghua Rare Earth and Dongye Rare Earth will also alleviate the negative impacts from the macro economy. Furthermore, determined to protect strategic national resources and support development of the rare earth industry in the long run, the Chinese Government has been gradually reducing the annual export quotas of rare earth products and tightening control over rare earth mining. All these taken into account, the Group remains optimistic about the prospects of the rare earth industry.

To keep expanding its downstream rare earth business and enhancing the added value of products, the Group is working with a leading overseas lamp company to form a joint venture to research, develop, produce and sell quality fluorescent material products. Total investment is estimated at EURO43,500,000. Pursuant to the existing proposal, the Group and the joint venture partner will hold 49.9% and 50.1% interest respectively in the joint venture company, which will have an annual production capacity of about 2,000 tonnes and will sell its major products in the PRC as well as international markets.

In addition, the Group intends to invest around RMB200,000,000 in a high-end LCD rare earth polishing powder production line. The new products, when launched, can satisfy the excess demand of such products in the country currently relying mainly on imports. Upon completion of the project, the Group's annual production capacity for polishing powder will reach 2,000 tonnes, and the production is expected to gradually begin in 2010.

As for refractory material business, it started to pick up in the second quarter after the decline in the first quarter of the year, and, stepping into the third quarter, it has shown more apparent signs of recovery. The business of magnesium grains has also warmed up as a result. Thus, the Group intends to start trial production of phase I of the completed high purity magnesium grains line within a month. It expects related production to generate strong returns for the Group.

Liquidity and Financial Resources

As at 30 June 2009, the Group had cash and bank deposits totaling approximately HK\$1,015,614,000, including deposits valued at around HK\$127,298,000 pledged with banks. In addition, trade receivables valued at around HK\$10,782,000 was also pledged. The pledged deposits and the pledged trade receivables were for securing short term bank loans at HK\$128,702,000 and US\$30,000,000 three-year bank loans. The Group had no material contingent liability and its net current assets were amounted to HK\$1,368,493,000 with total liabilities to total assets ratio at around 21%.

The Group was not exposed to material foreign currency or interest rate risk. Except for the stated deposits and trade receivables pledged, the Group had no other charge on assets.

Placing of Shares

Subsequent to the review period, the Company mounted a fund raising exercise. During the period of July and August of the year, the Company issued 130,000,000 new shares at HK\$1.50 per share by way of placement of existing shares and subscription of new shares. Upon completion of the transaction, the number of issued shares of the Group increased to 1,551,143,059. The net proceeds from the placing will be used as general working capital.

Staff and Remuneration

As at 30 June 2009, the Group had a workforce of approximately 1,300, which was offered with comprehensive remuneration and welfare packages. During the period, around HK\$18,346,000 was incurred in staff costs including directors' emoluments.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2009.

SHARE OPTION SCHEME

On 4 June 2004, the shareholders of the Company approved the termination of the share option scheme adopted on 14 October 1999 (the "Old Scheme") and the adoption of a new scheme for the purpose of coping with the amendments introduced to Chapter 17 of the Listing Rules. Upon the termination of the Old Scheme, no further options would be offered pursuant to the Old Scheme but the Old Scheme would in all other respects remain in force to the extent necessary to give effect to the exercise of the outstanding options granted under it prior to its termination, and such outstanding options will continue to be valid and exercisable in accordance with the provisions of the Old Scheme.

Details of options which have been granted under the Old Scheme and remain outstanding as at 30 June 2009 were as follows:

Grantee	Date of grant	Exercise price	Number of options	
			Held at 1 January 2009	Held at 30 June 2009
Employees				
In aggregate	23 January 2003	HK\$1.10	1,500,000	1,500,000

The options granted are exercisable between 27 January 2003 to 26 January 2013, provided that 50% of the options granted shall not be exercised prior to 27 January 2004. No option was granted, exercised, cancelled or lapsed during the period.

DIRECTORS' INTERESTS AND SHORT POSITIONS

As at 30 June 2009, 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 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	595,200,000 (Note)	41.88%
Qian Yuanying	Founder of a trust	595,200,000 (Note)	41.88%
Huang Chunhua	Beneficial owner	1,000,000	0.07%

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 children. Ms Qian Yuanying is a founder of YY Trust within the meaning under Part XV of the SFO. Mr Jiang Quanlong is the sole director 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 children. Ms Qian Yuanying is a founder of YY Trust within the meaning under Part XV of the SFO. Mr Jiang Quanlong is the sole director of YYT (PTC) Limited.

Save as disclosed above, as at 30 June 2009, 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 2009, 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 595,200,000 shares of the Company, representing approximately 41.88% of the issued share capital of the Company as beneficial owner.
2. YYT (PTC) Limited was deemed to be interested in 595,200,000 shares of the Company held by YY Holdings Limited the entire issued share capital of which is held by YYT (PTC) Limited.
3. Martin Currie (Holdings) Limited was deemed to be holding 107,675,000 shares of the Company, representing approximately 7.58% of the issued share capital of the Company through the interest of corporations controlled by it.

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 2009.

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 2009.

AUDIT COMMITTEE

The Audit Committee has reviewed, with the assistance of the Company's auditors, the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the interim financial statements for the six months ended 30 June 2009 which have not been audited.

CORPORATE GOVERNANCE

The Company is committed to attaining good corporate governance practices and procedures. The Company has adopted its own code of corporate governance based on the principles and code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules and has complied with it throughout the six months ended 30 June 2009.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standards set out in Appendix 10 of the Listing Rules. Having made specific enquiry, the Company confirms that all directors have complied with the required standards as stated in the code throughout the six months ended 30 June 2009.

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 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, Ms Xu Panfeng and Mr Jiang Cainan as executive directors and Mr Liu Yujiu, Mr Huang Chunhua and Mr Jin Zhong as independent non-executive directors.

By order of the Board
Jiang Quanlong
Chairman

Hong Kong, 22 September 2009