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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 2017

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

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		<b>For the year ended 31 December</b>	
		<b>2017</b>	<b>2016</b>
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Revenue</b>	(3)	<b>637,162</b>	709,120
Cost of sales		<u><b>(611,531)</b></u>	<u>(704,190)</u>
<b>Gross profit</b>		<b>25,631</b>	4,930
Other income		<b>5,756</b>	4,946
Selling and distribution expenses		<b>(19,522)</b>	(16,648)
Administrative expenses		<b>(52,876)</b>	(66,069)
Loss on disposal of subsidiaries	(12)	<b>(5,697)</b>	–
Other operating expenses		<b>(39,550)</b>	(11,055)
Other net gain/(loss)		<u><b>8,725</b></u>	<u>(10,603)</u>
<b>Loss from operations</b>		<b>(77,533)</b>	(94,499)
Finance costs	(4)	<u><b>(1,869)</b></u>	<u>(3,904)</u>
<b>Loss before taxation</b>	(5)	<b>(79,402)</b>	(98,403)
Income tax charge	(6)	<u><b>(5,379)</b></u>	<u>(9,473)</u>
<b>Loss for the year</b>		<u><u><b>(84,781)</b></u></u>	<u><u>(107,876)</u></u>

		<b>For the year ended</b>	
		<b>31 December</b>	
		<b>2017</b>	<b>2016</b>
<i>Note</i>		<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
<b>Loss for the year attributable to:</b>			
	Owners of the Company	<b>(82,839)</b>	(104,242)
	Non-controlling interests	<b>(1,942)</b>	(3,634)
		<u><b>(84,781)</b></u>	<u>(107,876)</u>
<b>Loss per share</b>			
	Basic and diluted	<b>(8) <u>HK 3.54 cents</u></b>	<u>HK 4.45 cents</u>

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

		<b>For the year ended</b>	
		<b>31 December</b>	
		<b>2017</b>	<b>2016</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Loss for the year</b>		<b>(84,781)</b>	<b>(107,876)</b>
<b>Other comprehensive income/(loss) for the year (net of nil tax and reclassification adjustments)</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of financial statements of foreign operations		<b>175,482</b>	<b>(173,633)</b>
Release of translation reserve upon disposal of interests in subsidiaries	(12)	<b>8,094</b>	<b>—</b>
		<b>183,576</b>	<b>(173,633)</b>
<b>Total comprehensive income/(loss) for the year</b>		<b>98,795</b>	<b>(281,509)</b>
<b>Total comprehensive income/(loss) for the year attributable to:</b>			
Owners of the Company		<b>100,151</b>	<b>(277,115)</b>
Non-controlling interests		<b>(1,356)</b>	<b>(4,394)</b>
		<b>98,795</b>	<b>(281,509)</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		<b>As at 31 December</b>	
		<b>2017</b>	<b>2016</b>
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Non-current assets</b>			
Goodwill		–	–
Property, plant and equipment		<b>254,983</b>	319,212
Prepaid lease payments on land under operating leases		<b>135,958</b>	139,692
Deferred tax assets		–	4,525
Other non-current asset		<b>18,141</b>	16,953
		<u><b>409,082</b></u>	<u>480,382</u>
<b>Current assets</b>			
Prepaid lease payments on land under operating leases		<b>4,007</b>	3,956
Inventories		<b>172,762</b>	192,975
Trade and other receivables	(9)	<b>337,091</b>	281,622
Prepayments and deposits		<b>331,796</b>	288,306
Tax recoverable		<b>1,751</b>	1,642
Restricted bank deposits		–	16,993
Cash and cash equivalents		<b>1,665,102</b>	1,649,125
		<u><b>2,512,509</b></u>	<u>2,434,619</u>
<b>Current liabilities</b>			
Trade and bills payables	(10)	<b>81,473</b>	101,317
Accruals and other payables		<b>76,021</b>	74,019
Amounts due to directors		<b>3,774</b>	3,245
Bank and other borrowings	(11)	–	78,033
Tax payable		<b>6,513</b>	2,561
		<u><b>167,781</b></u>	<u>259,175</u>
<b>Net current assets</b>		<u><b>2,344,728</b></u>	<u>2,175,444</u>
<b>Total assets less current liabilities</b>		<b>2,753,810</b>	2,655,826
<b>Non-current liabilities</b>			
Deferred tax liabilities		–	811
<b>NET ASSETS</b>		<u><b>2,753,810</b></u>	<u>2,655,015</u>

	<b>As at 31 December</b>	
	<b>2017</b>	<b>2016</b>
<i>Note</i>	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
<b>CAPITAL AND RESERVES</b>		
Share capital	<b>234,170</b>	234,170
Reserves	<b><u>2,511,665</u></b>	<u>2,411,514</u>
<b>Equity attributable to owners of the Company</b>	<b>2,745,835</b>	2,645,684
<b>Non-controlling interests</b>	<b><u>7,975</u></b>	<u>9,331</u>
<b>TOTAL EQUITY</b>	<b><u><u>2,753,810</u></u></b>	<b><u><u>2,655,015</u></u></b>

# 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 2016, except for the new standards, amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants which are effective for accounting periods beginning on or after 1 January 2017. The application of the new standards, amendments and interpretations has no material impact on the results and the financial position of the Group 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)

The measure used for reporting segment profit/(loss) is "adjusted profit before interest, taxes, depreciation and amortisation".

### (a) Segment revenue and results

	Rare Earth		Refractory		Total	
	2017	2016	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE						
Revenue from external customers	386,533	436,477	250,629	272,643	637,162	709,120
Inter-segment revenue	214	28	–	–	214	28
Reportable segment revenue	<u>386,747</u>	<u>436,505</u>	<u>250,629</u>	<u>272,643</u>	<u>637,376</u>	<u>709,148</u>
RESULTS						
Reportable segment (loss)/profit	<u>(37,455)</u>	<u>(46,465)</u>	<u>34,752</u>	<u>26,966</u>	<u>(2,703)</u>	<u>(19,499)</u>

**(b) Geographical information**

Revenue from external customers:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
The People's Republic of China (the "PRC")	508,856	551,484
Japan	63,372	65,042
Europe	25,930	42,926
The United States of America (the "US")	14,294	29,724
Others	24,710	19,944
	<u>637,162</u>	<u>709,120</u>

**3. REVENUE**

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Sales of rare earth products (including fluorescent products)	386,533	436,477
Sales of refractory products (including high temperature ceramics products and magnesium grains)	<u>250,629</u>	<u>272,643</u>
	<u>637,162</u>	<u>709,120</u>

**4. FINANCE COSTS**

Finance costs represented interest expenses and finance charges on bank and other borrowings wholly repayable within five years.

**5. LOSS BEFORE TAXATION**

Loss before taxation has been arrived at after charging:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Depreciation of property, plant and equipment	57,156	60,177
Amortisation of prepaid lease payments on land under operating leases	4,089	4,223
Expenses incurred during temporary suspension of production	<u>39,550</u>	<u>11,055</u>

## 6. INCOME TAX CHARGE

Income tax charge for the year comprised:

	2017 HK\$'000	2016 HK\$'000
Current tax – PRC Enterprise Income Tax		
– Provision for the year	(5,299)	(1,477)
– Withholding tax on unremitted earnings	–	(8,147)
	(5,299)	(9,624)
Deferred taxation		
– Origination and reversal of temporary differences	(80)	151
	(5,379)	(9,473)

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 years ended 31 December 2017 and 2016.

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 the years ended 31 December 2017 and 2016, among which one subsidiary is entitled to a preferential income tax rate of 15%.

The 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. DIVIDENDS

No final dividend for previous year was declared and paid during the year ended 31 December 2017 (2016: Nil).

No final dividend was proposed for the year ended 31 December 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\$82,839,000 (2016: HK\$104,242,000) and the weighted average number of approximately 2,341,700,000 (2016: 2,341,700,000) ordinary shares in issue during the year ended 31 December 2017.

Diluted loss per share equals to the basic loss per share as the Company has no potential dilutive ordinary shares outstanding during the years ended 31 December 2017 and 2016.



## 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:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Trade debtors and bills receivables	138,508	224,132
Amount due from a related company	–	4,957
Other receivables	150,531	4,859
Other tax refundable	48,052	47,674
	<u>337,091</u>	<u>281,622</u>

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Less than 6 months	93,271	130,307
6 months to less than 1 year	23,264	34,062
1 year to less than 2 years	14,099	47,532
Over 2 years	38,546	46,414
	<u>169,180</u>	<u>258,315</u>
Less: Impairment loss on trade debtors and bills receivables	<u>(30,672)</u>	<u>(34,183)</u>
	<u>138,508</u>	<u>224,132</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:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Less than 6 months	38,471	62,869
6 months to less than 1 year	10,480	21,137
1 year to less than 2 years	18,578	13,168
Over 2 years	13,944	4,143
	<u>81,473</u>	<u>101,317</u>

## 11. BANK AND OTHER BORROWINGS

	2017 HK\$'000	2016 HK\$'000
Bank borrowings	–	50,084
Other borrowings	–	27,949
	<u>–</u>	<u>78,033</u>

As at 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 31 December 2016, 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\$32,393,000 and the Group's leasehold land situated in the PRC with carrying amount of approximately HK\$9,108,000 and repayable within one year.

## 12. DISPOSAL OF SUBSIDIARIES

On 22 December 2017, the Group entered into an agreement with an independent third party to dispose of its 100% equity interest in Silver Mile Holdings Limited, a wholly-owned subsidiary of the Group which holds 100% equity interest in Yixing Silver Mile Fluorescent Materials Co., Ltd., at a cash consideration of HK\$500,000. The transaction was completed on the same day. Loss on disposal of interests is as follows:

	HK\$'000
Consideration received	500
Net liabilities disposed of	1,897
Cumulative exchange loss in respect of the net liabilities of the subsidiaries reclassified from equity to profit or loss on loss of control in the subsidiaries	<u>(8,094)</u>
Loss on disposal of subsidiaries recognised in profit or loss	<u>(5,697)</u>

## 13. COMMITMENTS

As at 31 December 2017, the Group had capital commitments authorised and contracted but not provided for in the consolidated financial statements as follows:

	2017 HK\$'000	2016 HK\$'000
Acquisition and construction of property, plant and equipment	<u>3,581</u>	<u>1,405</u>

## **FINANCIAL RESULTS**

For the year ended 31 December 2017, the Group recorded revenue of approximately HK\$637,162,000, down by approximately 10% when compared to HK\$709,120,000 in 2016.

During the year, crackdown on illegal and irregular rare earth operations prevailed, the six major rare earth groups completed consolidation resulting in a more compact supply chain, plus the government carrying out three rounds of rare earth hoarding reserve tendering, helped improve the supply and demand pattern and pushed up rare earth price. In 2017, revenue from the Group's rare earth products amounted to approximately HK\$386,533,000, representing a decrease of about 11% when compared to HK\$436,477,000 in 2016, and accounting for about 61% of the total revenue of the Group. As for refractory products, revenue was approximately HK\$250,629,000, representing a decrease of about 8% when compared to HK\$272,643,000 in 2016, and accounting for about 39% of the Group's total revenue.

The price of rare earth products and refractory products rebounded during the year. In 2017, the Group's overall gross profit margin was approximately 4% (approximately 1% last year). During the year, there were times when the Group had to suspend production of rare earth oxides and magnesium grains and expenses incurred from those periods were approximately HK\$39,550,000, as stated under other operating expenses in the Group's consolidated statement of profit or loss. Around the end of the year, the Group sold a subsidiary which principally engaged in manufacturing and sales of fluorescent products and recorded loss on disposal of approximately HK\$5,697,000. Deducting all outgoings and expenses, the Group incurred net loss for the year at approximately HK\$84,781,000, a drop of about 21% from HK\$107,876,000 in 2016. Loss per share was thus improved from about HK4.45 cents in 2016 to about HK3.54 cents for the year.

## **FINAL DIVIDEND**

As the Group continued to record losses, the Board did not recommend the payment of a final dividend for 2017.

## **ANNUAL GENERAL MEETING**

The 2018 Annual General Meeting (the "AGM") will be held on 7 June 2018 (Thursday). A notice convening the AGM 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 4 June 2018 (Monday) to 7 June 2018 (Thursday), 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 AGM, 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 1 June 2018 (Friday) for registration of the relevant transfer.

## **BUSINESS REVIEW**

### **Rare Earth Business**

Revenue from the Group's rare earth segment was approximately HK\$386,533,000, an about 11% decrease when compared to HK\$436,477,000 in 2016. Gross loss margin of the segment stayed at about 5%.

The three rounds of national rare earth hoarding reserve tendering in China were completed in January, March and May 2017 respectively, which hoarded more than 8,000 tonnes of rare earth products. The annual rare earth hoarding reserve plan made progress for bringing rare earth price back to a reasonable level. Price of most rare earth oxides in China was basically on the growth track in 2017, trending up steadily in the first three quarters. Came September, it reached the highest in two years and then slid slightly due to that downstream customers were starting to adopt a wait-and-see approach to the market supply and reduced procurement. Some manufacturers took the lead to reduce production to brace prices and that helped limit the drop in product price in the fourth quarter.

The Group sold approximately 1,900 tonnes of rare earth oxides in all during the year, similar to last year. Compared to the average selling prices of the rare earth products sold by the Group last year, those of samarium oxide and erbium oxide went up by less than 10%; those of praseodymium oxide, cerium oxide, europium oxide and terbium oxide climbed up by about 25% to 40%, and gadolinium oxide, neodymium oxide and holmium oxide prices went up by approximately 60% to 80%. However, there were also price drop in some rare earth products, such as dysprosium oxide and yttrium-europium coprecipitates having an around 5% decline in price and that of lanthanum oxide having dropped by approximately 15%.

As crackdown on illegal and irregular rare earth practices has become a norm in China and the government has strictly implemented its production directives, supply of rare earth resources was tight during the year. The Group was unable to secure sufficient raw material supply even though it had increased its prepayments for rare earth procurement. To reduce wastage and expense on labour wage due to limited production, and facilitate the Group to upgrade its environmental protection facilities, the Group has employed strategic adjustment to the production time and arranged temporary suspension. Overall, the Group's rare earth separation production lines have stopped operation for more than six months in total in 2017, and most of the customer orders had to be met by increasing trading products from outside. Despite the rise in selling price, with the Group making provision for inventories for products not in keen demand in the market and having longer storage time, gross loss margin of the business division narrowed slightly to about 5% during the year.

Despite that the sales amount of rare earth oxides increased against the previous year due to an increase in unit price, it was not sufficient to offset the reduction in sales amount of fluorescent materials. Revenue from the rare earth segment in 2017 was down by approximately 11% year-on-year.

As for the energy-saving lamps market, with the LED light industry prospering, demand for trichromatic fluorescent lamps has been decreasing gradually. The Group's fluorescent materials business had been in loss in the past few years. The Group tried to reverse the situation by broadening sources of income and reducing expenditure, but to no avail. Thus, it decided to dispose of its entire equity interest in a subsidiary which principally engaged in manufacturing and sales of fluorescent products. Before the disposal at the end of the year, sales amount of the subsidiary reduced by about 80% when compared with 2016, and sales volume was down by about 55%. Although the selling prices of blue and green phosphors rose by about 30% to 40%, they accounted for only a small proportion of the sales volume, much less than that of red phosphors, of which the selling price saw an about 10% drop. As a result, sales amount contracted rather markedly. Gross loss margin increased to about 12%. Loss of the business division during the year amounted to about HK\$15,266,000.

By market, China remained the largest market for the Group's rare earth products, contributing around 79% of the total sales amount of its rare earth segment. As for overseas markets, Japan, Europe and the US accounted for around 9%, 5% and 4% respectively.

## **Refractory Materials Business**

In 2017, revenue from the Group's refractory materials segment was approximately HK\$250,629,000, down by about 8% when compared to the approximately HK\$272,643,000 in 2016. Segmental gross profit margin rose to about 18%.

During the year under review, the production volume of iron and steel in China continued to surge when compared with 2016, while the production volume of cement was similar to that in 2016. Refractory materials are consumables for the iron and steel and cement industries. The rapid growth in production volume of iron and steel and the strong demand for cement output meant more refractory materials were required, and in turn the demand for such materials was released. At the same time, China has been placing greater emphasis on environmental protection in recent years, taking it as the prerequisite for realizing different policies. In 2017, the Central Environmental Protection Inspection Team carried out large scale environmental protection inspection in Liaoning Province, with Anshan City and Haicheng City as main targets. The majority of large production enterprises had to halt and make related rectification and reforms while those small enterprises, which failed to pass inspection, were forced to close down. As those regions are the key production bases of magnesite in China, the above act directly impacted the supply of magnesium grain. The price of refractory materials generally went up during the year due to the serious shortage in supply of raw materials against increase in demand for the product. However, as the supply lead time in some of the contracts for refractory materials signed by the Group with customers was relatively long, the positive impact of price increase was delayed. In 2017, the average selling prices of the principal products sold by the Group such as alumina-graphite bricks only increased by about 5% year-on-year, and those of magnesium chrome bricks and casting materials grew by about 10% to 20%. As for high temperature ceramics products, as the Group's strategy for the business in 2017 was to expand overseas market, their average selling prices remained similar as in 2016.

In terms of sales volume, the Group sold approximately 28,400 tonnes of ordinary refractory materials and high temperature ceramics products, approximately 10% more when compared with last year. Gross profit margin further rose to about 16%.

Regarding the magnesium grains business, with its production lines in the region of Anshan and Haicheng, the Group was adversely affected by the large-scale environmental recovery and rectification initiative of the country during the year. Related impact on the Group's fused magnesium grains production line was minimal, and it operated normally in most of the time, except for the about a month of halting production to prepare for and go through inspection by the Central Environmental Protection Inspection Team. Its output volume declined, however, mainly due to the decrease in magnesite supply in the market. The Group's high purity magnesium grains production line was severely affected though, for albeit efforts of the Group, including revamping completely its eco-friendly dedusting desulphurization facility and hiring expert advice, at the end of the year after inspection by different government authorities, the related operations were still deemed not meeting all of the country's standards. Most of the time, the production line was basically suspended from operation during the year under review. The Group sold approximately 22,300 tonnes of magnesium grains products in 2017, approximately a two-third drop when compared with last year. However, the product price surged by a notable about 70% year-on-year on average due to supply shortage, which mitigated the impact of sales volume drop on sales amount. Gross profit margin of the magnesium grains business climbed to about 25%.

By geographical market, China remained the Group's core market for refractory materials business, which accounted for about 81% of the segmental revenue. With respect to exports, Japan market accounted for about 12%. At the Group's active effort to explore and develop overseas markets for its high temperature ceramics products, the proportion of revenue contribution of Europe and the Middle East markets rose to about 7%.

## **DISPOSAL TRANSACTION**

The Group disposed of the entire equity interest it held in Silver Mile Holdings Limited and its subsidiary Yixing Silver Mile Fluorescent Materials Co., Ltd., which principally engaged in manufacturing and sales of fluorescent products, at a cash consideration of HK\$500,000 during the year, as the fluorescent materials business failed to turn around from continuous loss. The transaction was completed on 22 December 2017. Taking into account the net liability of approximately HK\$1,897,000 before the disposal and the cumulative exchange loss in the past years of approximately HK\$8,094,000 reclassified from equity, the loss from the disposal amounted to approximately HK\$5,697,000. The sale of the subsidiaries allowed the Group to reallocate resources and devote more resources to developing the rare earth and refractory materials businesses.



## PROSPECTS

Alongside the substantial increase in demand for new energy products, the rare earth market has also become more and more active. The demand for the rare earth, being an upstream resource, is thus likely to climb again in the future. Moreover, the government has stepped up crackdown on black market activities in its bid to rid illegal rare earth mining. Generally speaking, the basic conditions of the rare earth market in China will improve gradually and accordingly rare earth price in China is likely to pick up steadily.

As for the future of the industry, it will continue to improve at the roll out of favourable government policies. With the Chinese government leading, the six major rare earth groups will play a dominant role in the industry in maintaining an orderly market and accelerating internal consolidation of industry players. In turn, it will also support relevant government authorities in implementing reform policies to improve the integrated use of rare earth resources and fighting against the “black rare earth” issue which shall be tackled in accordance with the law and related rules and regulations. The rare earth industry in China is going through a critical period of development, requiring it to change its development mode, optimise product structure, identify new growth drivers and shift to high quality operation. The report of the 19th Communist Party of China National Congress has laid down the directions for the rare earth industry to increase supply and for promoting green development of the industry. The Group will continue to actively support environmental protection initiatives of the country and upgrade its production facilities accordingly. Thanks for the production facilities reformation in the aspect of environmental protection during the production suspension for price supporting in 2016, as announced in July 2017, 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. It is a testament to the Group’s outstanding achievement in the rare earth industry.

To grasp development opportunities in the improving market, the Group enhanced its management team in February 2018. It appointed Mr. Zhang Yourong, who has rich experience in the rare earth industry, as General Manager of its subsidiary, Yixing Xinwei Leeshing Rare Earth Company Limited, to be responsible for operation of the Group’s rare earth business. The Group hopes Mr. Zhang will run the rare earth segment effectively drawing on his abundant experience and well recognized industry position, helping the business increase capacity and optimise operation, and in turn improve its performance and turn around to profit as soon as possible.

Moreover, the Group has just established an international operation centre in Shenzhen, with the aim to consolidate its resources, participate in science development, and provide with an outstanding platform for enterprise display and information exchange.



The Group will keep looking for reliable upstream rare earth material suppliers in China and opening up more material supply channels to ensure its rare earth production lines have access to adequate supply of raw materials to operate steadily. The Group will also continue to explore suitable sources of rare earth overseas, and study the possibility of importing or investing in or cooperation with regard to materials for rare earth production. Furthermore, the Group is still studying the feasibility of investing in magnesite mine in north-eastern China with the hope of completing vertical integration of its operations as soon as possible and reap resulting synergies.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group continued to adopt prudent financial arrangement and retain adequate liquidity. As at 31 December 2017, the Group had cash and bank deposits of approximately HK\$1,665,102,000, similar to that at the end of the preceding year. Net current assets of the Group amounted to approximately HK\$2,344,728,000, with total liabilities to total assets ratio down to around 6%.

As in the previous two years, the Group continued in 2017 to sign supply contracts with certain suppliers and made prepayments for rare earth materials, thereby ensure it had access to sufficient supply of raw materials and products at premium prices. During the year under review, the supply arrangement of rare earth product for trading was relatively smooth. Supply contracts were renewed upon completion and prepayments were topped up. However, the supply arrangement of the rare earth materials for production was disappointing. There was a supplier who cooperated with the Group for some times experienced difficulty in making supply arrangement in 2017. After rounds of negotiation, it still could not supply sufficient materials to complete the contract and there was certain portion of prepayments remaining on book by the end of 2017. Subsequent to negotiation, such amount will be fully refunded in 2018, and it has been reclassified as other receivables on the balance sheet. As the Group did not obtain sufficient raw materials from the original suppliers in the review year, it has found other material suppliers and signed supply contracts with them and made relevant prepayments. Prior to year-end, the Group has already received part of the raw materials. As at 31 December 2017, prepayments made for rare earth materials totalled approximately HK\$224,160,000.

In addition, with environmental measures in China causing tight upstream supply of raw materials for refractory products, the Group has already signed prepayment supply contracts with several suppliers of raw materials for refractory products and made prepayments, to ensure it has sufficient supply of raw materials to meet the requirement of its improving business. As at 31 December 2017, the related prepayments made amounted to approximately HK\$93,700,000.

The borrowing arrangement with land and plant pledged to banks and financial institutions at year-end 2016 ended subsequent to the disposal of the related subsidiaries in December 2017.

As at 31 December 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 exposure, most of the Group's assets, liabilities and transactions are denominated in Renminbi, and the rest are in US dollars or Hong Kong dollars. During the year, the exchange rates of Renminbi increased slightly, but the overall trend was stable. The Group will continue to monitor closely exchange rate fluctuation and changes and work hard to lower its financial risks.

## **STAFF AND REMUNERATION**

The Group streamlined its manpower structure according to its development strategies and business needs. With certain production lines suspended and because of the disposal of subsidiaries, the Group's workforce shrank when compared with 2016. As at 31 December 2017, the Group had approximately 520 employees, including a number of experienced professionals and university graduates. Staff costs for the year decreased. During the year, the Group's staff costs including directors' emoluments amounted to a total of approximately HK\$44,015,000, around 20% less than in 2016. The Group continued to provide regular on-the-job training and study opportunities to employees to assist them in maintaining their 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 2017.

## **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 2017.

## **SCOPE OF WORK OF THE AUDITOR**

The figures in respect of the Group's consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2017 as set out in this announcement have been agreed by the Company's auditor, Ascenda Cachet CPA Limited (the "Auditor"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by the Auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements

or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Auditor on this announcement.

## **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 2017, 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 2017.

## **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](http://www.hkexnews.hk)) and the Company ([www.creh.com.hk](http://www.creh.com.hk)). The 2017 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 Ms. Qian Yuanying, Mr. Jiang Quanlong, Mr. Jiang Dawei 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**  
**Qian Yuanying**  
*Chairman*

Hong Kong, 28 March 2018