

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

INTERIM RESULTS

The Board of Directors (the “Board”) of China Rare Earth Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2020 together with the comparative figures for the corresponding period in 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the six months ended 30 June	
	<i>Note</i>	2020	2019
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	(2)	459,842	438,972
Cost of sales		<u>(420,012)</u>	<u>(395,994)</u>
Gross profit		39,830	42,978
Other income		2,320	2,594
Selling and distribution expenses		(4,049)	(4,843)
Administrative expenses		(19,432)	(22,041)
Other net loss		<u>(4,520)</u>	<u>(1,769)</u>
Profit from operations		14,149	16,919
Finance costs	(3)	<u>(135)</u>	<u>(221)</u>
Profit before taxation	(4)	14,014	16,698
Income tax charge	(5)	<u>(3,207)</u>	<u>(2,603)</u>
Profit for the period		<u>10,807</u>	<u>14,095</u>
Profit for the period attributable to:			
Owners of the Company		10,613	13,939
Non-controlling interests		<u>194</u>	<u>156</u>
		<u>10,807</u>	<u>14,095</u>
Earnings per share			
Basic and diluted	(7)	<u>HK0.45 cents</u>	<u>HK0.60 cents</u>

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

	For the six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Profit for the period	10,807	14,095
Other comprehensive loss for the period (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	(48,477)	(10,305)
Total comprehensive (loss)/income for the period	(37,670)	3,790
Total comprehensive (loss)/income for the period attributable to:		
Owners of the Company	(37,744)	3,657
Non-controlling interests	74	133
	(37,670)	3,790

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	As at 30 June 2020 <i>HK\$'000</i> (Unaudited)	As at 31 December 2019 <i>HK\$'000</i> (Audited)
Non-current assets			
Goodwill		–	–
Property, plant and equipment	(8)	148,382	162,736
Right-of-use assets		96,774	100,736
Deferred tax assets		2,333	3,810
		247,489	267,282
Current assets			
Inventories		180,839	256,243
Trade and other receivables	(9)	315,173	313,037
Prepayments and deposits		308,586	415,804
Tax recoverable		723	737
Cash and cash equivalents		1,644,768	1,478,953
		2,450,089	2,464,774
Current liabilities			
Trade payables	(10)	95,525	74,776
Accruals and other payables		27,231	44,388
Amounts due to directors		3,581	2,921
Lease liabilities		1,211	1,181
Tax payable		3,359	3,836
		130,907	127,102
Net current assets		2,319,182	2,337,672
Total assets less current liabilities		2,566,671	2,604,954
Non-current liabilities			
Lease liabilities		2,732	3,345
NET ASSETS		2,563,939	2,601,609
CAPITAL AND RESERVES			
Share capital		234,170	234,170
Reserves		2,323,531	2,361,275
Equity attributable to owners of the Company		2,557,701	2,595,445
Non-controlling interests		6,238	6,164
TOTAL EQUITY		2,563,939	2,601,609

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated interim financial information has been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The condensed consolidated interim financial information does not include all the information and disclosure required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The accounting policies used in the condensed consolidated interim financial information are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2019, except for certain revised HKFRSs that are first effective for the current accounting period of the Group. The application of these 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 six months ended 30 June 2020.

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 the 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 presented two reportable segments as follows:

Rare Earth: The manufacture and sale of rare earth products

Refractory: The manufacture and sale of refractory products

(a) Segment revenue and results

	Rare Earth		Refractory		Total	
	For the six months ended 30 June					
	2020	2019	2020	2019	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE						
Revenue from external customers	332,001	284,315	127,841	154,657	459,842	438,972
Inter-segment revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Reportable segment revenue	<u>332,001</u>	<u>284,315</u>	<u>127,841</u>	<u>154,657</u>	<u>459,842</u>	<u>438,972</u>
RESULTS						
Reportable segment profit	<u>17,637</u>	<u>12,907</u>	<u>17,614</u>	<u>25,795</u>	35,251	38,702
Other income					2,320	2,594
Depreciation of property, plant and equipment					(15,520)	(16,339)
Depreciation of right-of-use assets					(1,505)	(1,550)
Finance costs					(28)	(85)
Unallocated corporate expenses					<u>(6,504)</u>	<u>(6,624)</u>
Consolidated profit before taxation					14,014	16,698
Income tax charge					<u>(3,207)</u>	<u>(2,603)</u>
Consolidated profit after taxation					<u>10,807</u>	<u>14,095</u>

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

	Rare Earth		Refractory		Total	
	For the six months ended 30 June					
	2020	2019	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of major products						
Rare earth oxides	332,001	284,315	-	-	332,001	284,315
Refractory materials	-	-	117,575	138,147	117,575	138,147
Magnesium grains	-	-	10,266	16,510	10,266	16,510
Total	<u>332,001</u>	<u>284,315</u>	<u>127,841</u>	<u>154,657</u>	<u>459,842</u>	<u>438,972</u>
Geographical markets						
The People's Republic of China (the "PRC")	325,558	273,699	107,096	125,786	432,654	399,485
Japan	3,473	7,474	15,234	19,595	18,707	27,069
Europe	2,519	2,772	1,488	345	4,007	3,117
Others	451	370	4,023	8,931	4,474	9,301
Total	<u>332,001</u>	<u>284,315</u>	<u>127,841</u>	<u>154,657</u>	<u>459,842</u>	<u>438,972</u>

3. FINANCE COSTS

During the six months ended 30 June 2020, finance costs included interest expenses on bank and other borrowings wholly repayable within five years at approximately HK\$28,000 (2019: HK\$85,000) and interest on lease liabilities at approximately HK\$107,000 (2019: HK\$136,000).

4. PROFIT BEFORE TAXATION

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

	For the six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	15,569	16,391
Depreciation of right-of-use assets	2,121	2,166
Write-down of inventories	15,383	4,302
Reversal of write-down of inventories	-	(829)
	<u> </u>	<u> </u>

5. INCOME TAX CHARGE

	For the six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Current tax – PRC Enterprise Income Tax		
Provision for the period	1,790	2,603
Deferred taxation		
Origination and reversal of temporary difference	<u>1,417</u>	<u>–</u>
Income tax charge	<u><u>3,207</u></u>	<u><u>2,603</u></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 six months ended 30 June 2020 was offset with the accumulated 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 six months ended 30 June 2019.

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 during the period, among which one subsidiary is entitled to a preferential income tax rate of 15%.

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. DIVIDEND

No final dividend for the previous year was declared and paid during the six months ended 30 June 2020 (2019: Nil).

No interim dividend was declared for the six months ended 30 June 2020 (2019: Nil).

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of approximately HK\$10,613,000 (2019: HK\$13,939,000) and the weighted average number of approximately 2,341,700,000 (2019: 2,341,700,000) ordinary shares in issue during the period.

Diluted earnings per share for the six months ended 30 June 2020 and 30 June 2019 are the same as the basic earnings per share as there is no dilutive potential ordinary share.

8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group spent approximately HK\$4,238,000 (2019: HK\$676,000) on additions to property, plant and equipment.

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:

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Trade and bills receivables	271,788	261,933
Other receivables	14,200	17,978
Other tax refundable	29,185	33,126
	<u>315,173</u>	<u>313,037</u>

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

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Less than 6 months	184,168	183,194
6 months to less than 1 year	91,416	80,841
1 year to less than 2 years	5,012	5,800
Over 2 years	16,363	22,358
	296,959	292,193
Less: Impairment loss on trade and bills receivables	<u>(25,171)</u>	<u>(30,260)</u>
	<u>271,788</u>	<u>261,933</u>

10. TRADE PAYABLES

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

	30 June	31 December
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Less than 6 months	59,713	37,953
6 months to less than 1 year	7,618	4,971
1 year to less than 2 years	7,810	12,875
Over 2 years	20,384	18,977
	<u>95,525</u>	<u>74,776</u>

11. PLEDGE OF ASSETS

As at 30 June 2020, certain leasehold land with carrying amount of approximately HK\$41,398,000 (31 December 2019: HK\$42,975,000) and certain buildings with aggregate carrying amount of approximately HK\$1,376,000 (31 December 2019: HK\$2,172,000) were pledged as collateral for banking facilities.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

The COVID-19 pandemic has quickly spread across the world since its outbreak in late 2019, disrupting commercial and economic activities in China and the world. In view of the COVID-19 outbreak, the Group instantly set up pandemic control measures and made the health and safety of employees a top priority. In the first half of 2020, owing to the country's efforts in tackling the pandemic, China managed to gradually control the spread of the coronavirus amid challenging economic conditions. Rapid development of high technology helped increase demand for rare earth products, which mitigated the impact of the pandemic on the Group's businesses.

For the six months ended 30 June 2020, the Group recorded revenue of approximately HK\$459,842,000, up by about 5% when compared to approximately HK\$438,972,000 in the same period last year. Revenue from the Group's rare earth products rose to approximately HK\$332,001,000, representing an increase of about 17% when compared to approximately HK\$284,315,000 in the same period last year, and accounted for about 72% of the Group's total revenue. As for refractory products, revenue was approximately HK\$127,841,000, representing a decrease of about 17% when compared to approximately HK\$154,657,000 in the same period last year, and accounted for about 28% of the Group's total revenue. The Group's overall gross profit margin was about 9%, representing a slight decrease when compared to approximately 10% in the same period last year. Net profit was recorded at approximately HK\$10,807,000 during the period under review, representing a decrease of about 23% when compared to approximately HK\$14,095,000 in the same period last year. Earnings per share was approximately HK0.45 cents (2019: HK0.60 cents).

Business Review

Rare Earth Business

At the beginning of this year, the impact of the COVID-19 pandemic in China was severe. The Central Government and local governments made strong efforts to control the spread of the coronavirus, which restricted most commercial activities. Rare earth industry was also affected, and the market cooled down rapidly at Chinese New Year. The delayed resumption of most of the rare earth separation plants and the closure of Myanmar's borders affecting the supply of imported rare earth minerals, the price of rare earth products rebounded. However, when the pandemic spread across the world in March, the export market encountered major challenges, foreign orders contracted significantly, and the price of rare earth products fell once again. Until May, the market's expectation of the resumption of the national rare earth storage plan gradually strengthened, resulting in a rapid stabilization of the rare earth market. Furthermore, the sustainable development of high-tech industries, especially the increasing demand for new energy vehicles and medical equipment, boosted the demand for rare earth products.

During the period, the Group sold approximately 670 tons of rare earth products, an increase of approximately 35% over the same period in 2019. Sales amounted to approximately HK\$332,001,000. Among the elements, the sales volume of praseodymium, neodymium, terbium, and dysprosium, which are mainly applied in magnetic materials, accounted for approximately 65% of the total sales volume of all rare earth elements of the Group and 80% of the total sales amount during the period. The changes in the unit prices were generally within 20% when compared with the corresponding period in 2019. Segment gross profit margin was approximately 5%, which was comparable to the same period last year.

Due to the tight supply of rare earth resources during the period, coupled with the fact that the interconnection between the Group's factories and the municipal sewage discharge system has not been fully connected since last year, and the modification of the Group's rare earth separation production line has not been completed, the Group continued to rely on trading products to satisfy customer demand in rare earth products during the period, while our own production line continued to focus on producing high-end oxide products with special granularity.

In terms of market distribution, due to the impact of the coronavirus pandemic in foreign countries, the proportion of the Group's rare earth products exported to Japan, Europe and other markets dropped to approximately 2% of segment revenue, and the proportion of domestic sales in China increased to approximately 98%.

Refractory Materials Business

As the nature of the refractory materials business is different from that of rare earth, its application industries such as steel and non-ferrous metals were hindered by the suspension of construction, manufacturing and transportation industries, therefore, the refractory industry was hit harder by the outbreak than the rare earth industry. With the impact of the economic downturn and the pandemic, the usage of refractory products by some customers declined in the first half of 2020. The need for cost-saving exerted pressure on the prices of all materials. Furthermore, the restriction on the movement of personnel to control the spread of the pandemic also affected the arrival of technical consultants from Japan, which slowed down the overall progress of the cooperation in the production of high-specification unshaped refractory materials and prefabricated parts entered with a Japanese customer at the end of September 2019. Although the refractory materials market was under pressure, the Group still won the trust of and respect from quality partners and customers by not engaging in irrational price competition and focusing on quality improvement and excellent services. During the period, the Group sold approximately 12,700 tons of refractory materials products, representing a decrease of approximately 5% compared with the corresponding period last year. The average sales price of major products such as fused magnesia-chrome bricks, alumina-carbon bricks and casting materials decreased by less than 5% compared with the same period last year. Sales amounted to approximately HK\$117,575,000, representing a decrease of approximately 15% compared with the corresponding period last year. Gross profit margin remained at approximately 19%.

During the period, the market condition of the magnesium grains business was further worsened as compared to the end of last year. The reduction in size of the downstream industry led to a backlog of products in the market. Most magnesium manufacturers in Northeast China had called a halt or reduce in production. The Group sold approximately 4,800 tons of magnesium products in the first half of 2020, representing a decrease of approximately 5% compared with the same period last year. The product price dropped by about 35% and sales amounted to approximately HK\$10,266,000, representing a decrease of approximately 38% compared with the corresponding period last year. It turned from profit to loss during the period and the gross loss margin was approximately 7%.

As the sales of magnesium products accounted for a small proportion of the whole refractory segment, the segment's gross profit margin in the period was approximately 17%, slightly lower than the same period last year.

The impact of the pandemic on domestic sales was less than that in foreign markets, as domestic pandemic control measures were swiftly implemented. During the period, the domestic sales of the Group's refractory products accounted for approximately 84% of segment revenue, while the Japan market accounted for approximately 12%, and markets in other regions such as Europe and South America accounted for the remaining 4%.

Prospects

Following the outbreak of COVID-19, there is a growing demand for automated smart products and medical equipment throughout the world for pandemic control and prevention purposes, with more focus on the development of high and new technology. Rare earth being a major raw material for high and new technology, the growing popularity and application of high precision technologies such as 5G, electric vehicles and smart chips, will assist the research and development related to the applications of rare earth materials. The prospects of rare earth products will improve as the society's demand for rare earth materials continues to grow. Given the growing tension between China and the U.S., and that China is the major rare earth supplier to the U.S. and the world, the strategic value of China's rare earth resources continues to gain the attention of the global market.

The Group's refinement work on its rare earth production line is scheduled to be completed in the second half of 2020. This will enhance the rare earth production capabilities of the Group, which is likely to reduce production costs and allow the Group to provide more high-end rare earth products.

Regarding refractory materials, despite the severe impact of the pandemic and the challenging operating environment during the period under review, the Group believes that as a necessary production material in several heavy industries, the demand for refractory materials will gradually increase as the economy gradually recovers from the pandemic with assistance from national policies. By leveraging its excellent product quality and superb customer services, the Group is confident in the future outlook of this segment. Even so, the export market will continue to underperform due to the impact of the pandemic outside of China.

The Group's plan to acquire a magnesite project is subject to change due to the impact of the pandemic. The Group will continue to follow up with the project and look forward to completing it when appropriate.

Liquidity and Financial Resources

The Group continues to be prudent in its financial arrangements to ensure it has adequate liquidity for future acquisition and business development. As at 30 June 2020, the Group had cash and bank deposits of approximately HK\$1,644,768,000, an increase of HK\$165,815,000 compared with the end of 2019. Regarding prepayments and deposits, the Group used certain portion for business needs and it amounted to approximately HK\$308,586,000 as at 30 June 2020, a decrease of HK\$107,218,000 compared with the end of 2019. In addition, as at the end of the period, the Group's inventories amounted to approximately HK\$180,839,000, a decrease of HK\$75,404,000 compared with the end of 2019. Net current assets of the Group amounted to approximately HK\$2,319,182,000, a decrease of approximately HK\$18,490,000 from the end of 2019. Total liabilities to total assets ratio remained at about 5%.

During the period under review, the Group did not borrow any money from banks or financial institutions. As at 30 June 2020, the Group had pledged certain land and buildings with total carrying amount of approximately HK\$42,774,000 with a domestic bank, obtaining a financing facility of RMB150,000,000 (equivalent to approximately HK\$164,222,000) which has not been utilized yet. Apart from that, the Group had no charge on other assets nor holding of any financial derivative products. The Group 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 U.S. dollars or Hong Kong dollars. During the period 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 streamline its manpower structure in line with business needs. As at 30 June 20, the Group had approximately 400 employees of different levels, a similar level to the end of 2019. In order to help mainland enterprises alleviate the burden of the pandemic, the Chinese government has reduced or waived certain employer obligations on social security contributions. During the period under review, the Group's staff costs including directors' emoluments amounted to approximately HK\$14,359,000, a decrease of about 14% year-on-year. The Group continued to provide regular on-the-job training and study opportunities to employees to assist them in maintaining professional competence.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (2019: Nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There has been no purchase, sale or redemption of any of the Company's listed securities by the Group during the six months ended 30 June 2020.

AUDIT COMMITTEE

The Audit Committee has reviewed, with the assistance of the Company's auditor, the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the interim financial statements for the six months ended 30 June 2020 which have not been audited.

CORPORATE GOVERNANCE

The Company is committed to attaining good corporate governance practices and procedures. The Company has adopted its own code of corporate governance based on the principles and code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules. In the opinion of the Board, the Company has complied with the CG Code throughout the six months ended 30 June 2020.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its own Securities Dealing Code (the “Company’s Code”) regarding securities transactions by directors on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules. Having made specific enquiry, the Company confirms that all directors have complied with the required standards as stated in the Model Code and the Company’s Code throughout the six months ended 30 June 2020.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the websites of the Company (www.creh.com.hk) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). The 2020 interim report of the Company 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 August 2020