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 2018

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 2018 together with the comparative figures for the corresponding year in 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the year ended 31 December	
		2018	2017
	Note	***HK$'000***	*HK$'000*
Revenue	(3)	**902,095**	637,162
Cost of sales		**(841,667)**	(611,531)
Gross profit		**60,428**	25,631
Other income		**16,398**	5,756
Selling and distribution expenses		**(13,214)**	(19,522)
Administrative expenses		**(52,150)**	(52,876)
Gain/(loss) on disposal of subsidiaries	(11)	**1,925**	(5,697)
Other operating expenses		**(8,647)**	(39,550)
Other net (loss)/gain		**(3,819)**	8,725
Profit/(loss) from operations		**921**	(77,533)
Finance costs	(4)	**–**	(1,869)
Profit/(loss) before taxation	(5)	**921**	(79,402)
Income tax charge	(6)	**(8,297)**	(5,379)
Loss for the year		**(7,376)**	(84,781)
Loss for the year attributable to:			
Owners of the Company		**(5,424)**	(82,839)
Non-controlling interests		**(1,952)**	(1,942)
		(7,376)	(84,781)
Loss per share			
Basic and diluted	(8)	**HK 0.23 cents**	HK 3.54 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	For the year ended 31 December **2018** *HK$'000*	2017 *HK$'000*
Loss for the year		**(7,376)**	(84,781)
Other comprehensive (loss)/income for the year (net of nil tax and reclassification adjustments)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**(120,903)**	175,482
Release of translation reserve upon disposal of interests in subsidiaries	(11)	**(1,493)**	8,094
		(122,396)	183,576
Total comprehensive (loss)/income for the year		**(129,772)**	98,795
Total comprehensive (loss)/income for the year attributable to:			
Owners of the Company		**(127,502)**	100,151
Non-controlling interests		**(2,270)**	(1,356)
		(129,772)	98,795

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2018	2017
	Note	***HK$'000***	*HK$'000*
Non-current assets			
Goodwill		**–**	–
Property, plant and equipment		**182,158**	254,983
Prepaid lease payments on land under operating leases		**98,476**	135,958
Other non-current asset		**17,307**	18,141
		297,941	409,082
Current assets			
Prepaid lease payments on land under operating leases		**3,107**	4,007
Inventories		**153,530**	172,762
Trade and other receivables	(9)	**464,479**	337,091
Prepayments and deposits		**184,155**	331,796
Tax recoverable		**753**	1,751
Cash and cash equivalents		**1,666,292**	1,665,102
		2,472,316	2,512,509
Current liabilities			
Trade payables	(10)	**78,894**	81,473
Accruals and other payables		**63,458**	76,021
Amounts due to directors		**2,580**	3,774
Tax payable		**6,643**	6,513
		151,575	167,781
Net current assets		**2,320,741**	2,344,728
NET ASSETS		**2,618,682**	2,753,810
CAPITAL AND RESERVES			
Share capital		**234,170**	234,170
Reserves		**2,378,921**	2,511,665
Equity attributable to owners of the Company		**2,613,091**	2,745,835
Non-controlling interests		**5,591**	7,975
TOTAL EQUITY		**2,618,682**	2,753,810

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 2017, except for the adoption of HKFRS 9 "Financial Instruments", HKFRS 15 "Revenue from Contracts with Customers" and other new and revised HKFRSs that are first effective for accounting periods beginning on or after 1 January 2018.

Save for changes in accounting policies as disclosed below, the application of other new and revised HKFRSs has no material impact on the Group's financial performance and positions for the current and prior accounting periods. The Group has not early applied any new standards, amendments and interpretations that have been issued but are not yet effective for the year ended 31 December 2018.

A number of new and revised HKFRSs became applicable for the current accounting period and the Group had to change its accounting policies and make adjustments as a result of adopting HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers".

(a) HKFRS 9 "Financial Instruments"

The adoption of HKFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements as described below.

In accordance with the transitional provisions in HKFRS 9, HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the consolidated statement of financial position as at 31 December 2017, but are recognised in the opening consolidated statement of financial position on 1 January 2018.

HKFRS 9 replaces the provisions of HKAS 39 "Financial instruments: recognition and measurement" that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

There is no significant impact on the classification and measurement of its financial assets as the Group does not have:

- Debt instruments that are classified as available-for-sale financial assets;
- Debt instruments classified as held-to-maturity and measured at amortised cost;
- Equity investment measured at fair value through profit or loss.

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities which are subject to HKFRS 9.

The derecognition rules have been transferred from HKAS 39 and have not been changed.

The new hedge accounting rules have aligned the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group does not have any hedge instrument. Therefore, the Group does not expect any impact on the new hedge accounting rules.

The Group has trade and other receivables that are subject to HKFRS 9's new expected credit loss model, and the Group revised its impairment methodology under HKFRS 9 for these receivables.

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected losses for all trade and other receivables. To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics. Future cash flows for each group receivables are estimated on the basis of historical loss experience, adjusted to reflect the effects of current conditions as well as forward looking information.

The following table reconciles the closing impairment loss on trade and other receivables determined in accordance with HKAS 39 as at 31 December 2017 with the opening impairment loss determined in accordance with HKFRS 9 as at 1 January 2018.

	HK$'000
Impairment loss on trade and other receivables as at 31 December 2017 under HKAS 39	32,736
Additional credit loss recognised as at 1 January 2018 on trade and other receivables	5,356
Impairment loss on trade and other receivables as at 1 January 2018 under HKFRS 9	38,092

(b) HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 replaces HKAS 18 "Revenue", which covers revenue arising from sale of goods and rendering of services, and HKAS 11 "Construction contracts", which specifies the accounting for revenue from construction contracts.

The Group is principally engaged in manufacturing and sales of rare earth products and refractory products. Sales are recognised when control of the products has been transferred, being when the products are delivered to the customers, the customer has accepted the products and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

A contract liability is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. The Group recognised its contract liabilities under accruals and other payables in the consolidated statement of financial position.

The adoption of HKFRS 15 did not have any material impact on the Group's consolidated financial statements.

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

Refractory: Manufacture and sales of refractory products

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	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
REVENUE						
Revenue from external customers	**554,515**	386,533	**347,580**	250,629	**902,095**	637,162
Inter-segment revenue	**131**	214	**–**	–	**131**	214
Reportable segment revenue	**554,646**	386,747	**347,580**	250,629	**902,226**	637,376
RESULTS						
Reportable segment profit/(loss)	**(13,565)**	(37,455)	**67,561**	34,752	**53,996**	(2,703)

(b) Geographical information

Revenue from external customers:

	2018	2017
	HK$'000	*HK$'000*
The People's Republic of China (the "PRC")	**811,415**	508,856
Japan	**58,123**	63,372
Europe	**11,867**	25,930
The United States of America (the "US")	**–**	14,294
Others	**20,690**	24,710
	902,095	637,162

3. REVENUE

	2018	2017
	HK$'000	*HK$'000*
Sales of rare earth products	**554,515**	386,533
Sales of refractory products	**347,580**	250,629
	902,095	637,162

4. FINANCE COSTS

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

5. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation has been arrived at after charging:

	2018	2017
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**41,799**	57,156
Amortisation of prepaid lease payments on land under operating leases	**3,553**	4,089
Expenses incurred during temporary suspension of production	**8,647**	39,550

6. INCOME TAX CHARGE

Income tax charge for the year comprised:

	2018	2017
	HK$'000	*HK$'000*
Current tax - PRC Enterprise Income Tax		
– Provision for the year	**8,297**	5,299
Deferred taxation		
– Origination and reversal of temporary differences	**–**	80
	8,297	5,379

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 2018 and 2017.

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 2018 and 2017, 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 2018 (2017: Nil).

No final dividend was proposed for the year ended 31 December 2018 (2017: 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$5,424,000 (2017: HK$82,839,000) and the weighted average number of approximately 2,341,700,000 (2017: 2,341,700,000) ordinary shares in issue during the year ended 31 December 2018.

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 2018 and 2017.

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:

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**420,482**	138,508
Other receivables	**3,777**	150,531
Other tax refundable	**40,220**	48,052
	464,479	337,091

An ageing analysis of trade receivables based on the invoice date is as follows:

	2018	2017
	HK$'000	*HK$'000*
Less than 6 months	**300,530**	93,271
6 months to less than 1 year	**113,719**	23,264
1 year to less than 2 years	**10,584**	14,099
Over 2 years	**29,217**	38,546
	454,050	169,180
Less: Impairment loss on trade receivables	**(33,568)**	(30,672)
	420,482	138,508

10. TRADE PAYABLES

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

	2018	2017
	HK$'000	*HK$'000*
Less than 6 months	**39,056**	38,471
6 months to less than 1 year	**14,913**	10,480
1 year to less than 2 years	**4,227**	18,578
Over 2 years	**20,698**	13,944
	78,894	81,473

11. DISPOSAL OF SUBSIDIARIES

On 6 July 2018, the Group entered into an agreement with an independent third party to dispose of its 100% equity interest in Hai Cheng Xinwei Leeshing Magnesium Resources Co., Ltd. ("Hai Cheng Xinwei") at a cash consideration of RMB28,000,000 (equivalent to approximately HK$32,933,000). Hai Cheng Xinwei was principally engaged in manufacturing and sales of magnesium products. The disposal was completed on 18 July 2018.

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 ("Silver Mile") at a cash consideration of HK$500,000. Silver Mile and its subsidiary namely Yixing Silver Mile Fluorescent Materials Co., Ltd. were principally engaged in manufacturing and sales of fluorescent products. The disposal was completed on the same day.

Gain/(loss) on disposal of subsidiaries is as follows:

	2018	2017
	HK$'000	*HK$'000*
Consideration received	**32,933**	500
Net (assets)/liabilities disposed of	**(32,501)**	1,897
Cumulated exchange gain/(loss) in respect of the net assets/(liabilities) of the subsidiaries reclassified from equity to profit or loss on loss of control in the subsidiaries	**1,493**	(8,094)
Gain/(loss) on disposal of subsidiaries recognised in profit or loss	**1,925**	(5,697)

12. PLEDGE OF ASSETS

As at 31 December 2018, certain leasehold land with carrying amount of approximately HK$45,498,000 (2017: Nil) and certain buildings with aggregate carrying amount of approximately HK$3,806,000 (2017: Nil) were pledged as collateral for banking facilities.

13. COMMITMENTS

As at 31 December 2018, the Group had capital commitments authorised and contracted but not provided for in the consolidated financial statements as follows:

	2018	2017
	HK$'000	*HK$'000*
Acquisition and construction of property, plant and equipment	**–**	3,581

FINANCIAL RESULTS

For the year ended 31 December 2018, the Group recorded revenue of approximately HK$902,095,000, up by approximately 42% when compared to HK$637,162,000 in 2017. Revenue from the Group's rare earth products rose to approximately HK$554,515,000, representing an increase of approximately 43% when compared to HK$386,533,000 in 2017, and accounting for about 61% of total revenue of the Group. As for refractory products, revenue was approximately HK$347,580,000, representing a rise of about 39% when compared to approximately HK$250,629,000 in 2017, and accounting for about 39% of the Group's total revenue. In 2018, the Group's overall gross profit margin was about 7% (2017: about 4%).

After disposal of the persistently loss-incurring fluorescent materials business in 2017, the Group also disposed its high purity magnesium grains business, which had not been performing well, in 2018. The Group recorded a gain of approximately HK$1,925,000 from the transaction. In 2018, the Group recorded slight profit before taxation. Deducting all outgoings, expenses and income tax, the Group's net loss was approximately HK$7,376,000, greatly reduced by over 90% when compared to approximately HK$84,781,000 in 2017. Loss per share was about HK0.23 cents (2017: about HK3.54 cents).

FINAL DIVIDEND

The Board did not recommend the payment of a final dividend for 2018.

ANNUAL GENERAL MEETING

The 2019 Annual General Meeting (the "AGM") will be held on 6 June 2019 (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 3 June 2019 (Monday) to 6 June 2019 (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 31 May 2018 (Friday) for registration of the relevant transfer.

BUSINESS REVIEW

Rare Earth Business

During the year, the nation implemented strict environmental supervision and inspection, and some rare earth production lines which emitted too much pollutants during production were ousted, which helped bring a proper discipline back into the industry. Illegal rare earth mining has markedly declined since then, whereas compliant production plants for rare earth separation and waste recycling were able to streamline production plan gradually, in addition to contracted supply and structural adjustment went through in the industry. Consequently, market demand increased and the imbalance between supply and demand eased. The price of rare earth oxides had notably climbed in March, June and November. However, downstream customers still did not have enough confidence in the market. As most of the enterprises still wanted to wait and see, enquires and orders were still scarce and the market was quiet. The Group's revenue from the rare earth business segment for the year amounted to approximately HK$554,515,000, representing an about 43% growth from approximately HK$386,533,000 in 2017.

The Group sold a total of approximately 1,600 tonnes of rare earth oxides in 2018, down by more than 15% when compared with last year. However, during the year, as the Group sold more high-priced products, such as praseodymium, neodymium, terbium and dysprosium that commonly applied in magnetic materials; and less low-priced products, such as lanthanum, cerium and yttrium, the average selling price went up and revenue from the rare earth segment climbed by about 43% against last year. Compared with last year, the average selling price of yttrium oxide increased by about 30%, and that of lanthanum oxide surged by about 70%, whereas that of samarium oxide increased more than double. The average selling price of holmium oxide, gadolinium oxide, lutetium oxide and terbium oxide, on the other hand, dropped by about 10% to 20% when compared with last year and that of neodymium oxide was down by less than 30%.

In 2018, the Group gradually resumed production of rare earth oxides, while reallocating the manpower and adjusting the production flow of its rare earth separation lines. Apart from its production, more than half of the Group's rare earth products were purchased through other merchants so as to meet its customers' need.

Regarding supply of rare earth raw materials, as domestic rare earth resources are still mainly controlled by state-owned enterprises, the Group imported most of the rare earth resources it needs from Southeast Asia via trading companies in China.

After disposing the fluorescent materials business at the end of 2017, the Group's rare earth business has achieved an overall improvement. In 2018, the segmental gross loss margin of the rare earth business was approximately 3%.

The Group reduced rare earth export in 2018. By market, Mainland China accounted for about 95% of the total sales revenue of the rare earth segment. Japan and Europe accounted for about 4% in total and other markets accounted for the remaining 1%. The Group did not sell any rare earth products to the US during the year.

Refractory Materials Business

Refractory materials are consumables of the steel and cement industries. Bulk procurement of them is necessary for manufacturing of new plants and continuous procurement is also required to meet demand in routine maintenance and repair works of equipment. Steady recovery of China's steel industry in 2018 boosted both the sales volume and price of refractory materials. And, the warming up of cement and flat glass industries also drove growth in demand for refractory materials. Moreover, China is attaching more and more importance to environmental protection. During the year, state environmental protection authority implemented suspension or restriction in production of refractory materials in regions including Henan and Shandong and new pollutant emission standards for magnesia refractory materials were announced in Liaoning, commanding manufacturers to pursue energy conservation, lower emissions and scale up production. As a result, magnesium grains fell short in supply and price climbed markedly, which in turn pushed up refractory materials costs and prices. Benefiting from the increased market price of refractory materials, the Group's refractory materials segment posted a revenue of approximately HK$347,580,000 for the year, up by about 39%, when compared to the approximately HK$250,629,000 in 2017. Segmental gross profit margin rose to about 22%.

In 2018, the Group sold approximately 27,300 tonnes of ordinary refractory materials and high temperature ceramics products, down by less than 5% when compared with the previous year. The price of magnesium grains, a main raw material, surged due to decrease in supply, and that drove up the price of refractory materials. However, some customers accepted the lowest bid in tendering to save costs, sacrificing quality. The Group has been gradually eliminating customers of lower quality and working hard on maintaining good relations with and reinforcing its brand among high quality customers. The Group had fewer customers for the year compared with the last year.

During the year, the price of refractory products generally rose, with the average selling price of major products like magnesium chrome bricks and casting materials up by approximately 40% to 50% against last year, at the push of the rising price of magnesium grains. As for alumina-graphite bricks and high temperature ceramics, their average selling price increased by approximately 5% to 10%. Regarding costs, against last year, the average price of magnesium grains increased by approximately 40% to 50% and that of fuel increased by approximately 25%. Labour costs climbed as well alongside wages. During the year, the Group also purchased some refractory materials from external parties for sale together with its own. Carrying out stringent quality inspection and production flow control, the Group raised the passing rate of qualified products, as such was able to effectively lower average cost. In 2018, gross profit margin of the Group's ordinary refractory materials and high temperature ceramics products increased to approximately 22%.

As for magnesium grains business, the "Three-Year Action Plan for Winning the Battle to Defend Blue Sky in Liaoning Province" (遼寧省打贏藍天保衛戰三年行動方案) was rolled out in Northeast China and large-scale consolidation of magnesium mines was in progress. Several local government authorities together inspected all enterprises and production lines failing to meet environmental and safety standards had to halt production and make relevant rectifications. The Group's subsidiary which principally engaged in manufacturing of fused magnesium grains products is among the very few enterprises meeting required standards. In 2018, the Group sold approximately 21,200 tonnes of magnesium grains products with average selling price up by approximately 35% against last year. However, due to tight supply, the average price of main raw materials such as magnesite and electrode conductors climbed by more than 100% and 70% respectively. All taken into account, gross profit margin of the business declined to approximately 15%.

Despite the rounds of efforts made by the Group starting in 2017 to modify and adjust the high purity magnesium grains production line, its dust emissions still fell short of national standards. The production line had stopped operation for a long time and there was no sign of it being able to resume production. Considering the grim prospect of the production line, the Group disposed it in early July 2018. During the year under review, the Group did not produce and sell any high purity magnesium grains products.

By market, Mainland China remained the core market for the Group's refractory materials business, accounting for about 81% of the segmental revenue. Japan market accounted for about 13%. Other markets including Taiwan, the Middle East and Europe contributed the remaining about 6% of the segmental revenue.

DISPOSAL TRANSACTION

As mentioned above, during the year, for a cash consideration of RMB28,000,000 (equivalent to approximately HK$32,933,000), the Group disposed of the entire equity interest in its wholly owned subsidiary Hai Cheng Xinwei Leeshing Magnesium Resources Co., Ltd., which principally engaged in manufacturing and sales of high purity magnesium grains products. The disposal was completed on 18 July 2018. The production line was suspended during the year till the disposal and the expenses incurred in the period amounted to approximately HK$8,647,000, which is stated under other operating expenses in the Group's consolidated statement of profit or loss. The disposal brought to the Group a gain of approximately HK$1,925,000. The Group hopes to take the opportunity to reallocate resources in developing rare earth and refractory materials businesses.

PROSPECTS

Since the announcement of "Several Opinions of the State Council on Promoting the Sustainable and Healthy Development of the Rare Earth Industry" (國務院關於促進稀土行業持續健康發展的若干意見) in 2011, China's rare earth industry has achieved good progress in areas such as resources preservation, application development, adjustment of industry structure, improvement of innovation capability and establishment of management system. Aiming to foster a more disciplined rare earth industry and market, to build up a sustainable environment for the industry and to drive development of the industry towards the high quality end, in 2018, government authorities such as the National Development and Reform Commission (the "NDRC") and the Ministry of Industry and Information Technology (the "MIIT") formulated and launched a series of policies and measures to promote development of the rare earth industry: in June, the "Special Administrative Measures for the Access of Foreign Investment (Negative List) (2018 Edition)" (外商投資准入特別管理措施(負面清單)(二零一八年版)) was released to remove restrictions on foreign investors' joint investment and joint operation in rare earth smelting and separation; in December, the "Notice on Further Regulating the Approval Administration on Rare Earth Mines and Tungsten Mines Exploration Rights and Excavation Rights" (關於進一步規範稀土礦鎢礦探礦權採礦權審批管理的通知) was issued by the Ministry of Natural Resources regulating the approval administration on the exploration rights and excavation rights for rare earth mines and tungsten mines; in the same month, the NDRC published the "Market Access Negative List (2018 Edition)" (市場准入負面清單(二零一八年版)) that stipulates elimination of rare earth mines not meeting development requirements and restricting rare earth mining, selection, smelting and separation projects, whereas, 12 authorities including the MIIT, the NDRC, and the Ministry of National Resources jointly published the "Notice on Continuous Strengthening the Rectification of Rare Earth Industry Discipline" (關於持續加強稀土行業秩序整頓的通知), which aims to enhance inspection and punishment of those acts that disrupt the discipline of the rare earth industry such as illegal mining and illegal processing, which in turn helps to establish a work mechanism to facilitate cooperation between central and local government authorities and reinforce punishment for violations, so as to resume order in the industry for mining, production, circulation, and import and export of rare earth resources. These policies and action plans have improved the industry discipline and created a better environment for the industry to develop, and that points to the need for tightening further relevant policies to accelerate rectification of industry issues and problems. The market can thus expect supply and demand to gradually stabilise and prices of rare earth to pick up continuously.

As driven by downstream industries, there is a strong and rigid demand in the rare earth market. Rapid development of new energy vehicles has created demand for motor and permanent magnetic materials. And, development of the new energy vehicle industry also brings strategic importance to the nation in the "Made in China 2025" plan (中國製造二零二五). In addition, the launch of tax exemption or deduction and subsidy polices for purchase of new energy vehicles will directly boost their output, and accordingly demand for permanent magnetic material, a raw material of motor for new energy vehicles, is set to increase. Moreover, artificial intelligence has been developing rapidly worldwide, with countries investing considerable resources in exploring its potential applications, and highly efficient electronic components are an essential part of the solution. Also, with sectors such as military and defence, and aerospace and aviation requiring high-tech support, and energy conservation and environmental protection industries gaining importance, rare earth element, which is a fundamental material for them, is likely to enjoy a rising market demand.

Alive to the growing rare earth supply pressure in the country, the Group has started some years ago to explore the opportunities of working with overseas rare earth suppliers. In 2017 and 2019, it entered into a memorandum of understanding on cooperation with rare earth companies in Australia and Chile respectively, which will give it access to their rare earth resources once their planned rare earth mining projects are completed and start operation. Moreover, the "Notice on Continuous Strengthening the Rectification of Rare Earth Industry Discipline" (關於持續加強稀土行業秩序整頓的通知) encourages domestic rare earth companies to step up pursuit of international cooperation according to market mechanism and participate orderly in development and use of overseas resources. The Group will continue to import rare earth resources from Southeast Asia via domestic trading companies, and simultaneously, will actively study the feasibility of cooperation and direct import from the region, aiming to expand raw material supply channels, thereby assure stable supply and improve cost effectiveness.

For refractory materials business, the Group will continue to develop high quality refractory products to meet market demand and strive to retain existing high quality customers and explore new customers. Furthermore, it will revisit the feasibility of acquiring a magnesite mine in Northeast China and other merger and acquisition opportunities, with the aims of creating synergies with the Group's existing businesses, giving it a vertically integrated operation and helping it improve production efficiency and prepare for future development.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continues to be prudent in making financial arrangements to ensure it has adequate liquidity. As at 31 December 2018, the Group had cash and bank deposits of approximately HK$1,666,292,000, similar to that at the end of the preceding year, not notably pushed up by the proceeds from disposal of a subsidiary during the year. Net current assets of the Group amounted to approximately HK$2,320,741,000, down by approximately HK$23,987,000 from that at the end of 2017. Total liabilities to total assets ratio was about 5%.

Regarding prepayments for materials, the Group now has more mature relationship with relevant suppliers after several years of cooperation and that has helped lower related capital requirement. As at 31 December 2018, total prepayments made for rare earth and refractory materials was approximately HK$107,936,000 and HK$43,708,000 respectively, reduced by approximately HK$166,216,000 in total compared to that in the previous year.

In 2018, the Group did not borrow any money from banks or financial institutions. Nevertheless, the Group had pledged certain land and buildings (with carrying amount at approximately HK$49,304,000 as at 31 December 2018) with a domestic bank, obtaining a financing facility at RMB150,000,000 (equivalent to approximately HK$171,194,000) which has not been utilised yet. Apart from that, at year end, the Group had no charge on its assets nor holding of 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 under review, Renminbi depreciated slightly, which did not cause significant fluctuation of or impact on the Group's results.

STAFF AND REMUNERATION

After disposal of a subsidiary, the Group streamlined its manpower structure heeding business development needs, and the number of employees decreased against 2017. As at 31 December 2018, the Group had approximately 450 employees of different levels. Although fewer employees were employed, average salary increased alongside market rate adjustment. For the year, the Group's staff costs including directors' emoluments amounted to approximately HK$43,137,000, slightly decreased compared to that in the previous year. The Group continued to provide regular on-the-job 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 2018.

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 2018.

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 2018 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 2018, 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 2018.

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 2018 annual report will be dispatched to the shareholders and published on the aforesaid websites in accordance with the requirements of Listing Rules.

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 2019