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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)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2015**

The Board of Directors (the “Board”) of China Rare Earth Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2015 together with the comparative figures for the corresponding year in 2014 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the year ended 31 December	
	<i>Note</i>	2015 HK\$'000	2014 HK\$'000 (Restated)
Revenue	(3)	843,110	1,183,786
Cost of sales		<u>(943,575)</u>	<u>(1,292,332)</u>
Gross loss		(100,465)	(108,546)
Other income		5,600	6,098
Selling and distribution expenses		(28,075)	(46,194)
Administrative expenses		(73,321)	(78,097)
Impairment loss on property, plant and equipment		(94,916)	–
Impairment loss on prepaid lease payments on land under operating leases		(14,753)	–
Gain on disposal of interest in a joint venture		–	11,974
Gain on deemed disposal of interest in a joint venture	(11)	–	2,750
Gain on bargain purchase of interest in a subsidiary	(11)	–	24,225
Gain on disposal of interest in a subsidiary	(12)	–	77,379
Other net gain		43,283	12,543
Loss from operations		(262,647)	(97,868)
Finance costs	(4)	(1,436)	(3,337)
Share of profits of joint ventures		<u>–</u>	<u>2,583</u>
Loss before taxation	(5)	(264,083)	(98,622)
Income tax charge	(6)	(3,535)	(3,406)
Loss for the year		<u>(267,618)</u>	<u>(102,028)</u>

		For the year ended	
		31 December	
		2015	2014
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(Restated)
Loss for the year attributable to:			
Owners of the Company		(256,650)	(92,972)
Non-controlling interests		<u>(10,968)</u>	<u>(9,056)</u>
		<u>(267,618)</u>	<u>(102,028)</u>
		<i>HK cents</i>	<i>HK cents</i>
Loss per share			
Basic and diluted	(8)	<u>11.98</u>	<u>4.63</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

	For the year ended 31 December	
	2015	2014
<i>Note</i>	HK\$'000	<i>HK\$'000</i> (Restated)
Loss for the year	(267,618)	(102,028)
Other comprehensive loss for the year (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	(173,020)	(25,293)
Exchange differences on translation of financial statements of joint ventures	–	(816)
Fair value gain on available-for-sale equity securities	18,931	7,600
Release of fair value reserve upon disposal of available-for-sale equity securities	(29,491)	–
Release of translation reserve upon disposal of interest in a joint venture	–	(2,399)
Release of translation reserve upon deemed disposal of interest in a joint venture	(11) –	(8,706)
Release of translation reserve upon disposal of interest in a subsidiary	(12) –	(17,927)
Total other comprehensive loss for the year	(183,580)	(47,541)
Total comprehensive loss for the year	(451,198)	(149,569)
Total comprehensive loss for the year attributable to:		
Owners of the Company	(439,038)	(139,524)
Non-controlling interests	(12,160)	(10,045)
	(451,198)	(149,569)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at		
	31 December	31 December	2014	1 January
	2015	2014	2014	2014
<i>Note</i>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)
Non-current assets				
Goodwill	–	–		–
Property, plant and equipment	400,936	595,362		456,574
Prepaid lease payments on land under operating leases	153,358	182,725		183,844
Intangible asset	–	–		–
Interests in joint ventures	–	–		105,087
Available-for-sale equity securities	–	17,280		9,680
Deferred tax assets	4,695	5,465		4,749
Other non-current asset	18,100	19,222		19,288
	<u>577,089</u>	<u>820,054</u>		<u>779,222</u>
Current assets				
Prepaid lease payments on land under operating leases	4,379	4,651		4,587
Inventories	341,221	474,341		567,908
Trade and other receivables (9)	416,580	439,782		510,922
Prepayments and deposits	414,840	59,273		48,919
Tax recoverable	1,258	3,010		2,774
Restricted bank deposits	36,178	3,296		–
Cash and cash equivalents	1,396,365	1,386,003		1,369,054
	<u>2,610,821</u>	<u>2,370,356</u>		<u>2,504,164</u>
Current liabilities				
Trade and bills payables (10)	166,894	91,119		103,652
Accruals and other payables	78,248	95,430		25,650
Amounts due to directors	2,804	2,313		1,557
Tax payable	2,554	2,976		4,938
	<u>250,500</u>	<u>191,838</u>		<u>135,797</u>
Net current assets	<u>2,360,321</u>	<u>2,178,518</u>		<u>2,368,367</u>
Total assets less current liabilities	2,937,410	2,998,572		3,147,589
Non-current liabilities				
Deferred tax liabilities	886	962		410
NET ASSETS	<u>2,936,524</u>	<u>2,997,610</u>		<u>3,147,179</u>

	31 December	As at 31 December	1 January
	2015	2014	2014
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Restated)	(Restated)
CAPITAL AND RESERVES			
Share capital	234,170	167,264	167,264
Reserves	2,688,629	2,804,461	2,943,985
	<hr/>	<hr/>	<hr/>
Equity attributable to owners of the Company	2,922,799	2,971,725	3,111,249
Non-controlling interests	13,725	25,885	35,930
	<hr/>	<hr/>	<hr/>
TOTAL EQUITY	<u>2,936,524</u>	<u>2,997,610</u>	<u>3,147,179</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the consolidated financial statements are consistent with those followed in the preparation of the consolidated financial statements of the Group for the year ended 31 December 2014, except for the change in accounting policy for buildings held for own use and the amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) which are effective for accounting periods beginning on or after 1 January 2015.

(a) Change in accounting policy for buildings held for own use

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 at cost less accumulated depreciation and any impairment losses with effect from 1 January 2015. The Group also applied this change in accounting policy retrospectively. In addition, the Group’s buildings held for own use are not expected to be sold in the normal course of business, instead, the future economic benefits embodied in the buildings will be recovered principally through use in the Group’s operations. In the opinion of directors of the Company, this change in the accounting policy enables the Group to provide more relevant information in the financial statements about its performance.

In assessing this change in accounting policy, the Group has considered the requirements set out in Hong Kong Accounting Standard 8 “Accounting Policies, Changes in Accounting Estimates and Errors” (“HKAS 8”). HKAS 8 specifies that, amongst other things, for an entity to justify a change in accounting policy that is not mandatorily required by a new accounting standard or amendment to an existing accounting standard issued by the HKICPA, the entity must demonstrate that the change will result in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity’s financial position, financial performance or cash flows. The Group is satisfied that this change in accounting policy is justified by the relevant circumstances and therefore complies with HKAS 8.

Accordingly, the Group’s consolidated statement of financial position as at 1 January 2014 and 31 December 2014, and the Group’s consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014 are restated.

(b) Adoption of new and revised HKFRSs

The application of the amendments to HKFRSs has no material impact on the Group’s financial performance and positions for the current or prior accounting periods. Accordingly, no prior period adjustment is required.

2. SEGMENT INFORMATION

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to 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:	Manufacture and sales of rare earth products (including fluorescent products)
Refractory:	Manufacture and sales of refractory products (including high temperature ceramics products and magnesium grains)

(a) Segment revenue and results

	Rare Earth		Refractory		Total	
	2015 HK\$'000	2014 HK\$'000 (Restated)	2015 HK\$'000	2014 HK\$'000 (Restated)	2015 HK\$'000	2014 HK\$'000 (Restated)
REVENUE						
Revenue from external customers	500,419	842,628	342,691	341,158	843,110	1,183,786
Inter-segment revenue	35	44	–	–	35	44
Reportable segment revenue	<u>500,454</u>	<u>842,672</u>	<u>342,691</u>	<u>341,158</u>	<u>843,145</u>	<u>1,183,830</u>
RESULTS						
Reportable segment (loss)/profit	<u>(287,249)</u>	<u>(118,844)</u>	<u>4,950</u>	<u>30,823</u>	<u>(282,299)</u>	<u>(88,021)</u>

(b) Geographical information

Revenue from external customers:

	2015 HK\$'000	2014 HK\$'000
The People's Republic of China (the "PRC")	616,089	888,541
Europe	83,785	67,037
Japan	73,638	107,237
The United States of America	40,520	61,504
Others	29,078	59,467
	<u>843,110</u>	<u>1,183,786</u>

3. REVENUE

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Sales of rare earth products (including fluorescent products)	500,419	842,628
Sales of refractory products (including high temperature ceramics products and magnesium grains)	342,691	341,158
	<u>843,110</u>	<u>1,183,786</u>

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:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i> (Restated)
Depreciation of property, plant and equipment	78,443	75,975
Amortisation of prepaid lease payments on land under operating leases	4,511	4,791
	<u>82,954</u>	<u>80,766</u>

6. INCOME TAX CHARGE

Income tax charge for the year comprises:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i> (Restated)
Current tax – PRC Enterprise Income Tax		
Provision for the year	(663)	(1,878)
Withholding tax on unremitted earnings	(2,429)	–
Over-provision in prior years	–	308
	<u>(3,092)</u>	<u>(1,570)</u>
Deferred taxation		
Origination and reversal of temporary differences	(443)	(1,836)
	<u>(3,535)</u>	<u>(3,406)</u>

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 has no estimated assessable profits arising in Hong Kong during the year ended 31 December 2015.

No provision for Hong Kong Profits Tax is provided for as the estimated assessable profits of the Group arising in Hong Kong during the year ended 31 December 2014 are wholly set off by tax losses brought forward.

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 for both years. Among which one subsidiary is entitled to a preferential income tax rate of 15% for both years, while another subsidiary was entitled to a preferential income tax rate of 15% for the year ended 31 December 2014 and subject to the statutory income tax rate at 25% for the year ended 31 December 2015.

7. DIVIDEND

No final dividend for previous year was declared and paid during the year ended 31 December 2015 (2014: Nil).

No final dividend was proposed for the year ended 31 December 2015 (2014: 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\$256,650,000 (2014: HK\$92,972,000) and the weighted average number of approximately 2,141,900,000 (2014: 2,007,172,000) ordinary shares in issue during the year ended 31 December 2015.

Diluted loss per share equals to the basic loss per share as the Company has no dilutive potential ordinary share outstanding during the years ended 31 December 2015 and 2014.

The weighted average number of ordinary shares for the year ended 31 December 2014 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.

9. 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:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Trade debtors and bills receivables	338,594	360,259
Amount due from a related company	5,293	5,621
Other receivables	9,434	9,787
Other tax refundable	63,259	64,115
	<u>416,580</u>	<u>439,782</u>

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

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Less than 6 months	208,747	253,291
6 months to less than 1 year	46,823	99,690
1 year to less than 2 years	84,816	18,951
Over 2 years	28,526	29,247
	<u>368,912</u>	<u>401,179</u>
Less: Impairment loss on trade debtors and bills receivables	(30,318)	(40,920)
	<u>338,594</u>	<u>360,259</u>

10. 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:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Less than 6 months	143,233	81,729
6 months to less than 1 year	16,135	4,957
1 year to less than 2 years	4,869	1,109
Over 2 years	2,657	3,324
	<u>166,894</u>	<u>91,119</u>

11. ACQUISITION OF A SUBSIDIARY

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

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

	<i>HK\$’000</i>
Property, plant and equipment	155,491
Prepaid lease payments on land under operating leases	11,048
Deferred tax assets	3,978
Inventories	38,504
Trade and other receivables	79,250
Cash and cash equivalents	3,971
Trade payables	(66,170)
Accruals and other payables	(62,433)
Bank borrowings	(85,079)
	<hr/>
Fair value of the net assets recognised	78,560
	<hr/> <hr/>

(b) Gain on deemed disposal of interest in a joint venture:

	<i>HK\$’000</i>
Fair value of 49.9% equity interest previously held	39,202
Less: Carrying value of 49.9% equity interest previously held	(45,158)
	<hr/>
Loss from re-measurement of interest in a joint venture	(5,956)
Add: Release of translation reserve upon deemed disposal of interest in a joint venture	8,706
	<hr/>
Gain on deemed disposal of interest in a joint venture	2,750
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(c) Gain on bargain purchase of interest in a subsidiary:

	<i>HK\$’000</i>
Fair value of the net assets acquired	78,560
	<hr/>
Less: Consideration transferred:	
Cash consideration paid	(15,133)
Fair value of 49.9% equity interest previously held	(39,202)
	<hr/>
	(54,335)
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Gain on bargain purchase of interest in a subsidiary	24,225
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12. DISPOSAL OF A SUBSIDIARY

On 17 November 2014, the Group entered into an agreement to dispose of its 100% equity interest in Heping County Dongye Rare Earth Company Limited, a non wholly-owned subsidiary of the Group, at a cash consideration of approximately HK\$161,759,000. The transaction was completed on 28 November 2014. Gain on disposal of interest is as follows:

	<i>HK\$'000</i> (Restated)
Cash consideration received	161,759
Less: Net assets disposed of	(102,307)
Add: Cumulative exchange gain in respect of the net assets of the subsidiary reclassified from equity to profit or loss on loss of control in the subsidiary	<u>17,927</u>
Gain on disposal of interest in a subsidiary recognised in profit and loss	<u><u>77,379</u></u>

13. COMMITMENTS

At 31 December 2015, the Group had capital commitments authorised and contracted but not provided for in the consolidated financial statements as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Acquisition and construction of property, plant and equipment	<u><u>9,364</u></u>	<u><u>10,705</u></u>

14. LITIGATION

During the year ended 31 December 2012, a subsidiary of the Group (being a joint venture of the Group by the time) was in dispute with a constructor about the quality and settlement of certain plant constructed. At 31 December 2014, the contractor claimed the subsidiary for settling the remaining contract fee unpaid of approximately HK\$34,854,000 for the plant constructed. At the same time, the subsidiary claimed the contractor for returning the contract fee paid of approximately HK\$62,426,000 for poor construction quality that cannot meet the relevant construction standards. At 31 December 2014, there was no final judgement from the court yet.

At 31 December 2015, the directors of the Company have sought advice from its PRC lawyers in this respect. Based on the legal advice, the litigation time has been expired during the year ended 31 December 2015 and the subsidiary has been discharged from these litigations.

FINANCIAL RESULTS

For the financial year ended 31 December 2015, the Group recorded a revenue of approximately HK\$843,110,000, declining by approximately 29% when compared to HK\$1,183,786,000 in 2014. For rare earth products, influenced by changes in the national policies and instabilities in the global economy, market prices remained low and demand growth of downstream products has been slowed down. While both prices and sales volume decreased during the year, revenue was approximately HK\$500,419,000, representing a reduction of approximately 41% when compared to HK\$842,628,000 last year, accounting for approximately 59% of the Group's total revenue. As for refractory material products, due to the challenging market conditions, revenue for the year amounted to HK\$342,691,000, similar to HK\$341,158,000 recorded last year, accounting for about 41% of the total revenue. Due to the lack of a sales exceeding HK\$80,000,000 from selling the written-off lutetium oxide according to the rare earth hoarding reserve plan launched by the Chinese Government as reported last year, the gross loss margin has increased from about 9% last year to about 12% this year.

Although selling and distribution expenses and administrative expenses have decreased due to the implementation of cost saving measures, as well as the gains of approximately HK\$29,491,000 brought by the sales of the investment in listed equity, net loss this year increased from approximately HK\$102,028,000 last year to HK\$267,618,000. Except for the above factors influencing the sales and operation, the increase in loss was mainly attributable to: 1) the Group recorded a gain of approximately HK\$116,328,000 from three transactions conducted last year including the acquisition of 50.1% equity interest in Yixing Silver Mile, disposal of 40% equity interest in Yixing AGC Ceramics Co., Ltd. and disposal of the entire equity interest in Heping County Dongye Rare Earth Company Limited. However, there was no such gain during the year; and 2) the rare earth market continued to be sluggish and the performance of the polishing powder production line invested by the Group has been unsatisfactory. Besides, the substantial construction cost of the fluorescent materials production facilities that combined in early 2014 cannot be covered by the revenue generated from operation. Thus, after the cautious assessment, the Group has decided to make one-off impairment loss on certain non-current assets in the rare earth segment at about HK\$109,669,000 during the year.

Loss per share in 2015 was about HK11.98 cents, representing an increase of about 159% when compared with loss per share of HK4.63 cents in 2014.

FINAL DIVIDEND

As the Group continued to record losses, the Board did not recommend the payment of a final dividend for 2015.

ANNUAL GENERAL MEETING

The 2016 Annual General Meeting will be held on 3 June 2016 (Friday). A notice convening the annual general meeting will be published and dispatched to shareholders of the Company in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) in due course.

CLOSURE OF REGISTER OF MEMBERS

The Company’s register of members will be closed from 31 May 2016 to 3 June 2016, both days inclusive, during which period no transfer of shares will be registered. To ensure that shareholders are entitled to attend and vote at the forthcoming annual general meeting, shareholders must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to the Company’s branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 30 May 2016 for registration of the relevant transfer.

BUSINESS REVIEW

Rare Earth Business

Revenue of the Group’s rare earth business was approximately HK\$500,419,000 (2014: HK\$842,628,000). The prices of rare earth minerals declined when compared with that in 2014, and the price decreasing range of rare earth products was even larger due to the sluggish rare earth industry. Reduction in production volume also led to the increase in the average production costs. Thus, the Group’s rare earth business continued to operate at a loss and the gross loss margin for the segment was about 26% (2014: 19%).

The price of rare earth products remained fluctuating in 2015. The price went up and then dropped in the first three quarters, followed by a slow rebound in the fourth quarter. The long awaited new round of the national rare earth hoarding reserve plan for the second half of the year had not been confirmed. The Group sold approximately 3,400 tonnes of rare earth oxides during the year, a decrease of around 8% when compared to approximately 3,700 tonnes sold last year. The average selling prices of most rare earth products including lanthanum oxide, cerium oxide, praseodymium oxide, yttrium oxide and lutetium oxide in 2015 dropped by approximately 20% to 50% when compared with last year, while those of europium oxide, samarium oxide and yttrium-europium coprecipitates declined by more than 50%. The price drop range of holmium oxide, terbium oxide, neodymium oxide and erbium oxide was within 10%. The average selling price of gadolinium oxide recorded an increment of about 20% when compared with the corresponding period last year. The persistent decrease in product prices has caused the Group to write down inventory for more than HK\$80,000,000 at the end of the year. As for raw materials, the average procurement cost of rare earth minerals decreased by about 20% in 2015 year-on-year. Principal chemical auxiliary materials such as caustic soda and oxalic acid remained flat when

compared with last year. The price of certain auxiliary materials recorded a drop of about 20% to 30%. As for wage expenses, although the per capita wage has been adjusted upward according to market trends, related expenses were similar to the previous corresponding year as the Group has reduced the number of staff.

As for the fluorescent materials, the Group sold about 400 tonnes of products in 2015 at a similar level to the same period last year, but the average selling price went through a decline. Among the products, the selling price of green phosphors dropped by less than 10% when compared to the same period last year, while that of blue and red phosphors dropped by about 40% and more than 50% when compared to the same period last year respectively. The price of rare earth oxides, a main raw material of phosphors, was also reduced. The prices of yttrium-europium coprecipitates which are mainly used in red phosphors dropped by more than 50%. As a result, the gross loss margin has not climbed substantially and the change was less than 10%.

The Group has not launched polishing materials in large scale in line with the unfavourable rare earth oxides market condition. With the market situation significantly different from the original target, the Group decided to make impairment on certain of those machinery and equipment, so as to eliminate a drag weighing down the Group's future development.

Geographically, China remained as the major market for the Group's rare earth products, accounting for around 64% of total sales. For overseas markets, Europe, the US and Japan markets accounted for around 16%, 8% and 7% respectively.

Refractory Materials Business

During 2015, the Group's refractory materials business reported a segment revenue of approximately HK\$342,691,000, which was similar to HK\$341,158,000 in 2014. Gross profit margin decreased to around 8%.

Affected by the weak global economy, China economic growth has slowed down in 2015. The unstable market conditions have presented challenges to steel, cement and glass industries, as well as the refractory materials market. The Group sold approximately 26,500 tonnes of ordinary refractory materials and high temperature ceramics products during the year, increased by about 6% compared to about 25,000 tonnes in 2014. The increase mainly came from the trading section of the newly-developed contracting businesses. The lack of experience in the related business has caused inappropriate judgment on quality control, unnecessary construction cost was incurred which led to a loss and thus dragged down gross profit margin. In addition, new molds had been purchased for expansion in the high temperature ceramics products business whereas the amortisation also increased the production cost. Gross profit margin was reduced to about 6% in this division. In terms of the product selling price, principal products such as magnesium chrome bricks and alumina-graphite bricks declined by about 10% to 20% compared to the same period last year, while the price of high temperature ceramics products remained flat.

Regarding the magnesium grain business, production has resumed in the third quarter of the year after the Group re consolidated the production process. The Group sold about 64,000 tonnes of magnesium grain products in 2015, a similar quantity to that of last year. The average price of the product was also similar to that of 2014 with the variation within 5%. Gross profit margin was maintained at about 13%.

By market segments, domestic sales accounted for 87% while sales to the Japan market decreased to about 10%. With the Group's portfolio extended to the newly developed high temperature ceramics business, sales to Europe and other overseas markets accounted for about 3%.

PROSPECTS

The year 2016 marked the commencement of China's 13th Five-year Plan. This year is also a critical year for the rare earth industry to carry out economic transformation and industrial upgrading. The Ministry of Industry and Information Technology continues the implementation of the provisions in "Several Opinions of the State Council on Promoting the Sustainable and Healthy Development of the Rare Earth Industry". This implementation should facilitate the industrial restructuring, transformation and upgrading of the rare earth industry, which in turn will lead to its sustainable and healthy development. Highlighted by rare earth tax reform during the consolidation under "5+1" rare earth groups, China's initiative against illegal exploitation activities, and steady development of rare earth product reserves, the measures should contribute to a gradual rise in rare earth prices in China. The rare earth industry should also further advance as a result of the reforms.

The Chinese Government continues to implement an aggregate production quota and exploitation control which presents both challenges and opportunities for the rare earth industry. With the rapid development of high-end manufacturing products and the strategic development of new applications over the world, the rare earth industry is expected to undergo a revolution, which will ultimately help to boost sales volume of rare earth. Meanwhile, the recovery of the overseas rare earth downstream processing industry will also spur sales growth. Besides, the new materials such as rare earth magnetic materials and catalytic materials offer outstanding performance in energy-saving and environmental protection. It is believed that the market application of these new materials will become increasingly widespread and will bring a new income stream for the industry.

To capture the opportunities in the industry, the Group has been speeding up the research of a magnesium ore mining project in Northeastern China. This project will enable the upstream expansion of the Group's refractory materials business. The commencement of this business will generate synergistic effect with the Group's existing operations, lay a solid foundation for future business growth, generate greater economies of scale and boost profitability.

RIGHTS ISSUE

To develop its existing businesses and expand into new businesses, the Group announced a rights issue of 669,057,222 new shares of the Company at the subscription prices of HK\$0.60 each on the basis of two rights shares for every five existing shares held on 10 June 2015. The subscription price represents a discount of about 58.6% to the closing price as quoted on The Stock Exchange of Hong Kong Limited before the announcement. Due to the overwhelming response from shareholders, the rights issue was over-subscribed with applications for a total of 5,462,001,992 shares having been received, representing approximately 816% of the total number of 669,057,222 rights shares available. The rights issue was completed in early August 2015. After expenses, the Group raised approximately HK\$390,112,000 through the rights issue and the funds are to be allocated for general working capital.

In addition, in order to facilitate the rights issue, the Company held an extraordinary general meeting on 2 July 2015 to increase the authorised share capital of the Company from HK\$200,000,000 to HK\$400,000,000.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintains prudent capital arrangements and retains adequate liquidity. On one hand the Group raised the proceeds of about HK\$390,112,000 through the rights issue; on the other hand the Group has invested a large sum of money in prepayments for rare earth materials. The purpose is for the Group to counter the efforts of controlling the rare earth mine sources by the state-owned rare earth groups after consolidation and is also expected to secure sufficient supply of raw materials at an advantageous price through prepayment. On 31 December 2015, the Group made prepayments of around HK\$403,843,000. On the same day, the Group had cash and bank deposits valued at approximately HK\$1,432,543,000. Net current assets amounted to approximately HK\$2,360,321,000, 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 stable.

STAFF AND REMUNERATION

As at 31 December 2015, the Group had a workforce of approximately 930 including a number of experienced professionals and university graduates. The Group has provided a comprehensive staff remuneration and welfare system. During the year, the Group spent approximately HK\$69,273,000 on staff costs, including directors' emoluments. It also provided regular training and study opportunities to employees to assist them in maintaining professional competence.

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 year ended 31 December 2015.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the audited consolidated financial statements for the year ended 31 December 2015.

CORPORATE GOVERNANCE

The Company has adopted its own code of corporate governance based on the principles and code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules. During the year ended 31 December 2015, the Company has complied with the code provisions set out in Appendix 14 of the Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has devised its own code of conduct regarding directors' dealing in the Company's securities (the "Company Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Specific enquiry has been made to all directors and all the directors have confirmed that they have complied with the Company Code and the Model Code throughout the year ended 31 December 2015.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.creh.com.hk). The 2015 annual report will be dispatched to the shareholders and published on the aforesaid websites in due course.

MEMBERS OF THE BOARD

As at the date of this announcement, the Board consists of Mr. Jiang Quanlong, Ms. Qian Yuanying and Mr. Jiang Cainan as executive directors and Mr. Huang Chunhua, Mr. Jin Zhong and Mr. Wang Guozhen as independent non-executive directors.

By order of the Board
China Rare Earth Holdings Limited
Jiang Quanlong
Chairman

Hong Kong, 30 March 2016