

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.



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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021

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 2021 together with the comparative figures for the corresponding period in 2020 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the six months ended 30 June	
	Note	2021	2020
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	(2)	539,065	459,842
Cost of sales		(489,487)	(420,012)
Gross profit		49,578	39,830
Other income		2,928	2,320
Selling and distribution expenses		(5,733)	(4,049)
Administrative expenses		(30,807)	(19,432)
Other net gain/(loss)		1,319	(4,520)
Profit from operations		17,285	14,149
Finance costs	(3)	(320)	(135)
Profit before taxation	(4)	16,965	14,014
Income tax charge	(5)	(1,796)	(3,207)
Profit for the period		15,169	10,807
Profit for the period attributable to:			
Owners of the Company		14,469	10,613
Non-controlling interests		700	194
		15,169	10,807
Earnings per share			
Basic and diluted	(7)	HK0.62 cents	HK0.45 cents

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

	For the six months ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Profit for the period	15,169	10,807
Other comprehensive income/(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	<u>31,082</u>	<u>(48,477)</u>
Total comprehensive income/(loss) for the period	<u>46,251</u>	<u>(37,670)</u>
Total comprehensive income/(loss) for the period attributable to:		
Owners of the Company	45,461	(37,744)
Non-controlling interests	<u>790</u>	<u>74</u>
	<u>46,251</u>	<u>(37,670)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	As at 30 June 2021 <i>HK\$'000</i> (Unaudited)	As at 31 December 2020 <i>HK\$'000</i> (Audited)
Non-current assets			
Goodwill		–	–
Property, plant and equipment	(8)	131,801	145,442
Right-of-use assets		101,354	102,473
Deferred tax assets		4,606	4,670
		237,761	252,585
Current assets			
Inventories		338,939	340,391
Trade and other receivables	(9)	538,703	492,847
Prepayments and deposits		109,411	105,650
Tax recoverable		793	785
Cash and cash equivalents		1,757,813	1,740,255
		2,745,659	2,679,928
Current liabilities			
Trade payables	(10)	104,147	75,607
Accruals and other payables		35,771	57,487
Amounts due to directors		6,665	5,012
Lease liabilities		1,275	1,243
Tax payable		3,286	6,493
		151,144	145,842
Net current assets		2,594,515	2,534,086
Total assets less current liabilities		2,832,276	2,786,671
Non-current liabilities			
Lease liabilities		1,456	2,102
NET ASSETS		2,830,820	2,784,569
CAPITAL AND RESERVES			
Share capital		234,170	234,170
Reserves		2,588,372	2,542,911
Equity attributable to owners of the Company		2,822,542	2,777,081
Non-controlling interests		8,278	7,488
TOTAL EQUITY		2,830,820	2,784,569

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 (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) 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 2020, 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 2020, except for certain new and revised HKFRSs that are first effective for the current accounting period of the Group. The application of these 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 six months ended 30 June 2021.

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				2021	2020
	2021	2020	2021	2020		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue						
Revenue from external customers	374,627	332,001	164,438	127,841	539,065	459,842
Inter-segment revenue	-	-	-	-	-	-
Reportable segment revenue	<u>374,627</u>	<u>332,001</u>	<u>164,438</u>	<u>127,841</u>	<u>539,065</u>	<u>459,842</u>
Results						
Reportable segment profit	<u>21,740</u>	<u>17,637</u>	<u>16,802</u>	<u>17,614</u>	38,542	35,251
Other income					2,928	2,320
Depreciation of property, plant and equipment					(16,067)	(15,520)
Depreciation of right-of-use assets					(1,626)	(1,505)
Finance costs					(244)	(28)
Unallocated corporate expenses					<u>(6,568)</u>	<u>(6,504)</u>
Consolidated profit before taxation					16,965	14,014
Income tax charge					<u>(1,796)</u>	<u>(3,207)</u>
Consolidated profit after taxation					<u>15,169</u>	<u>10,807</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					
	2021	2020	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of major products						
Rare earth oxides	374,627	332,001	-	-	374,627	332,001
Refractory materials	-	-	133,085	117,575	133,085	117,575
Magnesium grains	-	-	31,353	10,266	31,353	10,266
Total	<u>374,627</u>	<u>332,001</u>	<u>164,438</u>	<u>127,841</u>	<u>539,065</u>	<u>459,842</u>
Geographical markets						
The People's Republic of						
China (the "PRC")	368,215	325,558	136,354	107,096	504,569	432,654
Japan	6,251	3,473	20,768	15,234	27,019	18,707
Europe	-	2,519	3,903	1,488	3,903	4,007
Others	161	451	3,413	4,023	3,574	4,474
Total	<u>374,627</u>	<u>332,001</u>	<u>164,438</u>	<u>127,841</u>	<u>539,065</u>	<u>459,842</u>

3. FINANCE COSTS

During the six months ended 30 June 2021, finance costs included interest expenses on bank and other borrowings wholly repayable within five years at approximately HK\$244,000 (2020: HK\$28,000) and interest on lease liabilities at approximately HK\$76,000 (2020: HK\$107,000).

4. PROFIT BEFORE TAXATION

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

	For the six months	
	ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	16,116	15,569
Depreciation of right-of-use assets	2,242	2,121
Write-down of inventories	7,532	15,383
Reversal of write-down of inventories	(397)	-
	<u>26,593</u>	<u>33,073</u>

5. INCOME TAX CHARGE

	For the six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Current tax – PRC Enterprise Income Tax		
Provision for the period	1,680	1,790
Deferred taxation		
Origination and reversal of temporary difference	116	1,417
Income tax charge	<u>1,796</u>	<u>3,207</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 was made for the six months ended 30 June 2021 and 30 June 2020 as the estimated assessable profits arising in Hong Kong for the period were offset with the accumulated tax losses brought forward.

PRC Enterprise Income Tax is calculated at the statutory income tax rate of 25% on the estimated assessable profits of the Company's subsidiaries established in the PRC 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 2021 (2020: Nil).

No interim dividend was declared for the six months ended 30 June 2021 (2020: 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\$14,469,000 (2020: HK\$10,613,000) and the weighted average number of approximately 2,341,700,000 (2020: 2,341,700,000) ordinary shares in issue during the period.

Diluted earnings per share for the six months ended 30 June 2021 and 30 June 2020 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 2021, the Group spent approximately HK\$996,000 (2020: HK\$4,238,000) 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 2021 HK\$'000	31 December 2020 HK\$'000
Trade and bills receivables	531,520	457,879
Other receivables	3,788	3,499
Other tax refundable	3,395	31,469
	<u>538,703</u>	<u>492,847</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 2021 HK\$'000	31 December 2020 HK\$'000
Less than 6 months	437,941	362,978
6 months to less than 1 year	112,564	105,762
1 year to less than 2 years	167	10,495
Over 2 years	15,893	15,157
	<u>566,565</u>	<u>494,392</u>
Less: Impairment loss on trade and bills receivables	<u>(35,045)</u>	<u>(36,513)</u>
	<u>531,520</u>	<u>457,879</u>

10. TRADE PAYABLES

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

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Less than 6 months	60,072	39,698
6 months to less than 1 year	14,288	6,410
1 year to less than 2 years	5,038	5,039
Over 2 years	24,749	24,460
	<u>104,147</u>	<u>75,607</u>

11. PLEDGE OF ASSETS

As at 30 June 2021, certain leasehold lands with carrying amount of approximately HK\$43,799,000 (31 December 2020: HK\$44,117,000) and certain buildings with aggregate carrying amount of approximately HK\$44,000 (31 December 2020: HK\$764,000) were pledged to a bank as collateral for banking facilities.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

In the first half of 2021, as vaccination programs begin in different regions, the COVID-19 pandemic is beginning to recede with early signs of global economic recovery. In addition, people across countries have raised concerns about climate change and are eager to reach common ground for the transition towards a low-carbon future. More countries are actively launching new policies for promoting the reduction of carbon emissions and developing the renewable energy sector. The global demand of new energy vehicles has grown rapidly and the replacement of fossil fuel-based energy sources by renewable energy sources, such as wind power, has accelerated. All these have resulted in a substantial increase of consumption of rare earth materials in the new energy sector and led to an increase in price heralding a bright prospect for the industry at large.

For the six months ended 30 June 2021, the Group recorded revenue of approximately HK\$539,065,000, a 17% increase compared to HK\$459,842,000 in the same period last year. Revenue from the Group's rare earth segment increased by approximately 13% from HK\$332,001,000 in the same period last year to HK\$374,627,000, contributing around 69% of the Group's total revenue. Revenue from refractory segment increased by approximately 29% from HK\$127,841,000 in the same period last year to HK\$164,438,000, accounting for around 31% of the Group's total revenue. The gross profit margin for the period was approximately 9%, which was similar to the same period in the previous year. The net profit for the period was approximately HK\$15,169,000, which was 40% more than the same period in 2020. Earnings per share was approximately HK0.62 cents (2020: HK0.45 cents).

Business Review

Rare Earth Business

From the beginning of 2020 to early 2021, China implemented a series of anti-pandemic measures to effectively prevent and control the pandemic, thereby stabilising the Chinese market. Heeding the increased demand for “carbon neutrality” and “carbon emissions reduction”, new energy or clean energy products are increasing in popularity. The development of electric vehicles and wind power generation, etc., directly impacts the market demand for rare earth magnetic materials as well as the product price. On the other hand, due to the political instability in Myanmar alongside the impact of the pandemic, the border between China and Myanmar continues to be blocked, seriously affecting the supply chain of rare earth minerals from Myanmar. The import of raw materials has decreased significantly and thus further increasing the price of rare earth products.

In the first half of 2021, the Group sold approximately 440 tonnes of rare earth products, a decrease of approximately 35% compared to the same period last year. Revenue was approximately HK\$374,627,000. Dysprosium, terbium and praseodymium neodymium, which are mainly applied in magnetic materials, accounted for approximately 55% of the total sales volume and approximately 85% of the total sales value of all rare earth elements sold by the Group during the period. In terms of price per unit, the price of dysprosium oxide, praseodymium neodymium oxide and terbium oxide increased by approximately 35%, 50% and 90%, respectively compared to that of the same period last year. Segmental gross profit margin increased to approximately 8%.

The Group's rare earth production facility is located in Yixing next to the Taihu Lake. During the review period, an all-round upgrade was launched by the local government which targeted the environmental measures within the region; many chemist factories in the region reduced or suspended their production to cooperate with the move. The Group has also cooperated with the local government's work, running its rare earth separation production line under limited operations and invested in maintenance and upgrading of its facilities in environment protection aspect. In the past few years, the Group has transformed the rare earth production business model into a trading-driven business model, focusing on the production of value-added high-end products, so the relevant policies are of limited impact on its operations.

In terms of the market distribution, due to the serious pandemic in Europe, the Group has not exported any rare earth products to Europe in the first half of 2021. The proportion of domestic sales in China is approximately 98% of the Group's revenue from rare earth products while overseas markets such as Japan accounted for the remaining 2%.

Refractory Materials Business

Although the pandemic has greatly moderated in the first half of the year and most industries have resumed operation and production, the domestic steel and non-ferrous metal industries have not bounced back leading to a tightening of production cost. The procurement for refractory materials has endured significant pricing-related pressures. In the first half of 2021, the Group sold approximately 16,400 tonnes of refractory materials products, an increase of approximately 30% over the same period last year. However, due to the reduction of product prices, such as that the average price of fused magnesia-chrome bricks, casting materials and high-temperature ceramics sold during the period has been reduced by about 20% to 30%, a slight increase in revenue of 13% to approximately HK\$133,085,000 was resulted. On the other hand, the increase of raw materials prices and labor costs caused the segmental gross profit margin to drop to approximately 13%.

In contrast, the Group's magnesium grains business secured robust recovery during the period. The economic activities in the Northeast region of China faced downturn following a strict control measures implemented by the authorities in the previous year. As the pandemic moderates this year, local government has continued to implement control measures in a bid to fight the pandemic. On the other hand, it encouraged some better-performing enterprises to resume production, with an aim to maintain economic activities in the region on the basis of pandemic control and environmental protection. The Group sold approximately 11,800 tonnes of magnesium grains products in the first half of 2021, a significant increase of approximately 150% over the same period last year. The average selling price of the products increased by approximately 10% over the same period last year and related sales value tripled over the same period last year to approximately HK\$31,353,000. Although the raw materials cost increased, gross profit margin increased to approximately 10% attributable to the economies of scale.

The Group's refractory segment recorded revenue of approximately HK\$164,438,000 during the period under review, an increase of approximately 29% from HK\$127,841,000. The segmental gross profit margin was around 13%.

In terms of the geographic market distribution, export markets are still blocked due to the pandemic. During the period under review, the Group's refractory products were still mainly focused on the domestic market in China with the region comprising approximately 83% of the segment revenue. The Japanese market accounted for about 13% and other markets, including the European market, accounted for the remaining 4%.

Prospects

As the world focuses on the development of high-end technology, rare earth will maintain its position as an essential element for high-tech production. With the explosive growth on the demand for new energy vehicles, smart chips, and 5G products and continued demand for wind power and energy-saving products to achieve carbon neutrality, the demand for rare earth products will continue its promising growth. When formulating the development plan for the rare earth industry, the Ministry of Industry and Information Technology of China has clearly stated that the rare earth industry should form a new industry pattern featuring reasonable exploitation, orderly production, efficient utilisation, technological innovation, and coordinated enhancement, aiming for mid-high-level application and high value-added oriented development stage, and demonstrating the tactical value of rare earth functional applications in full. Given the increasing demand and application for high-precision technology, the application and development of rare earth technology is facilitated and the increase in the average price of rare earth is maintained. As a result, the overall rare earth industry will embrace a steady and healthy development path.

As an important strategic resource, the supply and demand of rare earth have attracted great market attention due to the Sino-US competition. The political chaos in Myanmar with the blockage of customs affected the import of Myanmar's rare earth concentrate into China, boosting the product prices. The Group will continue to monitor the development of the situation and adjust the business strategy in response to changes of both the market supply and demand. On the other hand, the Group will also continue to explore opportunities for investable mineral resources in the surrounding area and strive to ensure a stable supply of materials in preparation for a long-term development.

In addition, although the recovery of many industries will help promote the demand for refractory materials, entities regardless of size are still enduring challenges and obstacles due to the pandemic. The Group will adapt to market changes and continue to win the trust of customers with the excellent quality of refractory products, hoping to achieve a long-term development under the co-existence of challenges and opportunities.

Liquidity and Financial Resources

The Group continues to be prudent in its financial arrangements to ensure it has adequate liquidity for future investments and expansions. As at 30 June 2021, the Group had cash and bank deposits of approximately HK\$1,757,813,000, which seems slightly increased comparing to HK\$1,740,255,000 at the end of 2020. However, if the factor of Renminbi appreciation during the period is removed, it is in fact slightly lower than the figure at the end of last year. In order to cope with the continued tight supply of rare earth resources, the Group continued to invest funds in prepayments. As at 30 June 2021, the net current assets of the Group was approximately HK\$2,594,515,000, which was similar to the figure at the end of last year. 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 2021, the Group continued in pledging certain leasehold lands and buildings with total carrying amount of approximately HK\$43,843,000 with a domestic bank, obtaining a financing facility of RMB150,000,000 (equivalent to approximately HK\$180,267,000) which has not yet been utilised. 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 US dollars or Hong Kong dollars. During the period under review, Renminbi appreciated slightly which did not cause significant fluctuation of or impact on the Group's financial results.

Staff and Remuneration

The Group continued to streamline its manpower structure in line with business needs. Due to the re-structuring of rare earth production facilities during the period under review, the number of basic workers was reduced comparing that at the end of 2020. As at 30 June 2021, the Group had approximately 360 employees at different levels. The Chinese government's preferential policies for reducing or exempting certain corporate obligations on social security contributions for employees came to a close at the end of last year. During the period under review, the Group's staff costs including directors' emoluments amounted to approximately HK\$17,607,000, an increase of more than 20% over the same period last 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 did not recommend the payment of an interim dividend for the six months ended 30 June 2021 (2020: 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 2021.

CORPORATE GOVERNANCE PRACTICES

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 2021.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL INFORMATION

The Company established an audit committee (the "Audit Committee") with written terms of reference in compliance with the CG Code. As at the date of this announcement, the Audit Committee consists of three independent non-executive directors, namely Mr. Huang Chunhua (chairman), Mr. Jin Zhong and Mr. Dou Xuehong. The main duties of the Audit Committee are to assist the Board in providing an independent review of the completeness, accuracy and fairness of the financial information of the Group, as well as the efficiency and effectiveness of the Group's operations and internal controls. The Audit Committee has reviewed together with the management, with the assistance of the Company's auditor, the accounting principles and policies adopted by the Group and the Group's unaudited interim results for the six months ended 30 June 2021, and was of the opinion that the preparation of such condensed consolidated interim financial information complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

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 2021.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.creh.com.hk). The interim report of the Company for the six months ended 30 June 2021 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and made available on the aforesaid websites in due course.

MEMBERS OF THE BOARD

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

By order of the Board
China Rare Earth Holdings Limited
Qian Yuanying
Chairman

Hong Kong, 30 August 2021