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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 2019

The Board of Directors (the “Board”) of China Rare Earth Holdings Limited (the “Company”) is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2019 together with the comparative figures for the corresponding year in 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the year ended 31 December	
		2019	2018
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	(2)	1,018,535	902,095
Cost of sales		(941,427)	(841,667)
Gross profit		77,108	60,428
Other income		5,331	16,398
Selling and distribution expenses		(11,170)	(13,214)
Administrative expenses		(42,621)	(52,150)
Gain on disposal of a subsidiary	(10)	–	1,925
Other operating expenses		–	(8,647)
Other net gain/(loss)		12,848	(3,819)
Profit from operations		41,496	921
Finance costs	(3)	(588)	–
Profit before taxation	(4)	40,908	921
Income tax charge	(5)	(1,321)	(8,297)
Profit/(loss) for the year		39,587	(7,376)
Profit/(loss) for the year attributable to:			
Owners of the Company		38,885	(5,424)
Non-controlling interests		702	(1,952)
		39,587	(7,376)
		<i>HK cents</i>	<i>HK cents</i>
Earnings/(loss) per share			
Basic and diluted	(7)	1.66	(0.23)

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

		For the year ended	
		31 December	
		2019	2018
	<i>Note</i>	HK\$'000	HK\$'000
Profit/(loss) for the year		<u>39,587</u>	<u>(7,376)</u>
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		(56,660)	(120,903)
Release of translation reserve upon disposal of interest in a subsidiary	(10)	<u>–</u>	<u>(1,493)</u>
		<u>(56,660)</u>	<u>(122,396)</u>
Total comprehensive loss for the year		<u>(17,073)</u>	<u>(129,772)</u>
Total comprehensive loss for the year attributable to:			
Owners of the Company		(17,646)	(127,502)
Non-controlling interests		<u>573</u>	<u>(2,270)</u>
		<u>(17,073)</u>	<u>(129,772)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December	
<i>Note</i>	2019	2018
	HK\$'000	HK\$'000
Non-current assets		
Goodwill	–	–
Property, plant and equipment	162,736	182,158
Right-of-use assets	100,736	–
Prepaid lease payments on land under operating leases	–	98,476
Other non-current asset	–	17,307
Deferred tax assets	3,810	–
	267,282	297,941
Current assets		
Prepaid lease payments on land under operating leases	–	3,107
Inventories	256,243	153,530
Trade and other receivables	(8) 313,037	464,479
Prepayments and deposits	415,804	184,155
Tax recoverable	737	753
Cash and cash equivalents	1,478,953	1,666,292
	2,464,774	2,472,316
Current liabilities		
Trade payables	(9) 74,776	78,894
Accruals and other payables	44,388	63,458
Amounts due to directors	2,921	2,580
Lease liabilities	1,181	–
Tax payable	3,836	6,643
	127,102	151,575
Net current assets	2,337,672	2,320,741
Total assets less current liabilities	2,604,954	2,618,682
Non-current liabilities		
Lease liabilities	3,345	–
NET ASSETS	2,601,609	2,618,682
CAPITAL AND RESERVES		
Share capital	234,170	234,170
Reserves	2,361,275	2,378,921
Equity attributable to owners of the Company	2,595,445	2,613,091
Non-controlling interests	6,164	5,591
TOTAL EQUITY	2,601,609	2,618,682

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 2018, except for the adoption of HKFRS 16 “Leases” and other new and revised HKFRSs that are first effective for accounting periods beginning on or after 1 January 2019.

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 2019.

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 certain adjustments as a result of adopting HKFRS 16 “Leases”.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of the Group’s reserves as at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17 “Leases”. Since the Group recognised the right-of-use assets at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments, there was no impact to the Group’s reserves as at 1 January 2019.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from the use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 “Determining whether an Arrangement contains a Lease” at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of properties. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets and short-term leases. The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payments occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or a rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Impacts on transition

Lease liabilities as at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate as at 1 January 2019.

The right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments recognised in the consolidated statement of financial position immediately before 1 January 2019.

The carrying amount of right-of-use assets as at 1 January 2019 comprised:

	<i>HK\$'000</i>
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	5,647
Reclassified from prepaid lease payments on land under operating leases	101,583
	<u>107,230</u>
By class	
Leasehold lands	101,583
Leased properties	5,647
	<u>107,230</u>

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Carrying amounts previously reported at 31 December 2018 <i>HK\$'000</i>	Adjustments <i>HK\$'000</i>	Carrying amounts under HKFRS 16 at 1 January 2019 <i>HK\$'000</i>
Non-current assets			
Prepaid lease payments on land under operating leases	98,476	(98,476)	–
Right-of-use assets	–	107,230	107,230
	<u> </u>	<u> </u>	<u> </u>
Current assets			
Prepaid lease payments on land under operating leases	3,107	(3,107)	–
	<u> </u>	<u> </u>	<u> </u>
Non-current liabilities			
Lease liabilities	–	4,268	4,268
	<u> </u>	<u> </u>	<u> </u>
Current liabilities			
Lease liabilities	–	1,379	1,379
	<u> </u>	<u> </u>	<u> </u>

2. REVENUE AND 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 rare earth oxides)
Refractory:	Manufacture and sales of refractory products (including refractory materials 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	
	2019	2018	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE						
Revenue from external customers	691,918	554,515	326,617	347,580	1,018,535	902,095
Inter-segment revenue	–	131	–	–	–	131
Reportable segment revenue	<u>691,918</u>	<u>554,646</u>	<u>326,617</u>	<u>347,580</u>	<u>1,018,535</u>	<u>902,226</u>
RESULTS						
Reportable segment profit/(loss)	<u>34,803</u>	<u>(13,565)</u>	<u>49,123</u>	<u>67,561</u>	<u>83,926</u>	<u>53,996</u>

(b) Revenue from external customers by major products and geographical markets are as follows:

	Rare Earth		Refractory		Total	
	2019	2018	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of major products						
Rare earth oxides	691,918	554,515	–	–	691,918	554,515
Refractory materials	–	–	278,248	257,528	278,248	257,528
Magnesium grains	–	–	48,369	90,052	48,369	90,052
Total	<u>691,918</u>	<u>554,515</u>	<u>326,617</u>	<u>347,580</u>	<u>1,018,535</u>	<u>902,095</u>
Geographical markets						
The People's Republic of China (the "PRC")	655,292	528,660	264,896	282,755	920,188	811,415
Japan	29,818	13,584	45,287	44,539	75,105	58,123
Europe	5,929	9,548	4,520	2,319	10,449	11,867
Others	879	2,723	11,914	17,967	12,793	20,690
Total	<u>691,918</u>	<u>554,515</u>	<u>326,617</u>	<u>347,580</u>	<u>1,018,535</u>	<u>902,095</u>

3. FINANCE COSTS

Finance costs included interest on discounted bills at approximately HK\$331,000 (2018: Nil) and interest on lease liabilities at approximately HK\$257,000 (2018: Nil).

4. PROFIT BEFORE TAXATION

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

	2019	2018
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	32,214	41,799
Depreciation of right-of-use assets	4,305	–
Net (gain)/loss on disposals of property, plant and equipment	(11,009)	96
Amortisation of prepaid lease payments on land under operating leases	–	3,553
Expenses incurred during temporary suspension of production	–	8,647
	<u>–</u>	<u>12,095</u>

5. INCOME TAX CHARGE

Income tax charge for the year comprised:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Current tax – PRC Enterprise Income Tax		
– Provision for the year	(5,173)	(8,297)
Deferred taxation		
– Origination and reversal of temporary differences	<u>3,852</u>	<u>–</u>
	<u>(1,321)</u>	<u>(8,297)</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 estimated assessable profits of the Group arising in Hong Kong during the year ended 31 December 2019 is wholly set off by tax losses brought forward. 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 2018.

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 2019 and 2018, 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.

6. DIVIDENDS

No final dividend for previous year was declared and paid during the year ended 31 December 2019 (2018: Nil).

No final dividend was proposed for the year ended 31 December 2019 (2018: Nil).

7. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the profit attributable to owners of the Company of approximately HK\$38,885,000 (2018: loss of HK\$5,424,000) and the weighted average number of approximately 2,341,700,000 (2018: 2,341,700,000) ordinary shares in issue during the year ended 31 December 2019.

Diluted earnings/(loss) per share equals to the basic earnings/(loss) per share as the Company has no potential dilutive ordinary shares outstanding during the years ended 31 December 2019 and 2018.

8. 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:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Trade receivables	261,933	420,482
Other receivables	17,978	3,777
Other tax refundable	33,126	40,220
	<u>313,037</u>	<u>464,479</u>

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Less than 6 months	183,194	300,530
6 months to less than 1 year	80,841	113,719
1 year to less than 2 years	5,800	10,584
Over 2 years	22,358	29,217
	<u>292,193</u>	<u>454,050</u>
Less: Impairment loss on trade receivables	<u>(30,260)</u>	<u>(33,568)</u>
	<u>261,933</u>	<u>420,482</u>

9. TRADE PAYABLES

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Less than 6 months	37,953	39,056
6 months to less than 1 year	4,971	14,913
1 year to less than 2 years	12,875	4,227
Over 2 years	18,977	20,698
	<u>74,776</u>	<u>78,894</u>

10. DISPOSAL OF A SUBSIDIARY

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. at a cash consideration of RMB28,000,000 (equivalent to approximately HK\$32,933,000). The company was principally engaged in manufacturing and sales of magnesium products. The disposal was completed on 18 July 2018.

Gain on disposal of a subsidiary is as follows:

	2018 <i>HK\$'000</i>
Consideration received	32,933
Net assets disposed of	(32,501)
Cumulated 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>1,493</u>
Gain on disposal of a subsidiary recognised in profit or loss	<u>1,925</u>

11. PLEDGE OF ASSETS

As at 31 December 2019, certain leasehold land with carrying amount of approximately HK\$42,975,000 (2018: HK\$45,498,000) and certain buildings with aggregate carrying amount of approximately HK\$2,172,000 (2018: HK\$3,806,000) were pledged as collateral for banking facilities.

FINANCIAL RESULTS

For the year ended 31 December 2019, the Group recorded revenue of approximately HK\$1,018,535,000, up by about 13% when compared to approximately HK\$902,095,000 in 2018. Revenue from the Group's rare earth products rose to approximately HK\$691,918,000, representing an increase of about 25% when compared to approximately HK\$554,515,000 in 2018, and accounted for about 68% of total revenue of the Group. As for refractory products, revenue was approximately HK\$326,617,000, representing a decrease of about 6% when compared to approximately HK\$347,580,000 in 2018, and accounted for about 32% of the Group's total revenue. The Group's overall gross profit margin was about 8%, a similar level to 2018.

During the year, the Group actively enhanced cost efficiency and adopted flexible operation strategies to deal with market changes. As the rare earth industry continued to improve, net profit was recorded at approximately HK\$39,587,000 for 2019, a turnaround from a net loss of approximately HK\$7,376,000 in 2018, and gradually improved results. Earnings per share was approximately HK 1.66 cents (loss per share was approximately HK 0.23 cents for 2018). The Group strived to optimise its client portfolio in recent years and has significantly improved turnover of trade receivables.

FINAL DIVIDEND

The Board did not recommend the payment of a final dividend for 2019.

ANNUAL GENERAL MEETING

The 2020 Annual General Meeting (the "AGM") will be held on 18 June 2020 (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 15 June 2020 (Monday) to 18 June 2020 (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 12 June 2020 (Friday) for registration of the relevant transfer.

BUSINESS REVIEW

Rare Earth Business

In 2019, China's rare earth market continued to improve. Influenced by the increasingly regulated industry and the reduced supply of mineral resources, together with the restriction in the import of Myanmar's rare earth resources, the price trend of the domestic rare earth market experienced differentiation. The market price of heavy rare earth increased sharply, while the market price of light rare earth fell slightly. In general, the market price of heavy rare earth greatly increased at the beginning of the year due to the closure of customs in Myanmar. Till the third quarter, the price decreased accordingly due to the re-opening of the customs. In the fourth quarter, however, due to the closure of the customs again, the market price rebounded. The market price of light rare earth hovered at a low level at the beginning of the year. In the second quarter, under strict environmental supervision and inspections, some rare earth separation enterprises reduced production or halted production, causing the sudden increase in the market price, however, the price gradually decreased in the second half of the year.

During the year, the Group sold around 1,100 tonnes of rare earth products, down by about 30% compared with last year. However, as the Group adjusted the sales combination of rare earth products mix and increased the sales portion of high-value products, the Group sold more high-priced products, such as terbium and dysprosium, and less low-priced products, such as lanthanum, cerium and yttrium as compared to last year. Hence, the average selling price of rare earth products increased. Currently, the rare earth products sold by the Group are mainly praseodymium, neodymium, terbium and dysprosium, which can be used in magnetic materials.

In 2019, the Group's revenue from rare earth segment was approximately HK\$691,918,000, an increase of about 25% over last year. Compared with last year, the average price of heavy rare earth such as terbium oxide and dysprosium oxide sold by the Group increased by about 20% and 50%, respectively while the prices of other products, such as lanthanum oxide, praseodymium neodymium oxide and yttrium oxide, were similar to those of last year, with variation within 5%.

At the beginning of 2019, the government of Yixing City, Jiangsu Province in China began to enforce the requirement as stipulated in the revision of "Regulations on the Prevention and Control of Water Pollution in Taihu Lake in Jiangsu Province" (江蘇省太湖水污染防治條例). The sewage and drainage pipes in the whole city were rearranged and laid. The Yixing plant of the Group is situated on the bank of Taihu Lake. Since the wet smelting process adopted by the Group in the production of rare earth oxides requires wastewater treatment, the relevant arrangements affected the Group's normal production of rare earth oxides. In addition, the import of rare earth resources in China was greatly reduced in the year, the national rare earth production directives was also strictly implemented. The Group adjusted its strategic planning in a timely manner and increased outsourced products to supplement the reduction of its production to meet the demand of customers for common products. Meanwhile, the Group actively implemented

cost control and disposed certain poorly performed equipment. The rare earth segment was successfully turned from deficit into profit. The reduction of production caused the increase in average cost and lowered the increment of the gross profit margin of rare earth products. The gross profit margin of the Group's rare earth segment was about 2% in 2019. During the year, the Group focused on the production of high-end products, such as oxides in nanoscales, which helped to promote the high-value-added industry development of rare earth.

By market, sales growth mainly came from domestic customers. The Mainland China market accounted for about 95% of the Group's rare earth revenue. Japan and Europe markets accounted for about 4% and 1%, respectively. Other markets accounted for a small share.

Refractory Materials Business

The Group's refractory materials segment posted revenue of approximately HK\$326,617,000 for 2019, decreased by about 6% compared with 2018. The segmental gross profit margin was 18%.

During the year under review, steel, glass and non-ferrous metal industries in China declined due to the economic slowdown and environmental protection requirements, which underscored the surplus problem in the refractory industry. Although the refractory materials market was under pressure, the Group won the trust of customers by ensuring product quality and excellent service. The Group did not engage in irrational price competition and focused on quality improvement. Although the Group might lost some customers with a preference for low-price products, it consolidated a group of high-quality partners who grow together with the Group. During the year, some customers who refocused on product quality were once again becoming the target customers of the Group. With the brand advantages, the Group sold approximately 28,300 tonnes of refractory materials and high-temperature ceramics products, slightly increase with less than 5% when compared to last year. Average selling price of major products like fused magnesia-chrome bricks and alumina-graphite bricks increased by about 10% against last year's price. As for casting materials and high-temperature ceramics, their average selling price increased by approximately 20%. The related sales revenue was about HK\$278,248,000, increased by about 8% compared to that in 2018. The gross profit margin maintained at approximately 21%.

Regarding magnesium grains business, due to the soft market of refractory materials and the continuous implementation of environmental protection supervision in the region of Anshan and Haicheng in Liaoning Province of China, some substandard magnesium mines were shut down. The operating environment of magnesium grains business was poor during the year. In 2019, the Group only sold approximately 17,100 tonnes of magnesium grains products, decreased by approximately 20% compared with last year. Average product price was decreased by over 25% year-on-year. Revenue from the sale of magnesium grains for the whole year was approximately HK\$48,369,000, a decrease of about 46% compared with approximately HK\$90,052,000 in 2018. Gross profit margin declined to approximately 9%.

Regarding market distribution, Mainland China remained the major market for the Group's refractory materials business and accounted for about 81% of the segmental revenue. Japan market accounted for about 14%. Other markets in Asia, South America and Europe contributed to the remaining 5%.

PROSPECTS

Rare earth elements have unique physical and chemical properties, resulting in wide range application in various industries including modern high-tech products and traditional products. The development of electronic products, medical equipment, electric vehicles, aircraft turbine engines, and missile guidance systems is inseparable from rare earth which cause social demand for rare earth continues to increase. Rare earth is vital to the high-tech industry and plays a critical role in technological innovation. However, mining, extraction, and smelting of rare earth are costly and affect the natural ecological environment. China is the largest producer of rare earth in the world. Department of Defense in the United States ("US") is unavoidably to be an indirect customer of Chinese rare earth enterprises. The US military industry warned that dependence on China's rare earth supply is its weakness. High-tech industries, one of the pillars of the US economy, cannot sustain without rare earth materials. Due to the importance of rare earth to the US, the market has paid attention to whether rare earth was involved in each round of the Sino-US trade negotiations. The Group expects the Chinese government will continue to launch policies to rectify the operation of the rare earth industry, maintain the strategic position of rare earth in the world and support the long-term development of the rare earth industry in China.

According to the notice on mining, smelting and separation quota of rare earth as well the mining quota of tungsten issued by the Ministry of Industry and Information Technology and the Ministry of Natural Resources of China in 2019, the relevant quota should be allocated to key enterprises with advanced technology and equipment and high standard of environmental protection, and be further concentrated. In response to the national call, the Group will continue to be committed to developing into high value-added. At the end of 2019 and the beginning of 2020, the Group planned to revamp its rare earth workshop technology to optimise the existing production process, reduce consumption and save costs. On the other hand, the adjustments made by the Group to support the municipal government's sewage discharge pipeline layout have been basically completed and will put into use after acceptance by the local government. By then, the Group's rare earth production technology will be improved, aligning with the state's policy of promoting the development of high-quality rare earth industry.

In order to facilitate the rare earth business process, the Group will actively seek potential business partners while strengthening cooperation with existing suppliers, so as to ensure the sufficiency of supplies to meet customers' needs.

In terms of refractory materials, the operating environment during the year is not ideal. However, refractory products are necessary materials for the construction of many heavy industries. It is believed that the market has a solid demand for refractory materials due to the increasing domestic infrastructure projects in China and the guidance of the national "Belt and Road" initiative. With outstanding product quality and excellent customer service, the Group remains confident in its business prospects.

In addition, in order to increase product variety and quality to meet customers' demands, the Group stepped up its technical cooperation with a Japanese customer in the third quarter of 2019. The new technologies and production flow management brought by the partnership improves the Group's development in automated refractory materials production process. It is expected that the cooperation will contribute to the Group's business from 2020. Besides, the Group stress the importance on resources allocations and plans to undergo vertical integration. It has decided an acquisition of a magnesite mine in Northeast China and the plan is expected to be implemented shortly after the completion of due diligence process, which could bring synergistic effects, reduce costs and improve efficiency of the Group.

During the first quarter of 2020, coronavirus disease was broken out in the Mainland China and has spread across the rest of the world. Business and economic activities have seriously been affected. Preventive measures taken by the local government limited the plant operation and transportation logistics. Currently it is unable to estimate the impact on the Group's business. The Group will keep monitoring the situation and react promptly.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continues to be prudent in making financial arrangements to ensure it has adequate liquidity for business development. As at 31 December 2019, the Group had cash and bank deposits of approximately HK\$1,478,953,000, a decrease of about HK\$187,339,000 compared with the end of 2018. Net current assets of the Group amounted to approximately HK\$2,337,672,000, an increase of approximately HK\$16,931,000 from the end of 2018. Total liabilities to total assets ratio was about 5%, a similar level to end of last year.

Regarding prepayments for materials, the Group has strengthened cooperation with suppliers by increasing capital investment so as to ensure sufficient supply. As at 31 December 2019, total prepayments made for rare earth and refractory materials were approximately HK\$292,728,000 and HK\$99,526,000 respectively, an increase of approximately HK\$240,610,000 in total compared to the previous year. Regarding inventories, as the Group focus on sales of heavy rare earth elements during the year, hence more relatively valuable inventories such as dysprosium oxide and lutetium oxide were stored in the fourth quarter. At the end of 2019, the Group's inventories amounted to approximately HK\$256,243,000, an increase of HK\$102,713,000 compared to that at the end of 2018.

In 2019, the Group did not borrow any money from banks or financial institutions. Since 2018, the Group has pledged certain leasehold lands and buildings (with carrying amount at approximately HK\$45,147,000 in total as at 31 December 2019) with a Chinese bank, obtaining a financing facility at RMB150,000,000 (equivalent to approximately HK\$167,448,000) 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

The Group continued to adjust its manpower structure according to the business development needs. As at 31 December 2019, the Group had approximately 400 employees of different levels, which had decreased as compared to 2018. During the year, the Group's staff costs including directors' emoluments amounted to approximately HK\$34,058,000, decreased by about 20% year-on-year. In order to raise operational efficiency and improve cost control, the Group continued to streamline human resources. The Group values the well-being of staff, and the average remuneration of staff increased during the 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 2019.

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 2019.

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 2019 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 2019, 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 2019.

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 2019 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, 30 March 2020